

Annual and Sustainability Report

2013  
14



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# Message from the CEO

In a period marked by increasing global and regional economic instability, the São Martinho Group once again managed to overcome the challenges and achieve important results

## [G4-1]

Dear Reader,

Once again, it is a great honor for me to present our Annual and Sustainability Report. This third version of the report, which covers the 2013/14 harvest year, brings an innovation in relation to last year's in that it has adopted in advance the new G4 guidelines of the GRI (Global Reporting Initiative) methodology. The main difference lies in the more assertive approach to the economic, environmental, and social dimensions of our sustainable reporting so that readers can develop a better understanding of the data effectively linked to the Company's business and its impacts.

It is important to begin by highlighting the adversities we faced during the 2013/14 season. In a period marked by increasing global and regional economic instability, the São Martinho Group once again managed to overcome the challenges and achieve important results. The series of investments that began in 2008 and has now reached around R\$1.5 billion, is now in place and beginning to produce concrete results, such as the processing of 9 million tons of sugarcane at the São Martinho Mill alone, an absolute record for a single unit in a single harvest.

*The next step is to raise milling capacity to 50,000 tons per day in the next harvest year.*

Another highlight, also in the São Martinho Mill, was the operational start-up of the Thermolectric Unit, with a generating capacity of 300,000 MWh, sufficient to supply a city with a population of 350,000.

The Boa Vista Mill, the Company's joint venture with Petrobras, also achieved a new record, with more than 4 million tons of crushed sugarcane, and became the biggest sugarcane ethanol distillery in the world, an achievement of the utmost importance for the Group, especially in such a difficult year for the sugar and ethanol industry.

On the financial front, the Group made substantial use of its financial discipline to rigorously manage its debt and the quality of its investments, reflected in its fast-track access to credit through major national development institutions. The return of the 25% ethanol ratio in the gasoline blend and the announcement of PIS/COFINS tax exemption on ethanol and all types of sugar also contributed to the Group's positive result.

However, I must emphasize that all our progress to date has only been possible thanks to the efforts and commitment of our employees, allowing us to strengthen our resilience DNA and generate a positive result against an exceptionally challenging background. The efforts of our focused and driven HR management system were attested to by our inclusion

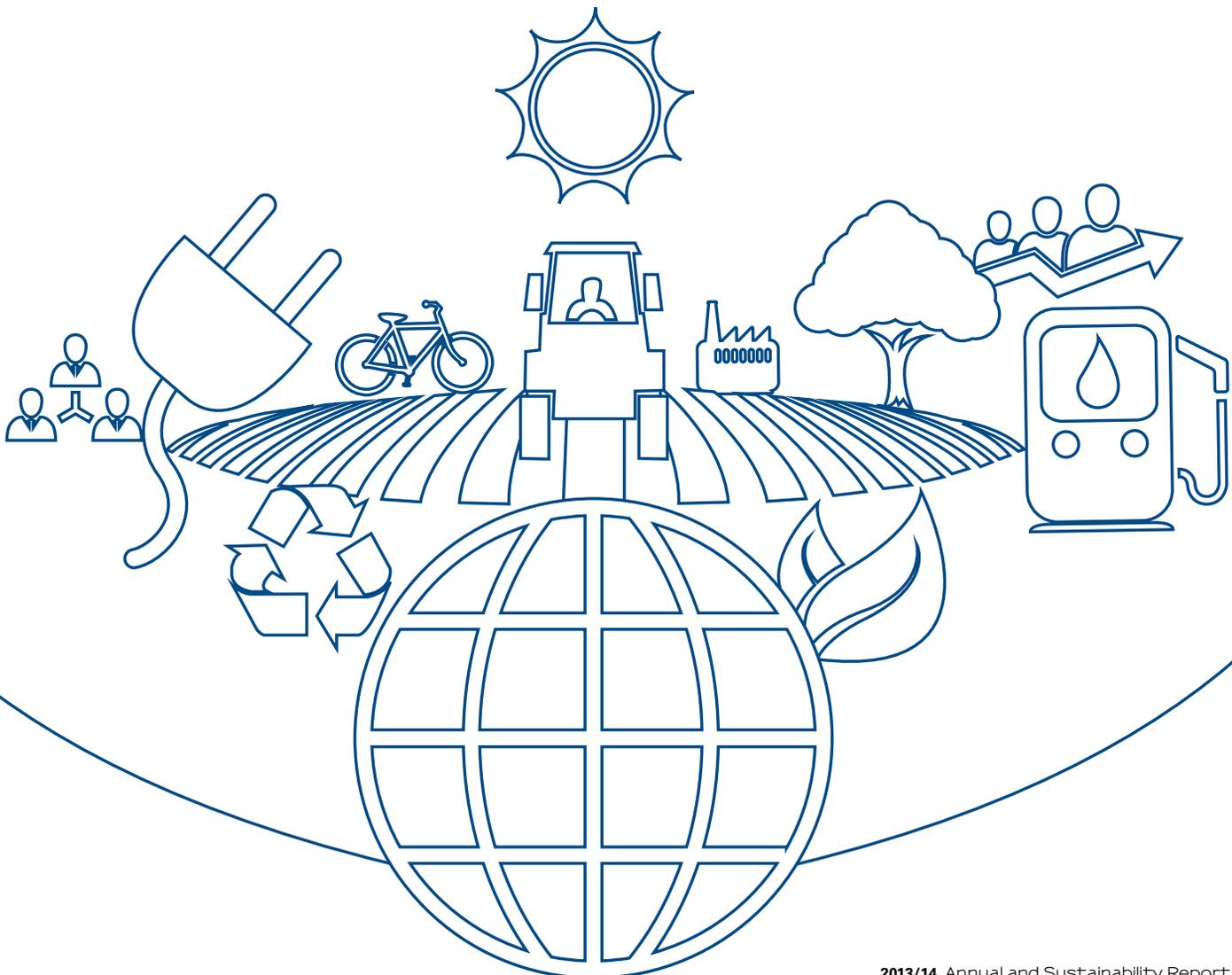
in *Exame/Você* S.A. Magazine's 2013 edition of the *150 Best Companies to Work For* ranking.

In the next harvest year, we will deliver the operating goals we promised the market based on our investment cycle that began in 2008 and will be concluded in 2014.

The above-mentioned developments are covered in considerably more detail in this 2013/14 Annual and Sustainability Report, which aims to give our stakeholders a closer view of the Company.

Finally, I would like to thank each and every one of you for following us and for your continuing belief in the potential of the São Martinho Group.

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



# About the Report

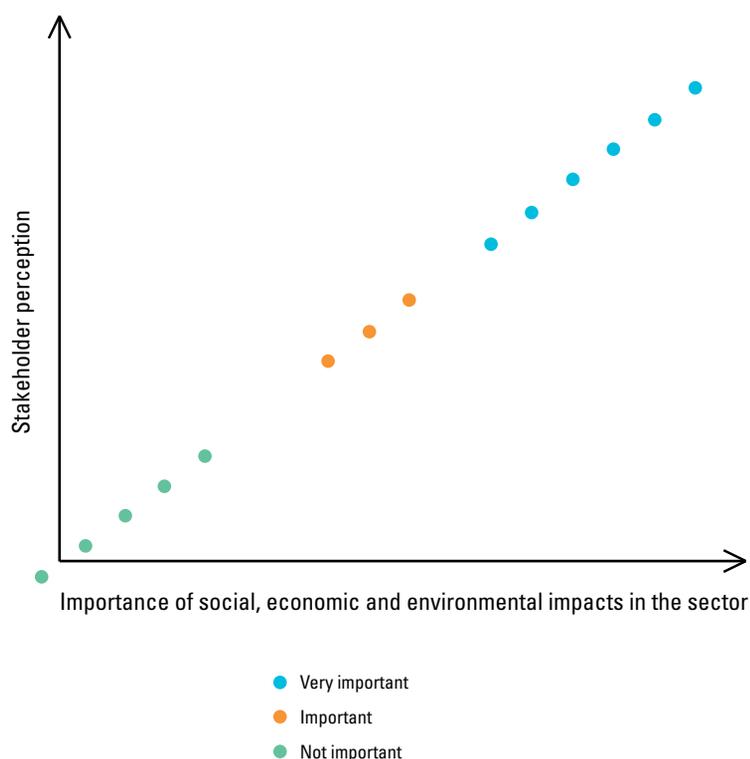
[GRI G4-18 G4-19 G4-20 G4-21 G4-24 G4-25 G4-26 G4-28]

For the third consecutive year, the São Martinho Group's 2013/14 (harvest year) Annual and Sustainability Report has adopted the GRI (Global Reporting Initiative) methodology, which proposes guidelines for monitoring social, economic and environmental indicators and is currently the most complete and widely-used methodology for preparing sustainability reports.

The report was self-declared "in accordance" with the core option (see the table below) and shows the Company's performance from April 1, 2013 to March 31, 2014.

| REQUIREMENTS FOR "IN ACCORDANCE" CORE OPTION                |   |  |
|---|---|--|
| GENERAL STANDARD DISCLOSURES                                | INFORMATION ON MANAGEMENT APPROACH  | GENERAL SECTOR INDICATORS (MATERIAL ASPECTS) |
| Strategy and Analysis (G4-1)                                | Generic disclosures on management approach (material aspects only)              |  |
| Organizational Profile (G4-3 to G4-16)                      | Indicators (at least one indicator relating to each identified material aspect) |  |
| Identified Material Aspects and Boundaries (G4-17 to G4-23) |   |  |
| Stakeholder Engagement (G4-24 to G4-27)                     |   |  |
| Report Profile (G4-28 to G4-33)                             |   |  |
| Governance (G4-34)  |   |  |
| Ethics and Integrity (G4-56)                                |   |  |

The indicators were prioritized according to their importance to the São Martinho Group and the stakeholders with whom the Company engages regularly – employees, the surrounding community, the media and suppliers. These stakeholders took part in an on-line survey where they could indicate the aspects they considered to be "Highly Material", "Material" and "Less Material" among those making up the GRI methodology. The crossing of the issues indicated by these stakeholders, with the Group's own perception of their importance and applicability to its business and industry, highlighted the effective material aspects for the Organization at the moment (topics which may reflect economic and social and environmental impacts or which may significantly influence stakeholders' assessments and decisions). This process gave rise to the following materiality matrix. Only those aspects presented in the "Highly Material" quadrant are addressed in this report. The response to the indicators associated with each aspect cover all the operational and administrative units of the São Martinho Group (São Martinho S/A - Iracema and Sao Martinho Units).



| MATERIAL ASPECTS TO BE REPORTED  |   |  |
|--|---|--|
|  | Operational units for which the aspect is material <sup>1</sup> | External entities for which the aspect is material |
| ● Economic performance (e.g. economic value generated and distributed. etc.)   | All   | Employees, suppliers, community and media.         |
| ● Materials (e.g. consumption of materials, recycling, etc.)   | All   | Employees and community.                           |
| ● Energy (e.g. energy consumption, measures to reduce consumption, etc.)   | All   | Employees and community.                           |
| ● Water (e.g. water consumption, water sources affected, etc.)   | All   | Employees and community.                           |
| ● Biodiversity (e.g. units inside protected areas, impacts on biodiversity, etc.)  | All   | Employees and community.                           |
| ● Emissions (e.g. emissions of greenhouse gases, other emissions, etc.)  | All   | Employees and community.                           |
| ● Effluents and waste products (e.g. wastewater, weight of, waste and disposal method, etc.)   | All   | Employees and community.                           |
| ● Products and services (e.g.: extent of mitigation of environmental impacts caused by products and services)  | All   | Employees and community.                           |
| ● Compliance (e.g.: fines and non-monetary sanctions due to non-compliance with environmental laws and regulations)  | All   | Employees, suppliers and community.                |
| ● Transport (e.g. environmental impacts caused by transporting products, etc.)   | All   | Community.   |
| ● Environmental grievance mechanisms (e.g. number of grievances related to the topic)  | All   | Community.   |
| ● Employment (e.g. benefits offered to employees, ratio of return to work after maternity/paternity leave, etc.)   | All   | Employees.   |
| ● Labor relations (e.g. minimum advance notice regarding operational changes, etc.)  | All   | Employees and suppliers.                           |
| ● Occupational health and safety (e.g. percentage of workforce represented on formal health and safety committees, types of injury and injury rates, etc.) | All   | Employees.   |
| ● Training and education (e.g. average number of training hours per employee, skills management programs, etc.)  | All   | Employees.   |
| ● Diversity and equal opportunity (e.g. composition of governance bodies by gender, ethnicity, age group, etc.)  | All   | Employees.   |
| ● Supplier assessment for labor practices (e.g. percentage of new suppliers screened using labor practice criteria)  | All   | Suppliers.   |

|   |     |                                     |
|---|-----|-------------------------------------|
| ● Investment (e.g. total number and percentage of significant investment agreements that include human rights clauses, etc.)  | All | Employees, suppliers, and media.    |
| ● Non-discrimination (e.g. total number of incidents of discrimination and corrective actions taken)  | All | Employees.                          |
| ● Freedom of association and collective bargaining (e.g. operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk and measures taken to support these rights) | All | Suppliers.                          |
| ● Child labor (e.g. operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor)  | All | Employees, community and media.     |
| ● Forced or compulsory labor (e.g. operations and suppliers identified as having significant risk for incidents of forced or compulsory labor and measures to contribute to the elimination of all forms of forced or compulsory labor)                         | All | Employees, community and media.     |
| ● Security practices (e.g. percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations)  | All | Employees, community and suppliers. |
| ● Local communities (e.g. operations with significant actual and potential negative impact on local communities, etc.)  | All | Community.                          |
| ● Public policy (e.g. total value of political contributions by country and recipient / beneficiary)  | All | Community and media.                |
| ● Grievance mechanisms for impacts on society (e.g. number of grievances about impacts on society filed, addressed and resolved through formal grievance mechanisms)  | All | Community and media.                |

# Highlights of the 2013/14 harvest year

[G4-28]

2013/14: harvest year from 04/01/2013 to 03/31/2014 (12 months)

- **Inauguration of the Thermoelectric Unit at the São Martinho Mill, with the installation of a new boiler and turbine, representing state-of-the-art energy cogeneration through the burning of sugarcane bagasse.**
- **Inclusion of the São Martinho Group in *Exame/Você S.A. Magazine's* 2013 edition of the *150 Best Companies to Work For* ranking for the second consecutive year and Nova Fronteira's first entry into the ranking.**
- **The crushing of 15.6 million metric tons of sugarcane, a new Company record.**

## Financial and Operating Highlights

| FINANCIAL AND OPERATING HIGHLIGHTS                  |                 |                 |                      |
|---|-----------------|-----------------|----------------------|
| FINANCIAL AND OPERATING HIGHLIGHTS                  | 2012/13 HARVEST | 2013/14 HARVEST | % Chg. 12/13 – 13/14 |
| Crushed sugarcane ('000 metric tons)                | 12,885          | 15,592          | 21%                  |
| Sugar production ('000 metric tons)                 | 969             | 986             | 1.7%                 |
| Anhydrous ethanol production ('000 m <sup>3</sup> ) | 275             | 388             | 41%                  |
| Hydrous ethanol production ('000 m <sup>3</sup> )   | 176             | 252             | 43.3%                |
| Gross revenue (R\$ '000)                            | 1,708,566       | 2,047,162       | 19.8%                |
| Net revenue (R\$ '000)                              | 1,635,955       | 1,971,177       | 20.5%                |
| COGS  | (1,233,695)     | (1,440,705)     | 16.8%                |
| Gross profit  | 402,260         | 530,472         | 31.9%                |
| Adjusted EBITDA (R\$ '000)                          | 650,102         | 766,601         | 17.9%                |
| EBITDA margin                                       | 39.7%           | 38.9%           | -0.8 p.p.            |
| Equity  | 2,100,617       | 2,075,952       | - 1.2%               |
| Net debt  | 1,429,293       | 1,549,206       | 8.4%                 |

Note: The above figures include the Company's 50.95% interest in Nova Fronteira and 32.18% interest in Santa Cruz S.A.



# 1

## Organizational profile

São Martinho is among the largest sugar-energy groups in Brazil, with a strong presence in sugar, ethanol and energy production

### The São Martinho Group

[G4-3 G4-8 G4-9]

São Martinho is among the largest sugar-energy groups in Brazil, with a strong presence in sugar, ethanol and energy production. Founded in 1914 with the construction of a sugarcane mill in São Paulo state, the Company currently has three mills in operation: São Martinho, located in Pradópolis, in the Ribeirão Preto region of São Paulo state; Iracema, located in Iracemópolis, in the Limeira region of São Paulo state, and Boa Vista, located in Quirinópolis, 300 km from Goiânia, in Goiás state.

The Group also owns Omtek, also located in Iracemópolis, and holds a 36.08% interest in Usina Santa Cruz – Açúcar e Álcool, located in Américo Brasiliense in São Paulo state. Its corporate headquarters are in São Paulo city and the Shared Service Center (SSC), which covers the administrative, financial, legal, human resources, supply, IT and controllership areas, is in Pradópolis.

With a processing capacity of 21 million metric tons of sugarcane per year and a mechanization ratio of 93.9%, the São Martinho Group has become a benchmark in the industry and is constantly seeking to increase its market competitiveness.

3  
mills

Mechanization  
ratio of  
93.9%

Crushing capacity of  
21 million  
metric tons of  
sugarcane

## Mission, Vision, and Values

### Mission

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

### Vision

To triple sugarcane processing by 2020 and become the leader in value generation by producing and selling sustainable products and conquering new markets.

### São Martinho's Pillars

- Safety
- Stakeholders (partners and suppliers, clients, shareholders, employees and the community)
- Technology
- Sustainability
- Value Generation
- Growth

### Values

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

## Timeline

2000 ●

Creation of a unified structure with the purpose of managing the Group in a more professional manner

2007 ●

IPO on the BM&FBovespa under the code SMT03

2008 ●

Inauguration of the Boa Vista Mill, one of the most modern in the world thanks to its advanced ethanol production technology

2010 ●

April – Announcement of an agreement with the U.S. company Amyris Biotechnologies Inc. and its Brazilian subsidiary Amyris Brasil S.A. for the construction of a chemical plant at the São Martinho Mill to produce farnesene for chemical products.

June – São Martinho S.A. and Petrobras Biocombustível S.A. announce a partnership resulting in the establishment of Nova Fronteira Bioenergia S.A., the parent company of Usina Boa Vista S.A. and SMBJ Agroindustrial S.A.

August – São Martinho S.A. announces the first phase of the of the São Martinho Mill cogeneration project

2011 ●

Acquisition of 32.18% of Santa Cruz S.A. – Açúcar e Alcool and 17.97% of Agropecuária Boa Vista S.A.

2012 ●

Inauguration of the road-rail terminal at the São Martinho Mill, with a sugar transshipment capacity of more than 2 million metric tons per year

2013 ●

Inauguration of the Thermoelectric Unit at the São Martinho Mill



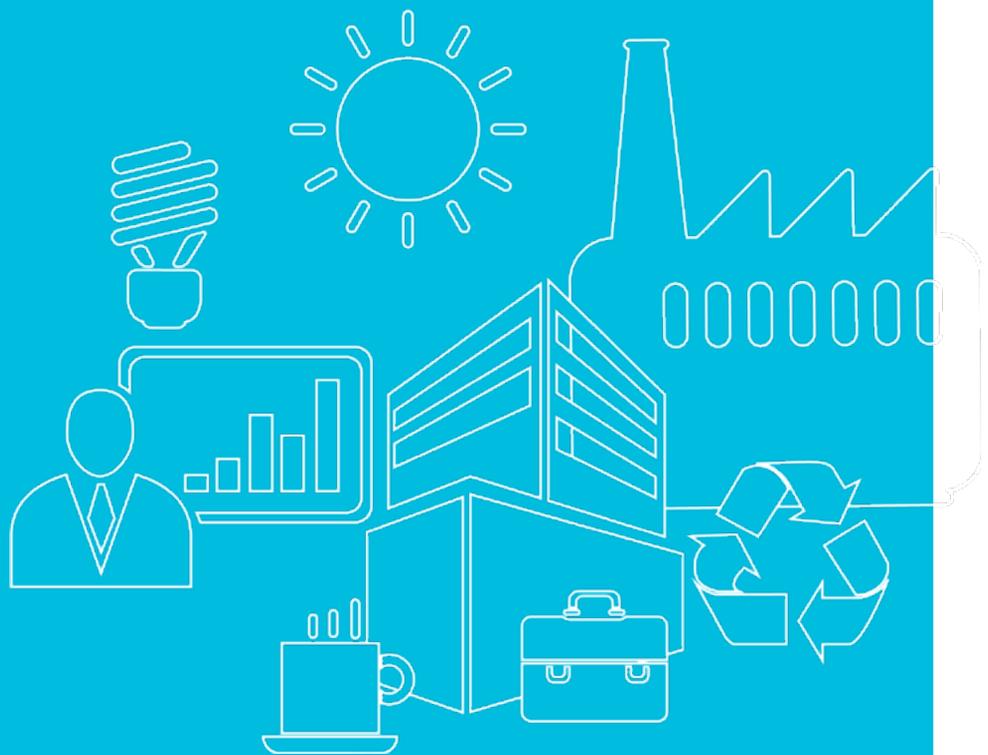
Every year, the São  
Martinho group makes  
further progress as it  
proceeds with its growth  
strategy

# 2

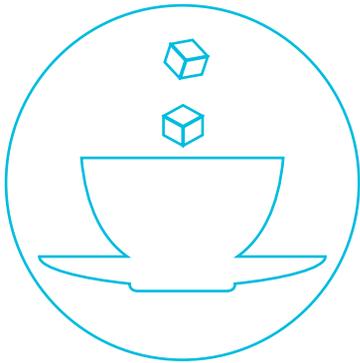
## Our business

[G4-4]

Find out more in the following pages about the São Martinho Group's units, products and competitive advantages

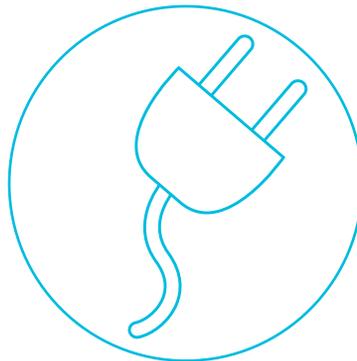


## Products



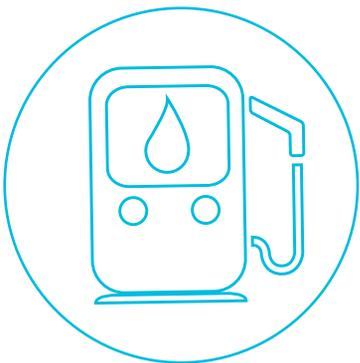
### Sugar

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



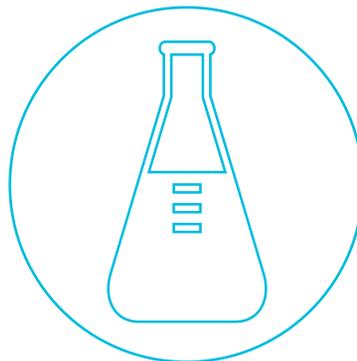
### Electricity

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.



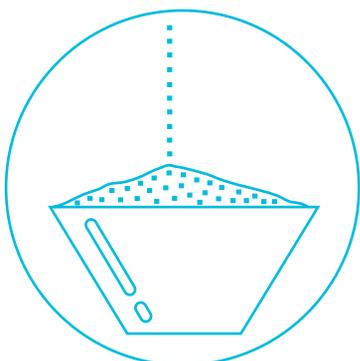
### Ethanol

The São Martinho Group produces hydrous ethanol, used in 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.



### Byproducts

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



### RNA

Through its subsidiary Omtex, located in Iracemápolis, the Group produces ribonucleic acid (RNA) sodium salt, which is used in the pharmaceutical and food industries as a raw material and flavor enhancer.

## Units and infrastructure



### São Martinho Mill

Located in Pradópolis, in São Paulo state, the São Martinho Mill is benchmark in the sugar-energy industry due to its exceptionally high mechanization ratio. It is also the world's largest sugarcane processing facility.

Another of the plant's key differentials is its logistics area, which has several competitive advantages, such as bulk sugar storage. Currently it can store up to 280,000 metric tons of sugar, which will increase to 400,000 metric tons in 2015 with the inauguration of a new silo.

Another advantage is its on-site railway, which allows it to transport sugar and ethanol output to the port of Santos, combining practicality with lower costs. Every day, the system can transport 16,000 metric tons of sugar on trains with up to 85 railcars and 4,000 m<sup>3</sup> of bulk liquids (ethanol and diesel) on trains with up to 50 railcars.



### Thermoelectric Unit

The Thermoelectric Unit, inaugurated in July 2013 at the São Martinho Mill, uses cutting-edge technologies to transform sugarcane bagasse into electricity. In addition to being one of the Group's declared values, the use of technology ensures greater process efficiency, optimizes the use of sugarcane bagasse, reduces the impact of atmospheric emissions, and cuts down on water use.

In the 2013/14 harvest year, electricity production increased from 3 kwh per metric ton of sugarcane to approximately 25 kwh, allowing the unit to export nine times more energy. In the next harvest, the Group is considering initiating the Unit's second phase, which will add a further 20 kwh per metric ton of sugarcane.

### Usina Boa Vista

Located in Quirinópolis, in Goiás state, the Boa Vista Mill is recognized as one of the most modern plants in the world due to its advanced ethanol production technology. In Brazil, the unit pioneered the introduction of modern and sustainable practices both in its operations and its relations with the surrounding communities, exemplified by its fully-mechanized harvesting process which eliminates sugarcane burning.

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.

### Usina Iracema



Located in Iracemápolis, in the Limeira region of São Paulo state, the Iracema Mill produces sugar and ethanol. One of its advantages is its proximity to the port of Santos; a major production export outlet.

In September 2012, it received international Bonsucro certification, attesting to the fact that all of the unit's productive processes, from sugarcane cultivation to the manufacture of sugarcane byproducts, adhered to global sustainability standards. The seal is exclusive to the sugar and ethanol industry and will give the mill access to increasingly demanding markets such as the EU and Asia.





## Nova Fronteira

The result of a partnership between the São Martinho Group (51%) and Petrobras Biocombustível (49%), the Boa Vista Mill received a capital injection of R\$420 million from Petrobras Biocombustível in order to strengthen ethanol production in Brazil's Midwest region.

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.



## Omtek

Omtek, São Martinho's industrial unit located in Itacemópolis (SP), uses advanced biotechnology processes to produce yeast products for the animal feed and human 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.

## Usina Santa Cruz

Located in the municipality of Américo Brasiliense, in the central region of São Paulo state, the Santa Cruz Mill is one of the largest mills in the Brazilian sugarcane sector, with the capacity to produce and process more than 4 million metric tons of sugarcane per year, a mechanized harvesting ratio of more than 90% and a mechanized planting ratio of 100%.

Its portfolio of products includes VHP sugar, hydrous ethanol, anhydrous ethanol, electricity and sugarcane yeast. It is one of first facilities of its type to implement a sustainability policy and is now a benchmark in this area, with ISO 9001 and, ISO 14001 certification for its processes; It is also meets Greenenergy standards for the sale of ethanol. In 2013, it also received Bonsucro certification in 2013.



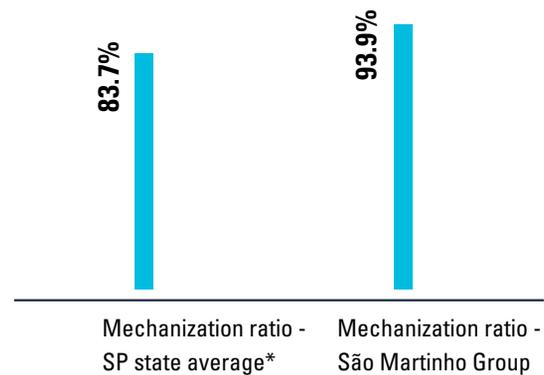
## Competitive differentials

Regarded as a benchmark in the sugar and ethanol industry not only in Brazil, but also worldwide, the São Martinho Group is distinguished for several factors, some of which, including its operational excellence and strategically located units, have made it one of the leading market players.

The Group also has one of the industry's highest sugarcane harvest mechanization ratios: 93.9% of the 2013/14 harvest was mechanized, with no burning of cane, 7.03 p.p. up on the previous season. The magnitude of this figure can be gauged from the fact that the average mill mechanization ratio in the state of São Paulo was 83.7% in the same period, according to State Department of the Environment estimates.

Another differential is its adoption of practices to monitor and preserve the physical, chemical, and biological conditions of the soil, especially the maintenance of sugarcane straw left in the field after cutting. It also uses state-of-the-art soil preservation techniques such as crop rotation, flat and terraced planting, and reduced and localized tillage, thereby minimizing eventual soil and nutrient losses and ensuring the sustainability of its business.

### Mechanization ratio above the São Paulo state average



\*Source: São Paulo State Department of the Environment

## Benefits of mechanization and investments in training programs

The advantages of mechanized harvesting are many. Among others, it reduces adverse environmental impact by eliminating burning, lowers the risk of injury when compared to manual harvesting, results in higher operational efficiency and preserves 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 Driver and Operator Training Program, which teaches agricultural laborers how to operate tractors, cane harvesters and other agricultural machinery, helping meet demand for specialized automation and mechanization workers in line with the new state of the market reality.

Regarded as a benchmark in the sugar and ethanol industry not only in Brazil, but also worldwide, the São Martinho Group is distinguished for several factors, including its operational excellence and strategically located units



# 3



## Management and performance

Brazil is the world's leading sugarcane producer, with a more than 40% share of global output

### Industry overview

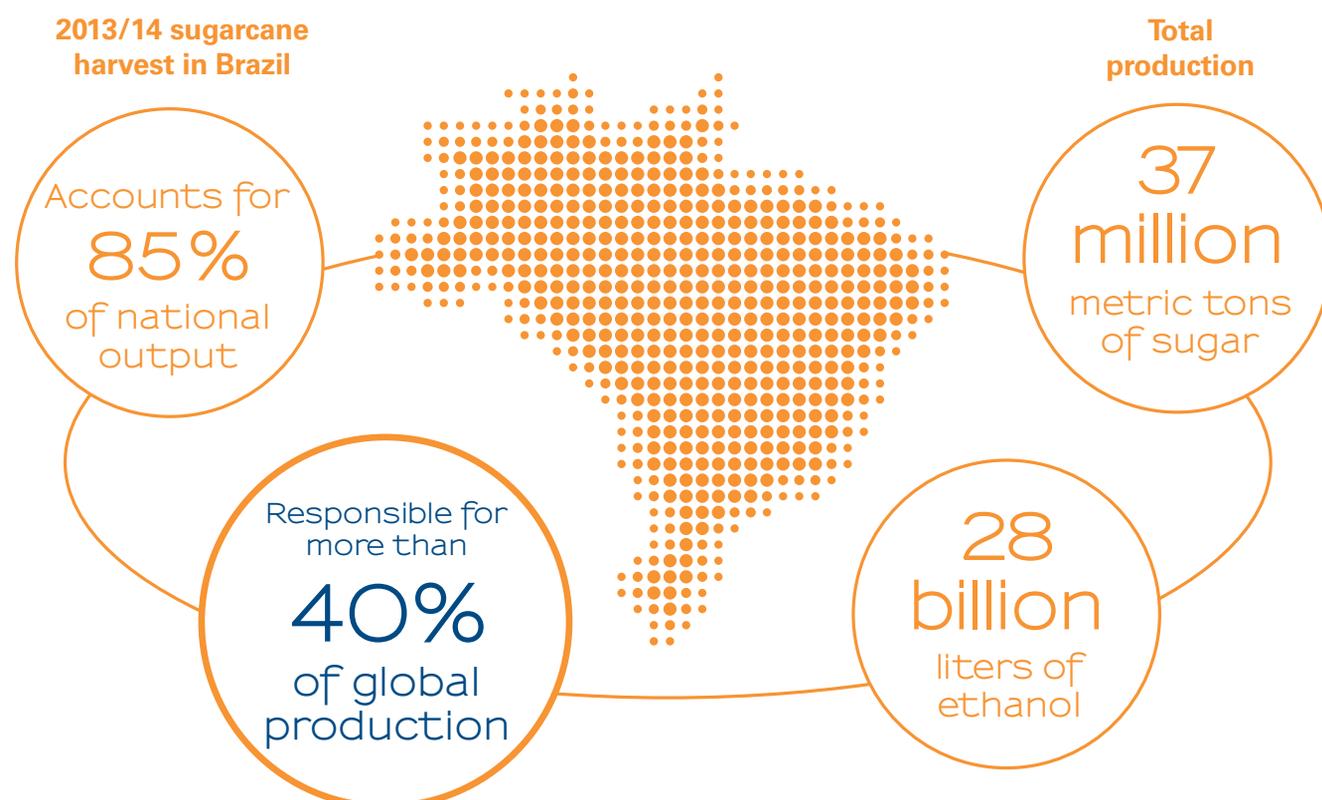
Sugarcane is cultivated in two main regions of Brazil: the Center-South and the Northeast. There are two harvest periods, one in each region: in the Center-South, the harvest takes place between April and November and in the Northeast between September and March. The Center-South region accounts for more than 85% of national sugarcane output, with the state of São Paulo alone accounting for more than 60%.

Brazil is the world's leading sugarcane producer, with a more than 40% share of global output. Thanks to its vast territory and amenable climate, there is plenty of land available for sugarcane cultivation. Due to these and 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 2013/14 harvest year with the effective milling of 597 million metric tons of sugarcane, 12.07% more than in the previous season.

In terms of individual sugarcane byproducts, in the same harvest year, the Ministry of Agriculture, Livestock and Supply estimated sugar production of around 37 million metric tons and output of ethanol, a less polluting fuel, of 28 billion liters.

Despite the fact that demand for sugar has remained virtually flat, prices fell by 18.5% due to the international price slide and the slower pace of the Brazilian economy. On the other hand, hydrous and anhydrous ethanol prices increased by 1% and 1.4%, respectively, according to the Luiz de Queiroz Advanced Agricultural School's Center for Advanced Studies in Applied Economics (CEPEA-ESALQ).



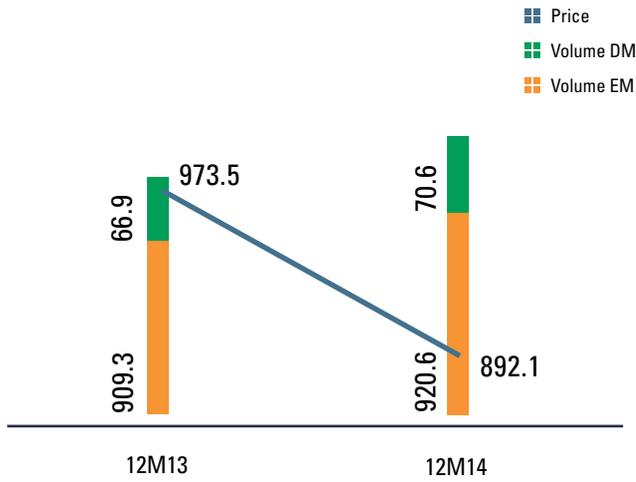
## Economic and operating performance

### [G4-DMA Economic Performance]

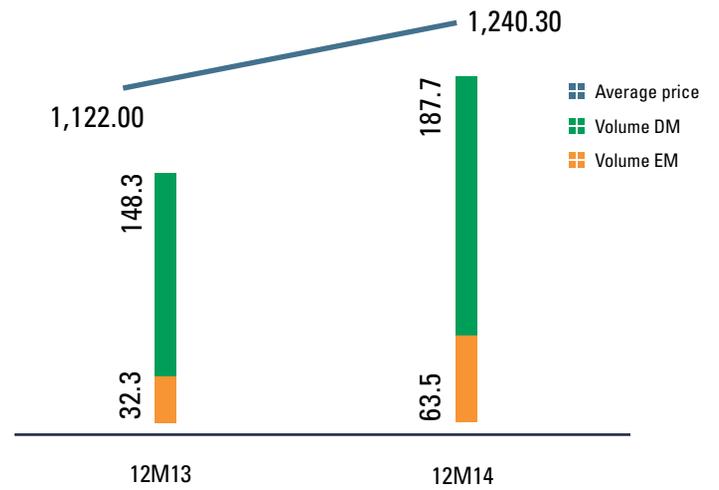
The São Martinho Group's economic performance mirrors two of its key financial health indicators: profitability and liquidity, measured by its operating margin and the difference between the average price of its products and the sum of its cost of goods sold and operating expenses. Besides focusing on the ratio between the volume and quality of its products and the price and cost per unit sold, the Company also concentrates on EBITDA (defined by the Group as operating income less net financial expenses, depreciation, and amortization).

In regard to operating performance, the Group's 2013/14 harvest indicators were even better than in the previous crop year. Aiming to maintain its position as the world's largest sugarcane processor, the São Martinho Mill, located in Pradópolis in São Paulo state, crushed 9 million metric tons of cane. The main highlight, however, was electricity production, which totaled 445,000 MWh, 153.3% up on the 176 MWh produced in the previous harvest year thanks to the operational start-up of the Thermolectric Unit in the São Martinho Mill. Anhydrous and hydrous ethanol output also increased substantially (41% and 43.3%, respectively). In contrast, RNA production fell by 7.5%.

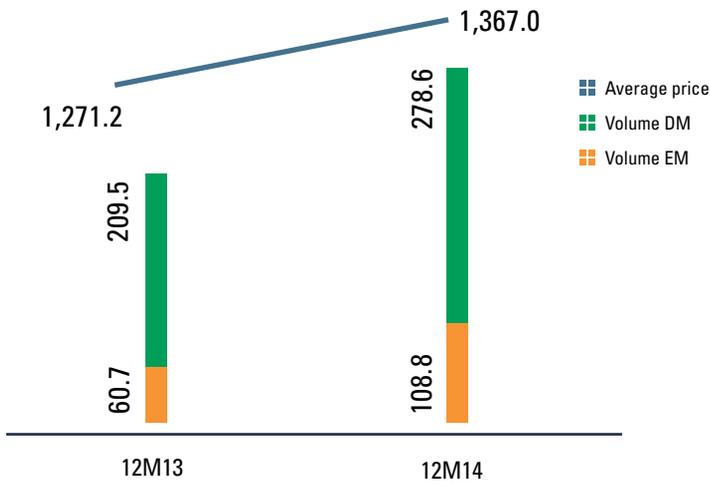
**Sugar - Volume ('000 metric tons) and average price (R\$/mt)**



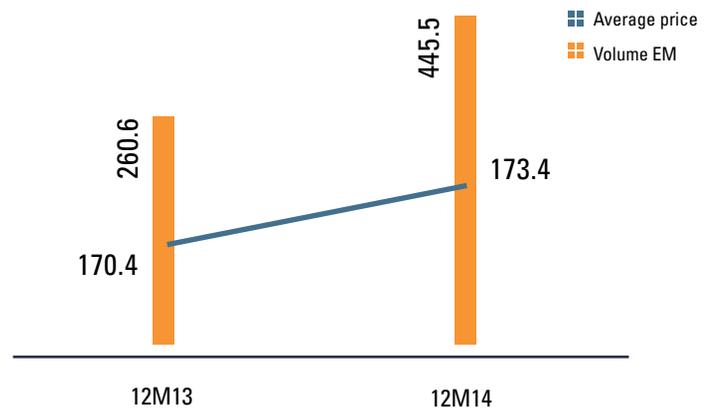
**Hydrous ethanol - Volume ('000 m³) and average price (R\$/m³)**



**Anhydrous ethanol - Volume ('000 m³) and average price (R\$/m³)**



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

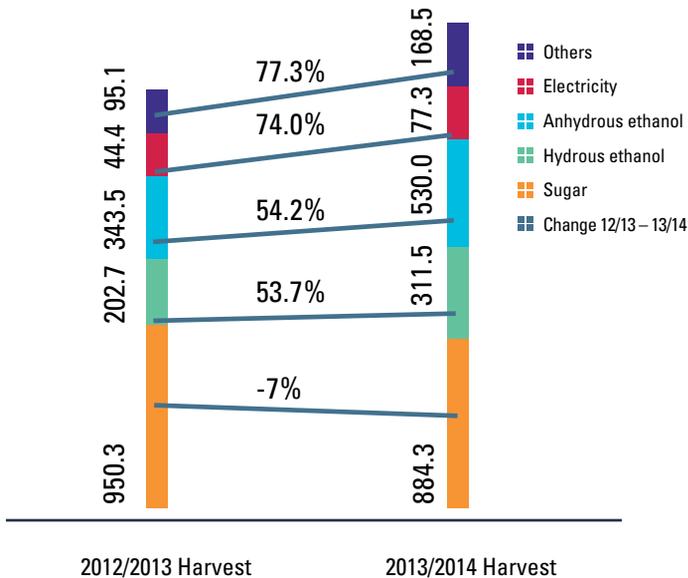


## Net revenue

[GRI G4-9]

Consolidated net revenue for the 2013/14 harvest year totaled R\$1,971.2 million, 20.5% up on the year before.

### Breakdown of Net Revenue (R\$ million)



Net revenue from the sale of electricity reached R\$ 77.3 million in 2013/14, up by 74% on the year before

Net revenue from sugar sales came to R\$884.3 million, 7% down on the previous year due to the period decline in the average sale price.

Revenue from hydrous ethanol reached R\$311.5 million, a 53.7% improvement, thanks to the 39% upturn in sales volume and the 10.5% increase in the average price, in turn fueled by PIS/Cofins tax exemption as of May 2013 and higher demand for the product. Anhydrous ethanol revenue amounted to R\$529.6 million, 54.2% more than the year before, also due to higher sales volume and the increase in the average price.

Given the slide in sugar prices, virtually all the upturn in crushed cane volume was routed to hydrous and anhydrous ethanol production, allowing the Company to take advantage of the improvement in ethanol prices throughout the entire harvest year, actively participating in the domestic market and taking advantage of certain export windows.

Net revenue from the sale of electricity reached R\$77.3 million in 2013/14, up by 74% on the year before due to the 71% year-on-year increase in the electricity volume in the final quarter of 2013 thanks to the operational start-up of the Thermoelectric Unit in the São Martinho Mill.

Net revenue from other products and services totaled R\$168.5 million, 77.3% up on the 2012/13 harvest, mainly due to the sale of sugarcane to Biosev (agreement to sell 1 million metric tons of sugarcane from the São Carlos Mill during the 2013/14 harvest). In the 2014/15 harvest year, the São Martinho Group will process all the sugarcane from São Carlos, so this impact will not recur.

## EBITDA

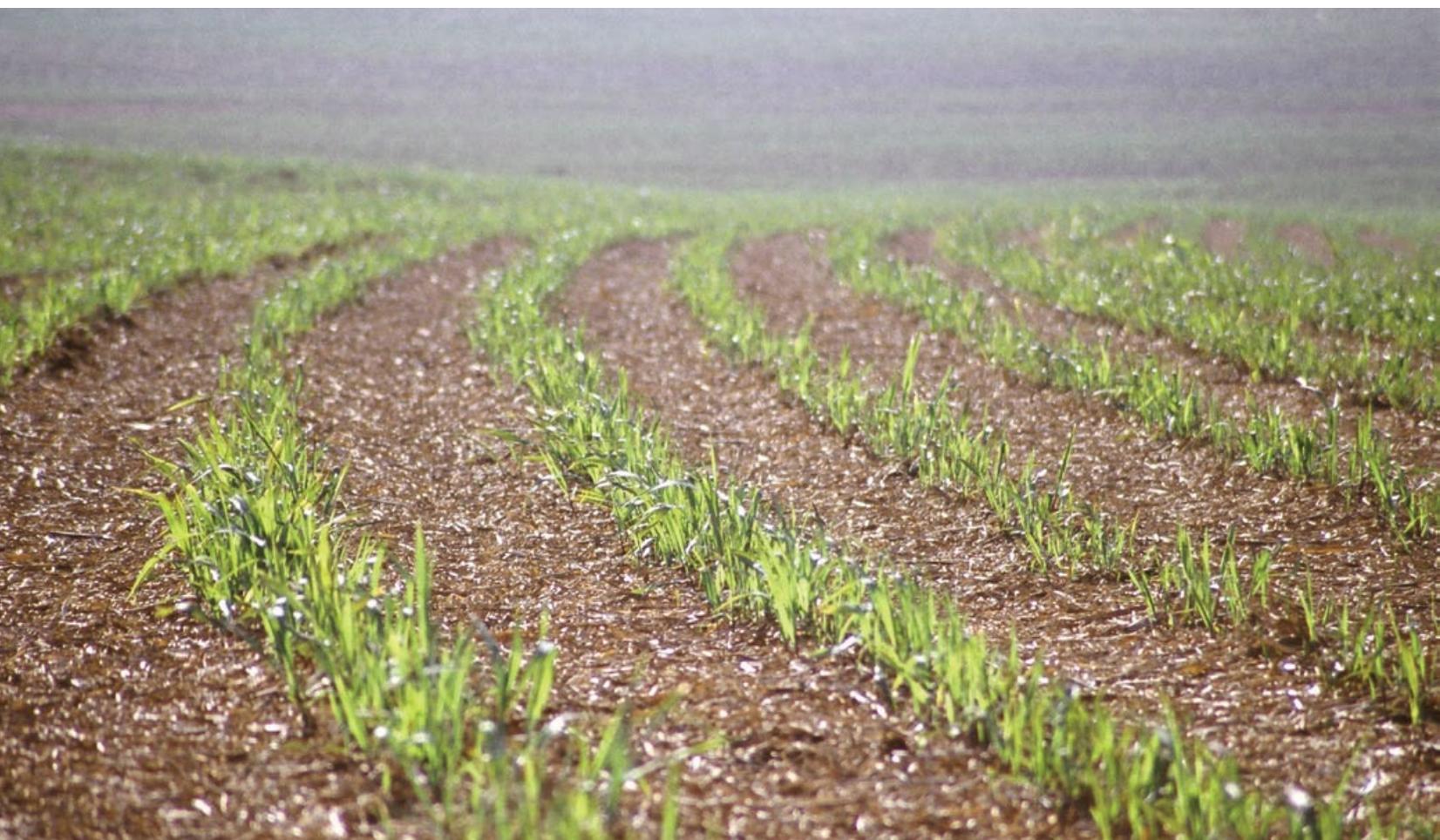
The Group's consolidated adjusted EBITDA stood at R\$766.6 million, 17.9% more than in the previous harvest year, chiefly due to the increase in ethanol sales volume, healthier sales prices and the period upturn in electricity cogeneration volume.

## Debt

Net debt closed the 2013/14 harvest year at R\$1.5 billion, 8.4% higher than at the end of the previous year, due to the expansion and improvement projects and the period devaluation of the real, which increased dollar-denominated debt by around R\$90 million. Given that all dollar debt is tied to the Group's future exports, the impact of the devaluation will be fully reversed when those exports take place.

The net debt/EBITDA ratio narrowed from 2.20x to 2.02x due to EBITDA generation from investments in the 2012/13 harvest year.

The Group's consolidated adjusted EBITDA stood at R\$ 766.6 million, 17.9% more than in the previous harvest year



## Capex

The São Martinho Group's maintenance Capex totaled R\$442.1 million in the 2013/14 harvest year, 5.1% more than in the previous season. With the increase in treated area from the acquisition of the São Carlos plantations (ex-Biosev), investments in crop treatment climbed by 15.7% to R\$200 million. Capex routed to operational improvement reached R\$44.3 million, up by 34.5% in the same period due to investments in agricultural automation.

In regard to expansion and modernization, the Group redeveloped the São Martinho Mill's brownfield sites, reaching an installed milling capacity of 50,000 metric tons of sugarcane per day and verticalized the truck fleets in the São Paulo mills (Iracema and São Martinho) and the Goiás mill (Boa Vista), thereby reducing sugarcane transport costs.

## Direct economic value generated and distributed

The direct economic value generated and distributed data give a snapshot of the Company's economic profile and its current performance and reflects the economic returns from its activities to its various stakeholders. The following table shows the figures underlying this indicator.

| DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (G4-EC1) |           |
|--|-----------|
| March 31, 2014   |           |
| <b>Direct economic value generated</b>                   |           |
| Revenue  | 2,651,944 |
| <b>Economic value distributed</b>                        | 2,549,006 |
| Operating costs  | 1,615,980 |
| Employees' salaries and benefits                         | 337,166   |
| Payments to capital providers                            | 479,567   |
| Payments to governments (by country)                     | 115,936   |
| Community investments                                    | 357       |
| <b>Economic value retained</b>                           | 102,938   |

Note: "Economic value retained" = "Direct economic value generated" less "Economic value distributed".

# 4

## Environmental management

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 manners that ensure the preservation of existing natural resources

### Sustainability as a strategy

[G4-14]

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 manners 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 surrounding community, clients, partners and consumers, while at the same time promoting growth of the Company and the well-being of future generations.

Based on this principle, as of 2010 the concept of sustainable development began to permeate São Martinho's activities, relationships and business in a more structured manner through the implementation of Sustainability Management. Since then, the already-established Sustainability Committee has been able to count on the support of an Executive Sustainability Committee.

Besides aligning the Group's business strategies, the pursuit of high sustainability management standards is reflected in certifications that meet the requirements of clients and specific markets and in the Sustainability Report produced each harvest. This process also allows for the identification of opportunities for corrective actions, the application of best practices and implementation of improvements in general.

Also in line with the sustainable management of its business, the Company has adopted the precautionary principle expressed in the Rio Declaration on Environment and Development in the belief that it is associated with respectful and functional relations between man and nature. The approach is personified in the Environmental Policy, the management model adopted by the Company for interacting with the environment and natural resources in a sustainable manner, and in the Environmental Management Plan, which aims to define and systematize the Group's practices in this area.

The Company also invests in projects aimed at raising employee, and community awareness of the need to preserve the environment and avoid (or at least mitigate) possible environmental impacts, which are described below.

## Environmental projects and practices

### [G4-DMA Biodiversity G4-DMA Local communities]

The São Martinho Group believes that production should take place in harmony with the environment. It therefore invests in a series of environmental education and preservation activities and initiatives in all its units, as follows.

#### **Environmental Education Center (CEA)**

In operation since 2000, the Center's main objective is to raise awareness among students, employees and the community regarding the importance of maintaining and respecting the environment, thereby strengthening environmental education, which is a fundamental pillar of the Group's sustainability policy.

Having begun at the São Martinho Mill in Pradópolis (SP), as of April 2010 the program gained a unit in the Boa Vista Mill, in Quirinópolis (GO). In 2011, with the purchase of a portion of the shares of the Santa Cruz unit, The São Martinho Group acquired an additional CEA unit in the municipality of Américo Brasiliense (SP). Together, the Environmental Education Centers in the São Martinho and Boa Vista mills have already received 72,000 visitors.

#### **Seedling nursery**

Closely connected with the CEA, the Seedling Nursery is another important São Martinho initiative aimed at the replanting of riparian forest. Each year the nursery produces around 380,000 seedlings of 210 different native species, all of which are used in the Group's reforestation projects or in partnerships with environmental authorities. It also donates seedlings to the government and local communities.

As a result of the initiative, the Group has already planted approximately 3.6 million trees, equivalent to 2,000 hectares of permanent preservation area.



The Group has already planted approximately 3.6 million trees, equivalent to 2,000 hectares of permanent preservation area

### **Viva a Natureza (Long Live Nature) Project**

The Viva a Natureza project is a pioneering São Martinho initiative involving environmental preservation and the restoration of riparian forest, which began in 2000 at the São Martinho Mill, in Pradópolis (SP), with the original goal of planting one million native species seedlings. By the close of 2013, the project, which now includes other Group units, had resulted in the planting of more than 3.6 million seedlings.

The initiative aims to engage the community and the Company's employees in nature preservation activities and raise their awareness of the quality of life benefits that this brings to society. In recent years, the average number of seedlings planted per year has risen from 70,000 to 230,000.

### **Soil conservation**

Aiming to preserve land where sugarcane is cultivated, the São Martinho Group adopts practices for monitoring and protecting the physical, chemical and biological conditions of the soil. One of the key features of this conservation policy is the maintenance of the straw, which is left on the field after the cane has been harvested. With its highly advanced 93.9% mechanization ratio, a benchmark in the industry, and no burning, the Group minimizes topsoil and nutrient losses in a sugarcane plantation area of more than 121,000 hectares. By combining this use of crop remains with other conservation measures, the Company can maintain the humidity of the soil, avoid leaching and improve fertility.

São Martinho also maintains an Agricultural Chemical Laboratory certified as grade A by the Campinas Agronomics Institute (IAC) and by ABNT NBR ISO/IEC 17025:2005, which helps determine the most appropriate fertilizer formulations in order to avoid waste during the various applications. It also makes systematic use of organisms cultivated in its biofactory to control pests.

The Group also resorts to crop rotation involving leguminous plants, mainly soybean and peanut, during the sugarcane plantation renewal period. In addition, all the equipment and vehicles are used in such a way as not to damage the soil where the cane is planted, in accordance with the recommendations of the Group's Viva a Cana program, a plantation protection initiative.

### **Increasing yield and reducing waste**

The Company also uses two processes to increase yield and optimize the use of waste products. Vinasse, a liquid distillation residue from the ethanol production process, which is rich in potassium, a necessary nutrient in sugarcane fertilizers, is added to the soil via the fertigation technique, while filter cake, which is generated during the clarification of cane juice and is rich in phosphorous and organic matter, is treated and completed with nutrients, and is used as a planting compost in ratoons as a substitute for natural fertilizers.

## **Environmental indicators**

### **Compliance with environmental laws and regulations**

#### **[G4-DMA Products and services G4-DMA Compliance G4-DMA Environmental grievance mechanisms G4-EN27 G4-EN29 G4-EN34]**

Given that respect for the environment is one of its declared values, the São Martinho Group is always attentive to balanced preservation in order to ensure its conscientious growth in compliance with the applicable legislation and through dialogue with the environmental authorities and society as a whole. In order to do so, it maintains an open communications channel with its stakeholders (via phone, e-mail or directly with the individual responsible for the environmental area), enabling them to air any grievances related to the Company's activities so they can be subsequently evaluated and, if necessary, corrected. In the 2013/14 harvest year, nine complaints regarding environmental impacts were received through this channel, all of which were processed during the reporting period and seven resolved. In the same period, 43 other complaints recorded in previous years were also resolved. The Group also conducts audits of various sectors, giving rise to action plans and control measures, and only contracts partner companies and outsourced input suppliers with the required environmental compliance documentation.

As a result of these initiatives, in the 2013/14 harvest year the São Martinho Group received no significant fines for non-compliance with environmental laws and regulations and faced no suits filed by arbitration chambers. In fact it received only three non-monetary sanctions. However, the Group is not content with merely meeting the existing legal requirements, it is always seeking to prevent possibly significant environmental impacts generated by its agro-industrial processes. It therefore ensures that its operations include certain essential preservation practices, including mechanized harvesting, with no burning of sugarcane, the preventive maintenance of vehicles and machinery, constant monitoring in order to fight and prevent fires, and the use of equipment to control gas emissions from its boilers.

The data in the table below exemplify the Company's concern with mitigating potential environmental damage.

| EXTENSION OF ENVIRONMENTAL IMPACT MITIGATION IN SÃO MARTINHO GROUP OPERATIONS |                    |              |                   |
|---|--------------------|--------------|-------------------|
|   | Unit               | Iracema Mill | São Martinho Mill |
| BOD/COD ratios <sup>1</sup>   | mg/l               | N/A          | COD: 55 – BOD:20  |
| Water withdrawal <sup>2</sup>   | m <sup>3</sup> /Tc | 1.31         | 2.93              |
| Biological control area <sup>3</sup>  | hectares           | 18,296       | 75,000            |
| Burned area <sup>4</sup>  | sugarcane          | 1,350        | 4,419             |
| Diesel consumption <sup>5</sup>   | Gj                 | 476,125,90   | 1,169,739         |
| Fleet modernization <sup>6</sup>  | Percentage         | 10%          | 19%               |
| Area covered by fire prevention and combat facilities <sup>7</sup>            | hectares           | 46,277       | 94,768            |
| Gas emissions <sup>8</sup>  | Boilers            | N/A          | N/A               |

Notes:

<sup>1</sup> According to the legislation in force (CONAMA 430/11), which parameterizes the discharge of effluents into water bodies, the amounts observed at the São Martinho Mill are below those required by CONAMA – up to 60 mg/l for COD and up to 180 mg/l for BOD. The Iracema Mill does not discharge effluents into water bodies.

<sup>2</sup> Despite the increase in the water withdrawal volume when compared to the previous harvest year, initiatives were implemented to reduce the figure next year to around 2.30 m<sup>3</sup>/tc for the São Martinho Mill and 1.0 m<sup>3</sup>/tc for the Iracema Mill.

<sup>3</sup> At the São Martinho Mill, 100% of the area is biologically controlled against pests, a benchmark for this activity.

<sup>4</sup> Ninety-five per cent of the area which belongs to the São Martinho Mill relies on mechanized harvesting, without the burning of sugarcane. In addition, the Mills have signed up to the São Paulo State Department of Agriculture's Agro-environmental Sugarcane Protocol, through which companies are required to eliminate sugarcane burning by 2016. The Iracema Mill does not burn any sugarcane prior to harvest.

<sup>5</sup> Besides technical training for the operators, the São Martinho Group provides preventive vehicle and machinery maintenance services in order to reduce diesel consumption in its mechanized operations. Also, field operations at the Iracema Mill are systematized in order to minimize diesel consumption and, as a consequence, the emission of atmospheric pollutants.

<sup>6</sup> The Company's fleet modernization process involves the acquisition of more energy-efficient vehicles (km/l) and those with a higher sugarcane transportation capacity per trip, thereby reducing the number of vehicles needed for transport operations. The Company also conducts preventive maintenance on equipment and minimizes the emission of atmospheric pollutants.

<sup>7</sup> All sugarcane areas owned by the Company, its partners and suppliers are permanently monitored in order to prevent and/or fight fires.

<sup>8</sup> Boiler flue gas emissions are monitored annually via atmospheric pollution control equipment and reports on NOx emissions and the generation of particulate matter are filed the and environmental agencies (CETESB).



Given that respect for the environment is one of its declared values, the São Martinho Group is always attentive to balanced preservation

## Consumption of materials

### [G4-DMA Materials G4-EN1]

The materials used by the São Martinho Group are subjected on a daily basis to a rigorous measurement and control process aimed at managing their consumption in the Company's various processes. The monitoring process is conducted through consumption and process management reports, as well as audits, that show the best means of optimizing the application of raw materials or inputs.

During the reporting period, the São Martinho Mill substantially reduced the use of a number of materials, especially in the agricultural area. Potassium and phosphorus use, for example were cut by 953% and 281%, respectively, due to the reduction in the unit's crop treatment area.

The table below shows the materials used by the São Martinho Group during the 2013/14 harvest year, by weight or volume. The materials are classified as non-renewable, i.e. they are not renewed in short periods of time.

The São Martinho Mill substantially reduced the use of a number of materials, especially in the agricultural area

|              |  | Iracema Mill |               | São Martinho Mill |               |               |
|--------------|--|--------------|---------------|-------------------|---------------|---------------|
|              | Material                                     | Unit         | 12/13 Harvest | 13/14 Harvest     | 12/13 Harvest | 13/14 Harvest |
| Industrial   | Coloring Material – Anhydrous Ethanol        | liters       | 643           | 744               | 1,482         | 1,989         |
|              | Hydrated Lime                                | metric tons  | 2,027         | 2,012             | 2,859         | 3,760         |
|              | Polymers                                     | metric tons  | 29            | 37                | 30            | 43            |
|              | Sodium Hydroxide                             | metric tons  | 348           | 546               | 500           | 773           |
|              | Sulfuric Acid                                | metric tons  | 1,119         | 1,394             | 1,750         | 2,886         |
|              | Defoamers                                    | metric tons  | 28            | 74                | 53            | 116           |
|              | Dispersants                                  | metric tons  | 23            | 33                | 43            | 72            |
|              | Chlorine                                     | metric tons  | NA            | 0                 | 7             | 11            |
|              | Cyclohexane                                  | metric tons  | 79,405        | 99,330            | 30,005        | 106,833       |
|              | Polyaluminum Chloride                        | metric tons  | 1             | 0                 | 23            | 86.25         |
| Agricultural | Herbicides                                   | liters       | 177,545       | 220,518           | 313,371       | 326,654       |
|              | Herbicides                                   | metric tons  | 42            | 51                | 49            | 70            |
|              | Pesticides                                   | liters       | 15,784        | 12,644            | 11,536        | 34,945        |
|              | Pesticides                                   | metric tons  | 5             | 2                 | 9             | 8             |
|              | Nitrogen                                     | metric tons  | 2,228         | 1,966             | 6,416         | 3,019         |
|              | Limestone                                    | metric tons  | 15,278        | 13,346            | 28,270        | 55,479        |
|              | Potassium (K <sub>2</sub> O)                 | metric tons  | 1,251         | 1,045             | 11,012        | 1,825         |
|              | Phosphorous (P <sub>2</sub> O <sub>5</sub> ) | metric tons  | 1,138         | 852               | 3,254         | 720           |

Notes:

1. The productive chain does not use any type of grain.
2. Final products are dispatched in bulk, avoiding the need for packaging.
3. Direct materials are those used in the productive chain and directly incorporated into the final product. Indirect materials are those used in the productive chain, but not incorporated into the final product. As for the materials used by the Group, only "Coloring Material – Anhydrous Ethanol is regarded as direct.
4. None of these materials are recyclable.
5. All the materials were supplied by third parties and their data were obtained through direct measurement.
6. The materials used by Omtex during the 2013/14 harvest year are also included.

## Energy consumption

### [G4-DMA Energy G4-EN3 G4-EN4 G4-EN5]

Fully committed to respect for the environment, one of its non-negotiable values, the São Martinho Group produces renewable energy only in order to pursue sustainable development and meet the applicable legal requirements. It therefore focuses on the continuous improvement of its energy generation process in order to reduce potential environmental impacts.

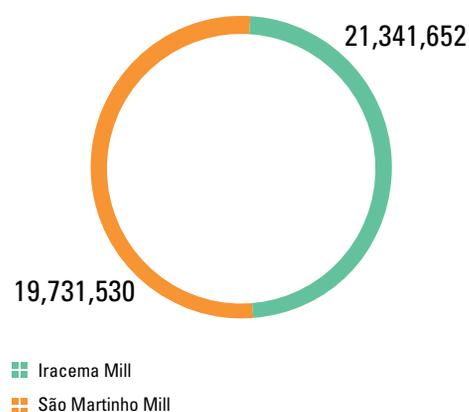
As a result of this sustainable management, the Group's units do not consume energy from the concessionaires during harvest periods, since they obtain all the electricity they need from the combustion of sugarcane bagasse (biomass) in the mills' boilers. The boilers also have a gas washing treatment system to avoid environmental impacts.

During the off-season, power is obtained from two distributors: CPFL, for the São Martinho Mill (consumption of 5,481 MWh) and Elektro for the Iracema Mill (consumption of 5,939 MWh). The energy is used for industrial, agricultural and administrative processes.

| ENERGY CONSUMPTION      |      |              |                   |
|-------------------------|------|--------------|-------------------|
| INDICATOR               | Unit | Iracema Mill | São Martinho Mill |
| Electricity consumption | MWh  | 57,502       | 176,950.00        |
| Heating consumption     | GJ   | 6,478,718.02 | 15,637,287.79     |
| Cooling consumption     | -    | 0.00         | 0.00              |
| Steam consumption       | GJ   | 5,115,287.08 | 16,504,956.59     |
| Electricity sold        | MWh  | 15,550.82    | 218,108.18        |
| Heating sold            | -    | 0.00         | 0.00              |
| Cooling sold            | -    | 0.00         | 0.00              |
| Steam sold              | GJ   | 64,034.77    | 0.00              |

Note: Electricity consumption at the Iracema Mill also includes Omtek, which produces RNA sodium salt.

### Energy Intensity Ratio (GJ/tc)



Note: The energy intensity ratio reflects energy consumed inside the organization and is equal to the sum of gigajoules of the fuels used divided by the volume of sugarcane processed during the harvest.

| DIRECT ENERGY CONSUMPTION BY RENEWABLE AND NON-RENEWABLE SOURCE |               |               |                   |               |
|---|---------------|---------------|-------------------|---------------|
|   | Iracema Mill  |               | São Martinho Mill |               |
|   | 12/13 Harvest | 13/14 Harvest | 12/13 Harvest     | 13/14 Harvest |
| <i>Non-renewable sources</i>                                    |               |               |                   |               |
| Diesel  | 401,285.6     | 476,125.9     | 977,605.9         | 1,169,739.1   |
| LPG   | 590.0         | 622.0         | 598.4             | 715.4         |
| Gasoline  | 298.0         | 421.8         | 761.8             | 476.2         |
| <i>Renewable sources</i>  |               |               |                   |               |
| Ethanol   | 11,379.8      | 11,907.5      | 23,903.8          | 27,715.8      |
| Methane   | NA            | NA            | 27,752.0          | 32,216.5      |
| Biomass   | 5,698,361.9   | 6,478,718.0   | 12,272,250.5      | 15,637,287.8  |

## Water consumption

### [G4-DMA Water G4-EN8 G4-EN10 G4-EN22]

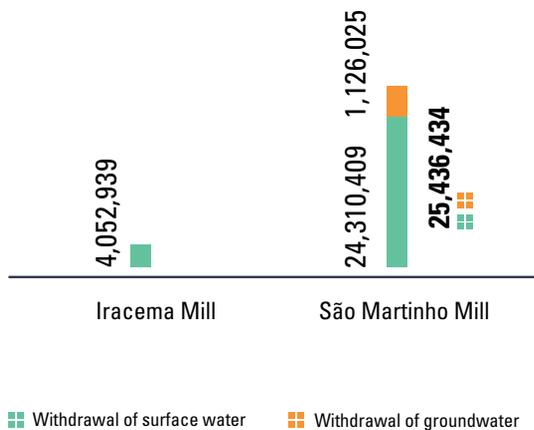
In the 2013/14 harvest year, the Iracema and São Martinho Mills consumed 29.5 million m<sup>3</sup> of water, mostly from surface sources (28.4 million m<sup>3</sup>). Only the São Martinho Mill uses groundwater.

Concerned with the conscientious management of this resource, the Group measures outflows and controls the quality of both surface and groundwater for industrial and human consumption, and effluent-discharge purposes. Through these processes, the Company aims to adjust the working of the hydrological cycle in order to mitigate any eventual damage to the natural ecosystem.

In this context, one of its most important initiatives is the Water Resource Plan, which considers the possibilities of reusing the water and closing the main circuits, aiming to reduce withdrawal to a minimum, and the reuse of liquid effluents in sugar cane plantations by means of irrigation in order to avoid ratooning.

At the São Martinho Mill, a large portion of effluent volume is used for other purposes, such as crop irrigation, given its enormous planted area. The Iracema Mill does not discharge its wastewater into the treatment system as it has a system for reusing water in its processes (closed circuit). The amounts recycled or reused by each unit corresponded to 19.2% of total water consumption. After passing through a treatment system, 16.8 million m<sup>3</sup> were discharged by the São Martinho Mill into surface water bodies. In the next harvest year, the goal is to reduce water consumption by the mill's industrial processes, in turn reducing water withdrawal and the discharge of effluents.

### Withdrawal of water by source and operating unit (m<sup>3</sup>)



Concerned with the conscientious management of this resource, the Group measures outflows and controls the quality of both surface and groundwater for industrial and human consumption, and effluent-discharge purposes

### PERCENTAGE AND TOTAL VOLUME OF RECYCLED AND REUSED WATER

|   | Iracema Mill | São Martinho Mill | Total       |
|---|--------------|-------------------|-------------|
| Total volume of water recycled and reused (m <sup>3</sup> ) | 2,239,748    | 3,425,509         | 5,665,257.0 |
| Total volume of water recycled and reused (%)               | 55.26%       | 13.47%            | 19.2%       |

| TOTAL WASTEWATER BY VOLUME AND DESTINATION (EFFLUENTS)              |                          |     |     |                                     |     |       |
|---|--------------------------|-----|-----|-------------------------------------|-----|-------|
| Destination   | Iracema Mill             |     |     | São Martinho Mill                   |     |       |
|   | Volume (m <sup>3</sup> ) | BOD | COD | Volume (m <sup>3</sup> )            | BOD | COD   |
| Treatment system  | NA                       | NA  | NA  | 16,837,210                          | 48  | 17    |
| Destination   | -                        | -   | -   | Discharge into surface water bodies | -   | -     |
| Other discharge for crop irrigation (water used to clean equipment) | 1,344,018                | NA  | NA  | 3,425,509                           | 619 | 1,400 |

Notes:

1. BOD (biochemical oxygen demand) is usually used for the monitoring of effluent treatment systems and the characterization of industrial effluents to indicate pollution levels. COD (Chemical Oxygen Demand) represents the amount of oxygen needed to oxidize organic matter through a chemical agent.
2. The Iracema Mill does not discharge its wastewater into the treatment system as it has a system for reusing water in its processes.
3. At the São Martinho Mill, a large portion of effluent volume is used for other purposes, such as crop irrigation, given its enormous planted area.

## Emissions

### [G4-DMA Emissions G4-EN15 G4-EN16 G4-EN17 G4-EN21 G4-DMA Transport G4-EN30]

In order to comply with the laws governing the emission of greenhouse gases (GHG), the São Martinho Group uses equipment to control atmospheric pollution from its boiler gases in all its units. It also monitors gases emitted by its boiler flues on an annual basis and compiles reports on NO<sub>x</sub> and particulate material emissions, which are registered with the environmental agencies.

Underlining its commitment to improving its emission controls, all the Company's units are expected to conclude the systematization of the Internal Program on Self-Supervision and Monitoring of Black Smoke Emissions from the diesel-fueled fleet by the 2014/15 harvest, pursuant to Administrative Rule 85 of the Brazilian Institute of Environment and Renewable Natural Resources (IBAMA), issued on October 17, 1996. São Martinho has also been gradually renewing this fleet in order to further mitigate transport-related emission impacts.

In addition, two of São Martinho's key products, ethanol and electricity, also help sustain the Company's operations in regard to GHG emissions. In both cases, the carbon released into the atmosphere from the burning of bagasse and the production and combustion of ethanol, is reabsorbed by the sugarcane and does not increase CO<sub>2</sub> concentrations in the atmosphere. By contrast, their competitors – gasoline and electricity from the grid – increase CO<sub>2</sub> emissions, thereby contributing to global warming.

During the ethanol lifecycle, there are small GHG emissions corresponding to slightly more than 20% of the CO<sub>2</sub> produced by an equivalent amount of gasoline, underlining the advantage of renewable over fossil fuels. The Group's product is also superior to corn ethanol in this respect since sugarcane bagasse provides the São Martinho's units with energy for the entire industrial process, contrary to corn ethanol production, which uses fossil fuel. Similarly, according to Dr. Isaias de Carvalho Macedo, a PhD in Mechanical Engineering and a consultant for the São Martinho Group, cane-based sugar production results in lower GHG emissions than that of beet sugar.

Given the 18% upturn in crushed sugarcane volume milling over the previous harvest, production of renewable energy increased by 37% in the case of ethanol, and ten times more (580%) in the case of electricity sold, substantially raising the Group's contribution to reducing climatic impacts. In the case of ethanol, the gains also included an 8% decline in emissions to 19.2 g CO<sub>2</sub>e/MJ.

The increase in crushed volume was due to the expansion of the Group's sugarcane plantations, a process that inevitably results in higher diesel consumption, in this case 3% more than in the previous harvest year. However, the replacement of gasoline with ethanol led to a reduction in the emission of harmful gases of between 75 and 78%.

**SIGNIFICANT ENVIRONMENTAL IMPACTS ARISING FROM THE TRANSPORTATION OF PRODUCTS, GOODS AND OTHER MATERIALS USED BY THE ORGANIZATION, AS WELL AS TRANSPORTATION OF ITS EMPLOYEES**

|                            | <b>Iracema Mill</b>  | <b>São Martinho Mill</b>   |
|----------------------------|--|--|
| Transportation of products | Monitoring of black smoke from diesel-fueled vehicles.   | Replacing road with rail transport.  |
| Buses                      | Fostering the use of collective transport.   | Fostering the use of collective transport.   |
| Cars                       | Preventive maintenance in accordance with the manufacturer's specifications and fleet renewal. | Preventive maintenance in accordance with the manufacturer's specifications and fleet renewal. |
| Agricultural machinery     | Preventive maintenance in accordance with the manufacturer's specifications and fleet renewal. | Monitoring of black smoke expelled from diesel-fueled vehicles.                                |

In the 2010/2011 harvest year, the São Martinho Group prepared its first greenhouse gas emission inventory, which quantified the emissions of the São Martinho and Iracema mills. 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. The results of the inventory showed that the Company's warming potential (GWP – Global Warming Potential) is only 0.0096, considered as low. The rate measures the extent to which a certain volume of greenhouse gases contributes to global warming, one of the biggest current environmental problems.

**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.

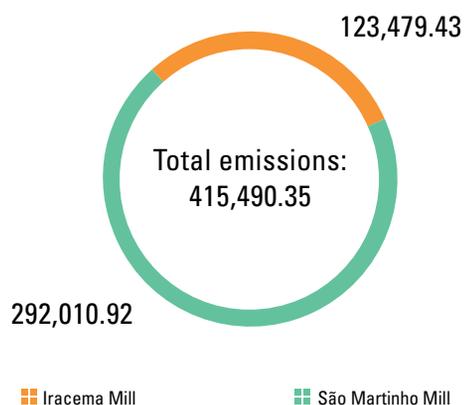
**Scope 2 – Indirect emissions**

Sources: Energy balance of electricity imports and exports.

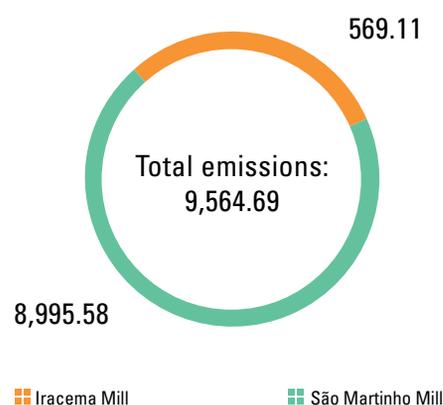
**Scope 3 – Indirect Emissions (other)**

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 export.

**Scope 1 Emissions (tCO<sub>2</sub> equivalent)**

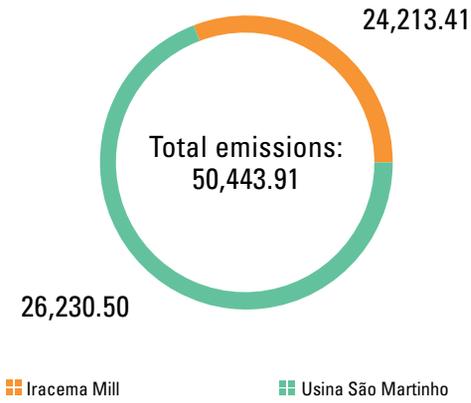


**Scope 2 Emissions (tCO<sub>2</sub> equivalent)\***

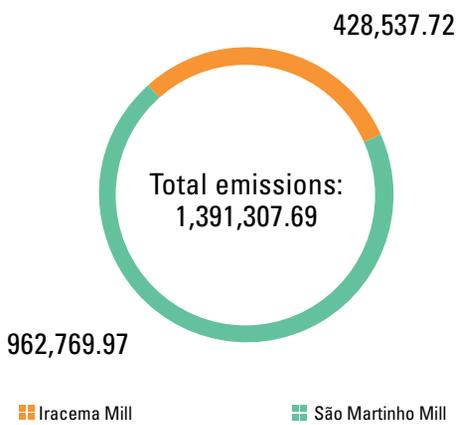


\*Emissions from purchased energy.

**Scope 3 Emissions (tCO<sub>2</sub> equivalent)**

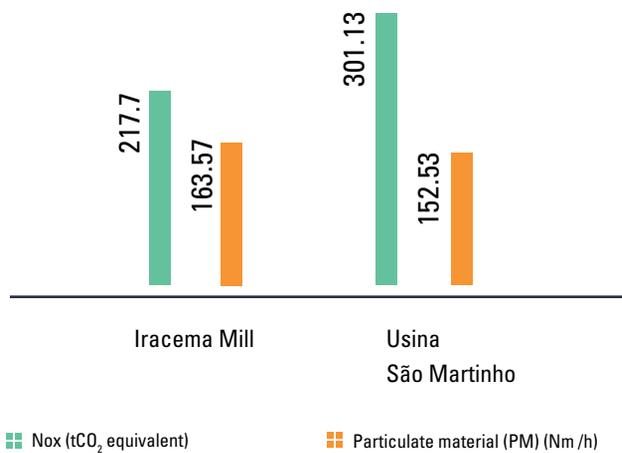


**Biogenic Emissions (tCO<sub>2</sub> equivalent)\***



\*These emissions are related to CO<sub>2</sub> absorbed from the atmosphere during sugarcane growth and are therefore considered as null.

**Other Significant Atmospheric Emissions\***



\*These amounts are within the maximum emission limits established by Conama Resolutions 436 and 382.

Two of the São Martinho Group's key products, ethanol and electricity, also help operational sustainability in regard to GHG emissions



## Biodiversity

### [G4-DMA Biodiversity G4-EN11]

Biodiversity is crucial to the São Martinho Group, not only because of its commitment to environmental preservation, but also because an unbalanced biome can affect the sugarcane plantations by contributing to pest infestations, soil changes, etc.

Given that parts of the Iracema and São Martinho mills are located in protected areas, in the latter case 10.12 hectares in a permanent preservation area, the Company is responsible for conserving these spaces. One of its initiatives is to catalogue the animal species sighted by its agricultural, industrial, and administrative employees. This process, entitled Fauna Spotting, consists of quantifying the species and identifying the areas where they are most highly concentrated. After the animals are catalogued, a database is created listing the specific locations where endangered species can be found. If necessary, these locations are then fenced in to avoid road kill in areas with constant vehicle traffic.

The Company also adopts other practices for preserving fauna in the Company's forest fragments, including the conservation of firebreaks, firefighting, the appropriate use of chemical products, biological controls, and reforestation.

| PROPRIETARY, LEASED, OR MANAGED OPERATING UNITS IN OR ADJACENT TO PROTECTED INDUSTRIAL AREAS |                             |                             |
|--|-----------------------------|-----------------------------|
|  | Iracema Mill                | São Martinho Mill           |
| Geographical location  | Iracemápolis (SP)           | Pradópolis (SP)             |
| Proprietary + leased + partner areas (hectares)  | 30,456                      | 79,628                      |
| Position in relation to the protected area (hectares)  | 15.16 hectares              | 10.12 hectares              |
| Type of operation  | Office/Production/Storage   | Office/Production/ Storage  |
| Size of operating unit (km <sup>2</sup> )  | 0.223                       | 1.496                       |
| Biodiversity value   | Permanent preservation area | Permanent preservation area |



One of its initiatives is to catalogue the animal species sighted by its agricultural, industrial, and administrative employees



The São Martinho Group has always been attentive to the disposal of the effluents and solid waste generated by its processes

## Waste disposal

### [G4-DMA Effluents and waste products G4-EN23]

The São Martinho Group has always been attentive to the disposal of the effluents and solid waste generated by its processes, being fully aware of the possible impacts of incorrect disposal. In the face of such a potential risk, all the Company's units have adopted a Solid Waste Management Program which follows the 3-R concept: Reduce consumption of inputs and materials, Reuse the materials and byproducts generated, and Recycle the materials by segregating them and sending them to the correct treatment systems.

The process involves registering waste output by weighing it on a scale and recording the amounts in electronic spreadsheets. It is then treated and disposed of in an appropriate ecological and economic manner in accordance with its specific characteristics. The program therefore systematizes the management of solid waste from the Group's agricultural and industrial activities, and ensures its correct disposal, thereby preventing harmful environment impacts.

The Company also raises employees' and the community's awareness of the importance of separating waste correctly in order to protect the environment through lectures and a sensitization program for its workers.

The following table shows the most important waste products and their respective disposal methods in the 2013/14 harvest year.

**TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL METHOD**

| Waste Product   | CLASS | UNIT  | Iracema Mill |                | São Martinho Mill |                              |
|---|-------|-------|--------------|----------------|-------------------|------------------------------|
|   |       |       | Amount       | Disposal       | Amount            | Disposal                     |
| Carbon Steel  | 2     | kg    | 819,100      | recycling      | 655,580           | recycling/recovery           |
| Steel   | 2     | kg    | 6,120        | recycling      | 1,020             | recycling/recovery           |
| Plastic/Paper   | 2     | kg    | 25,070       | recycling      | 657,200           | recycling                    |
| Tires   | 2     | units | 1,227        | reconditioning | 2,333             | vulcanization/sale           |
| Electric Materials                                    | 2     | kg    | 1,180        | -              | 640               | recycling/recovery           |
| 2 <sup>nd</sup> Line Steel Drum                       | 2     | PC    | 542          | recovery       | 591               | recycling                    |
| Vehicle Batteries                                     | 2     | kg    | 10,410       | other          | 1,540             | other/manufacturing          |
| 2 <sup>nd</sup> Line Steel Drums                      | 2     | PC    | -            | -              | 1,611             | recycling/recovery           |
| Pesticide Packaging (Rigid Plastic)                   | 1     | 20L   | -            | -              | 1,021             | recycling/recovery           |
| Pesticide Packaging (Rigid Plastic)                   | 1     | 5L    | -            | -              | 549               | recycling/recovery           |
| Pesticide Packaging (Rigid Plastic)                   | 1     | 10L   | -            | -              | 170               | recycling/recovery           |
| Pesticide Packaging (Rigid Plastic)                   | 1     | units | 14,579       | recycling      | -                 | -                            |
| Pesticide Packaging (Rigid Cellulosic)                | 1     | 12 kg | 280          | recycling      | 563               | recycling/recovery           |
| Pesticide Packaging (Non-washable – Flexible Plastic) | 1     | units | 1,932        | recycling      | -                 | -                            |
| Pesticide Packaging (Non-washable – Metallic Plastic) | 1     | units | 2,260        | recycling      | -                 | -                            |
| Oil Sludge Drums                                      | 1     | 200L  | -            | -              | 36                | recycling/recovery           |
| Laboratory Waste                                      | 1     | kg    | -            | -              | 320               | decontamination/incineration |
| Scrap Plastic and Fibers                              | 2     | kg    | -            | -              | 3,300             | recycling                    |
| Contaminated Containers                               | 1     | units | 9,300        | incineration   | 11                | incineration                 |
| Oil Filters   | 1     | kg    | 6,000        | incineration   | 5,306             | incineration                 |
| Oil Filter Containers                                 | 1     | units | -            | -              | 4                 | co-processing                |

|   |   |             |        |                 |         |                    |
|---|---|-------------|--------|-----------------|---------|--------------------|
| Glass                                       | 2 | kg          | -      | -               | 1,624   | recycling          |
| Contaminated Grease                         | 1 | kg          | -      | -               | 1,700   | incineration       |
| Land/Water Contaminated by Hydrocarbons     | 1 | quilo       | 15,710 | incineration    | 850     | incineration       |
| Materials Contaminated by Hydrocarbons      | 1 | kg          | 62,720 | incineration    | 3,000   | incineration       |
| Plastic Drums and Containers                | 2 | units       | 542    | recovery        | 822     | recycling/recovery |
| Scrap Brake Drum                            | 2 | units       | -      | -               | 320     | incineration       |
| Oil Sludge                                  | 1 | kg          | 61,770 | incineration    | 40      | incineration       |
| Scrap Steel (lathe chips)                   | 2 | kg          | -      | -               | 22,220  | recycling/recovery |
| Organic Waste from Commercial Establishment | 2 | metric tons | -      | -               | 411,030 | waste dump         |
| Organic Waste from Commercial Establishment | 2 | kg          | -      | -               | 120,500 | recycling/recovery |
| Burnt Oil                                   | 1 | kg          | 43,640 | recovery        | -       | -                  |
| Aluminum                                    | 2 | kg          | 1,470  | recycling       | -       | -                  |
| Rubber                                      | 2 | kg          | 10,870 | landfill        | -       | -                  |
| Lamps                                       | 1 | PC          | 2,542  | decontamination | -       | -                  |

Notes:

**CLASS 1 – HAZARDOUS:**

Class 1 waste is hazardous and has at least one of the following characteristics: flammability, corrosiveness, reactivity, toxicity and/or pathogenicity.

**CLASS 2 – NON-HAZARDOUS:**

Class 2 waste does not have any Class 1 characteristics.

1. Recovery: the process through which waste materials are restored to their initial form/condition, without changing their origin.
2. Other: other methods such as recycling and incorporating/mixing of one material in to another material or product.

# 5



## Relationships

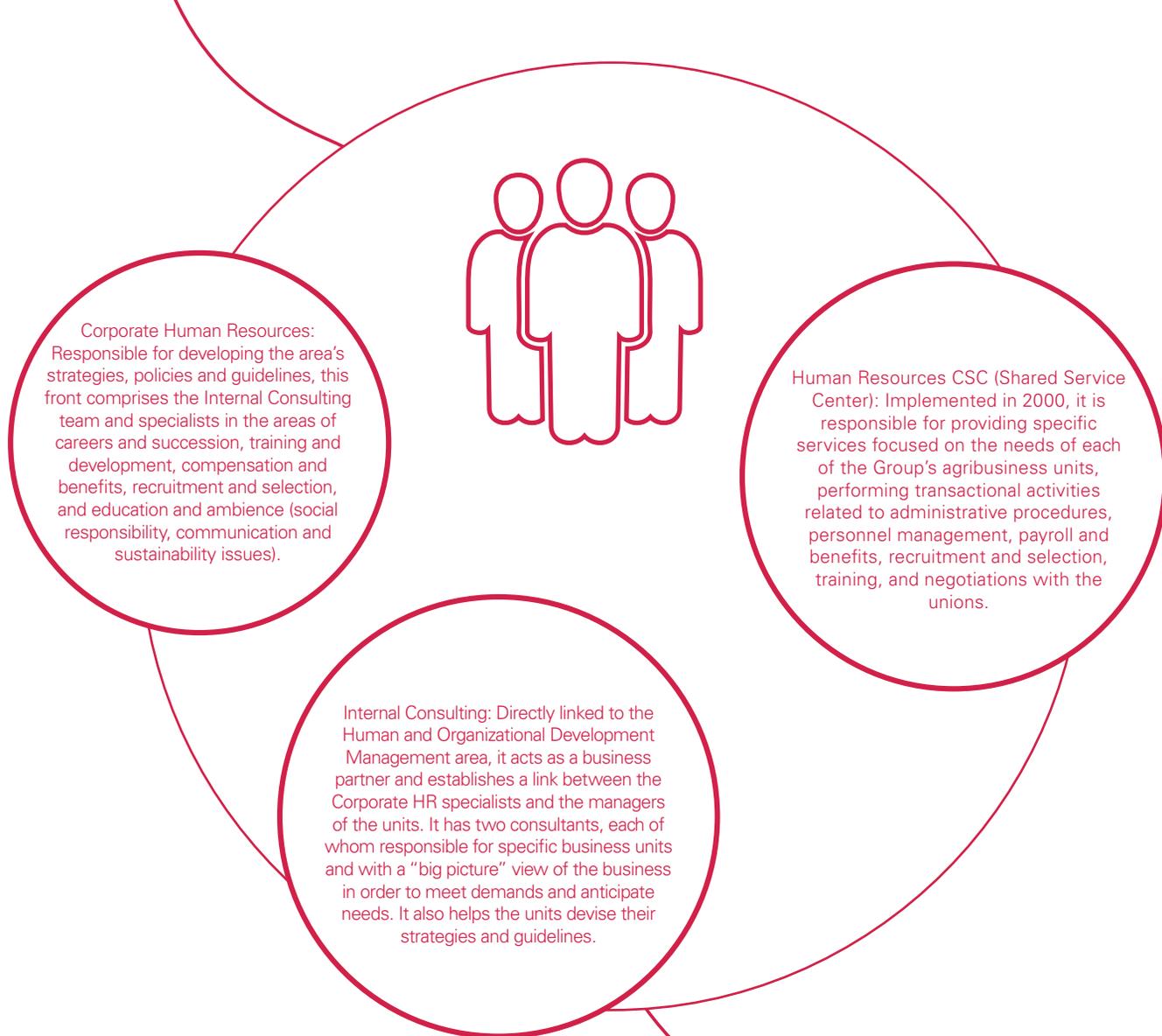
Aiming to streamline its people management area, in 2013 the São Martinho Group adopted a new HR model



### Transformation of the organizational structure

Aiming to streamline its people management area and strengthen the alignment between its HR systems and processes and its business strategies, in 2013 the São Martinho Group adopted a new HR management model in accordance with the Company's mission, vision, values and pillars. Following a market study by KPMG, the area was divided into three fronts:





In addition to the central CSC, located in the São Martinho Mill in Pradópolis (SP), which is responsible for standardizing and integrating these services, each business unit has its own CSC team to develop transactional activities, and negotiate with the unions and internal workers' committees.

The integration of the Human Resources, Legal and Sustainability areas, responsible for Corporate HR, has strengthened the area's activities in regard to achieving the Company's goals, such as constant operational improvement and business expansion.

## Employees

### [G4-9 G4-10 G4-LA1 G4-LA3 G4-DMA Diversity and Equal Opportunity G4-LA12 G4-DMA Non-discrimination]

Regarded as intrinsic values, employees and their non-discrimination are among the pillars of the São Martinho Group. This is reflected in the way the Company manages its workers, paying them in accordance with goals and results, irrespective of gender, color, religious belief, sexual orientation, or any other type of discriminatory criterion. It also makes a point of hiring people with special needs, providing them with access to work in a social and economically sustainable manner. Based on the principle of diversity and equal opportunity, the Company hired 31 men and 25 women under the People with Special Needs program during the reporting period.

The Group has a proprietary workforce of 7,100, 6,425 of whom men and 675 women. It also employs 789 outsourced individuals. In terms of age group, 57.55% are aged between 30 and 50 years, 24.49% are under 30 and 17.96% are over 50. During the harvest period an additional 400 workers are hired on average.

In the 2013/14 harvest year, the Group hired 1,395 employees, 118 women and 1,277 men, most of whom (49%) were aged between 30 and 50. In the same period, 1,240 workers left the Company.

All employees who took maternity / paternity leave returned to work. The retention rate, i.e. the ratio of employees who remained in the Company 12 months after returning from leave, was 93% for men and 67% for women.

## Ranked among the best companies to work for the second consecutive year

In 2013, the São Martinho Group, for the second consecutive year, and Nova Fronteira Bioenergia, for the first time, were included in the *Guia Você S/A 2013* "150 Best Companies to Work For" rankings.

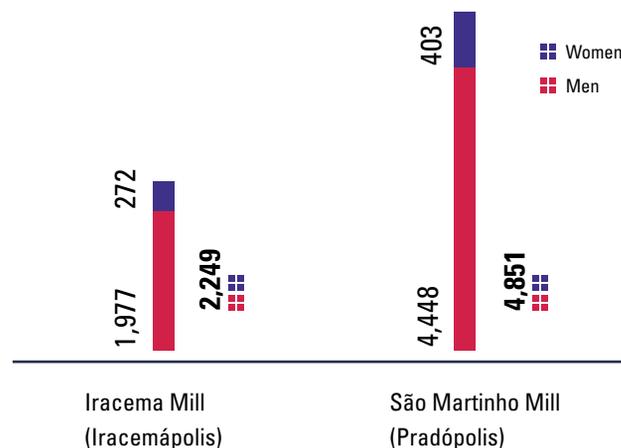
The survey, which included more than 500 companies and is considered the most important organizational climate survey, covered all the Group's units, aiming to gauge employees' views and opinions of their companies. Participants were chosen on a random basis and the process was organized and conducted by *Você S/A* magazine.

This achievement consolidates the benchmark reputation of both companies in the market and highlights the compatibility between the Company's values and its employees' day-to-day activities.

## Employee profile and diversity indicators

| SÃO MARTINHO GROUP WORKFORCE BY JOB CATEGORY AND GENDER |       |       |       |                                |                              |
|---|-------|-------|-------|--------------------------------|------------------------------|
|   | Women | Men   | Total | Percentage of female employees | Percentage of male employees |
| Administrative  | 116   | 257   | 373   | 31.10%                         | 68.90%                       |
| Apprentices   | 25    | 79    | 104   | 24.04%                         | 75.96%                       |
| Coordination  | 4     | 34    | 38    | 10.53%                         | 89.47%                       |
| Managerial  | 2     | 22    | 24    | 8.33%                          | 91.67%                       |
| Leadership  | 5     | 221   | 226   | 2.21%                          | 97.79%                       |
| Production  | 519   | 5,765 | 6,284 | 8.26%                          | 91.74%                       |
| Support   | 3     | 38    | 41    | 7.32%                          | 92.68%                       |
| Executives  | 1     | 9     | 10    | 10.00%                         | 90.00%                       |
| Total   | 675   | 6,425 | 7,100 | 9.51%                          | 90.49%                       |

### Workforce by gender and region



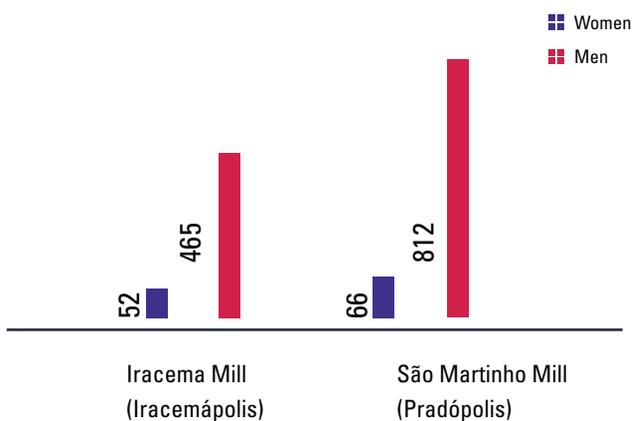
| BREAKDOWN OF WORKFORCE BY AGE GROUP |       |        |
|-------------------------------------|-------|--------|
| Under 30 years                      | 1,739 | 24.49% |
| From 30 to 50                       | 4,086 | 57.55% |
| Over 50                             | 1,275 | 17.96% |
| Total                               | 7,100 |        |

In the 2013/14 harvest year, the Group hired 1,395 employees

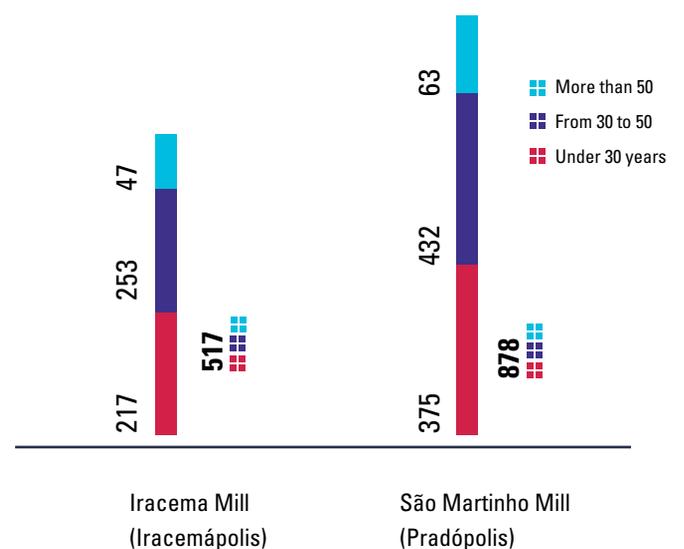
| BREAKDOWN OF CORPORATE GOVERNANCE STAFF BY AGE GROUP |     |        |
|--|-----|--------|
| Under 30 years                                       | 30  | 9.55%  |
| From 30 to 50  | 196 | 62.42% |
| Over 50  | 88  | 28.03% |
| Total  | 314 |        |

| BREAKDOWN OF CORPORATE GOVERNANCE STAFF BY GENDER |       |     |                                |                              |
|---|-------|-----|--------------------------------|------------------------------|
|   | Women | Man | Percentage of female employees | Percentage of male employees |
| Coordination                                      | 4     | 34  | 10.53%                         | 89.47%                       |
| Managerial  | 2     | 22  | 8.33%                          | 91.67%                       |
| Leadership  | 5     | 221 | 2.21%                          | 97.79%                       |
| Executives  | 1     | 9   | 10%                            | 90%                          |
| Board of Directors                                | 0     | 16  | 100%                           |                              |
| Total   | 314   |     |                                |                              |

Total hires by gender and region



Total new hires by age group and region



| NEW HIRES BY GENDER AND REGION |          |               |         |        |          |               |         |        |
|--------------------------------|----------|---------------|---------|--------|----------|---------------|---------|--------|
|                                | Women    |               |         | Total  | Men      |               |         | Total  |
|                                | Under 30 | From 30 to 50 | Over 50 |        | Under 30 | From 30 to 50 | Over 50 |        |
| Iracema Mill (Iracemápolis)    | 12.71%   | 29.66%        | 1.69%   | 44.07% | 15.82%   | 17.07%        | 3.52%   | 36.41% |
| São Martinho Mill (Pradópolis) | 32.20%   | 22.03%        | 1.69%   | 55.93% | 27.02%   | 31.79%        | 4.78%   | 63.59% |

| STAFF TURNOVER BY GENDER AND REGION |       |       |            |       |                    |        |
|-------------------------------------|-------|-------|------------|-------|--------------------|--------|
|                                     | Hires |       | Departures |       | Turnover by gender |        |
|                                     | Women | Men   | Women      | Men   | Women              | Men    |
| Iracema Mill (Iracemápolis)         | 52    | 465   | 43         | 442   | 7.04%              | 7.06%  |
| São Martinho Mill (Pradópolis)      | 66    | 812   | 82         | 673   | 10.96%             | 11.56% |
| Total                               | 118   | 1,277 | 125        | 1,115 | 18.00%             | 18.61% |

| STAFF TURNOVER BY AGE GROUP AND REGION * |          |               |         |            |               |         |          |               |         |
|--|----------|---------------|---------|------------|---------------|---------|----------|---------------|---------|
|  | Hires    |               |         | Departures |               |         | Turnover |               |         |
|  | Under 30 | From 30 to 50 | Over 50 | Under 30   | From 30 to 50 | Over 50 | Under 30 | From 30 to 50 | Over 50 |
| Iracema Mill (Iracemápolis)              | 217      | 253           | 47      | 275        | 381           | 99      | 14.14%   | 7.76%         | 5.73%   |
| São Martinho Mill (Pradópolis)           | 383      | 432           | 63      | 201        | 226           | 58      | 16.79%   | 8.05%         | 4.74%   |
| Total                                    | 600      | 685           | 110     | 476        | 607           | 157     | 7.58%    | 15.81%        | 10.47%  |

\*The turnover rate was calculated by the following formula: number of hires + number of departures/2/total employees by age – 1,739 under 30, 4,086 between 30 and 50, and 1,275 over 50. In the case of the totals, the last part of the formula was replaced by the total workforce – 7,100 employees.

| MATERNITY/PATERNITY LEAVE   |       |       |       |
|---|-------|-------|-------|
|   | Women | Men   | Total |
| Employees entitled to maternity/paternity leave   | 674   | 6,416 | 7,090 |
| Employees who took maternity/paternity leave  | 24    | 198   | 222   |
| Employees who returned to work after maternity/paternity leave  | 24    | 198   | 222   |
| Employees who returned to work after leave and remained with the Company 12 months after their return | 16    | 184   | 200   |

## Employee communication channels

In addition to strengthening values and concepts among its employees, the Group's Corporate Communications area maintains a number of communications channels for disseminating information on the Organization's day-to-day business.

*Nossa Gente*, the Group's newspaper-style publication, is published every quarter and contains news on the market, productivity and new company features, while *Nossas Notícias* is published every six months and contains business-related news targeting employees, investors, managers, directors, Group partners and community members. *Nossas Notícias da Semana* is a weekly newsletter which is e-mailed to employees.

The Group also maintains an Intranet for the storage of documents and the disclosure of policies and procedures. São Martinho's Facebook page was created in 2013 and accumulated 3,000 "likes" in just six months.

In addition to these channels, the Company also maintains bulletin boards in strategic areas of the units and on its staff buses; promotes internal campaigns to disseminate and inform employees of its day-to-day activities, and, since 2013, has been broadcasting institutional messages, as well as music, on São Martinho Radio, located in the São Martinho mill's refectory.

**Other channels of dialogue between employees and the Company are listed below:**

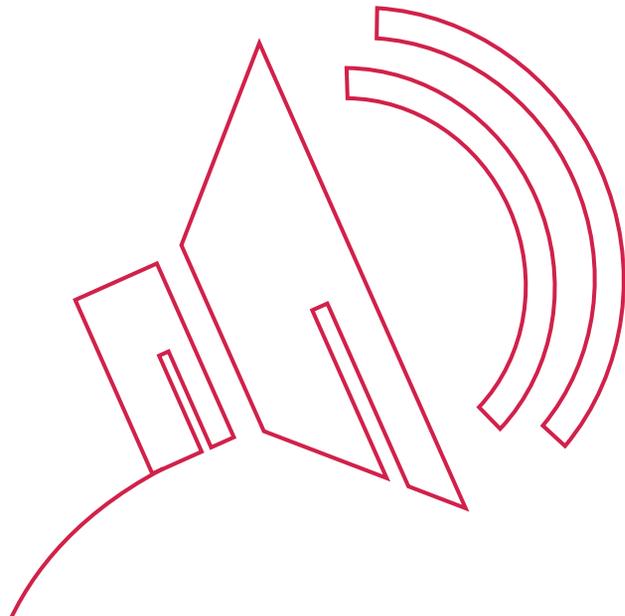
### Ethics Channel

- 0800 777 3131
- [etica@saomartinho.com.br](mailto:etica@saomartinho.com.br)
- Alameda Caiapós, nº 243, Barueri - CEP: 06460-110, São Paulo/SP

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

- Contact Us
- Blog

### Coffee with the CEO Program



## Carees

The São Martinho Group is always seeking to further the personal and professional development of its employees. It therefore invests in a number of technical, behavioral, and educational programs to instill new knowledge and encourage their continuing progress. It also prioritizes the recruitment of existing employees to fill vacant positions before opening them to the market, underlining its belief in the quality and potential of its professionals.

## Career development initiatives

### ● Succession Plans

Aiming to help its professionals plan their careers, every year the Group draws up a Succession Plan for its managers, who are evaluated by committees charged with identifying their performance and potential. During this process, they are positioned on a chart showing their potential and current stage of development.

### ● Career Paths

The Career Path program, whose development began in 2013 and which will be implemented in the 2015/16 harvest year, will help plan employees' careers by mapping the desired profile for all jobs in the agricultural and industrial areas, so that the professionals become aware of the knowledge, experience, and training needed for them to climb their chosen ladder.

### ● Recognition Program

Begun in 2013, this program aims to establish practices for recognizing employees' potential as well as encouraging creativity, teamwork and flexibility, and consists of three pillars: "Your Idea Earns Prizes"; "Highlight of the Year" and "Our People". Proposals are evaluated by an official program committee and are awarded in accordance with the categories defined in the regulations. This year, around 20 ideas were entered for "Your Ideas Earn Prizes", which encourages employees to submit suggestions for improving the Group's business.

# Professional development

## [G4-DMA Training and education G4-LA9]

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, with the improvement in development management, motivation and the creation of opportunities have become prime goals for preparing teams for the increasing challenges ahead.

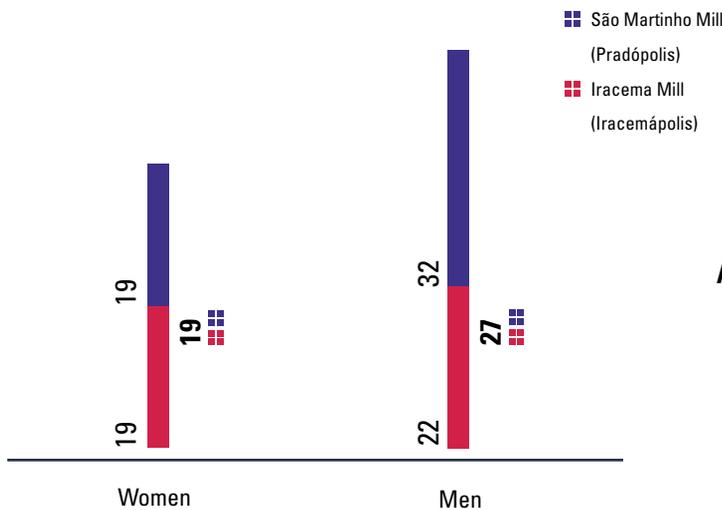
One of the Group's main initiatives in this area is its operational behavioral training program, which aims to develop behavioral skills, promote the Group's mission, vision and values, and improve interpersonal relations through practical and conceptual activities.

These and other internal training courses are subsequently assessed by the employees themselves who express their opinions on the instructor, the organization, the methodology, and the program presented. Building on these results and conversations with managers, the Group proposes improvements to the development processes. As a result development management has been fine-tuned in recent years, generating effective gains for the entire Company.

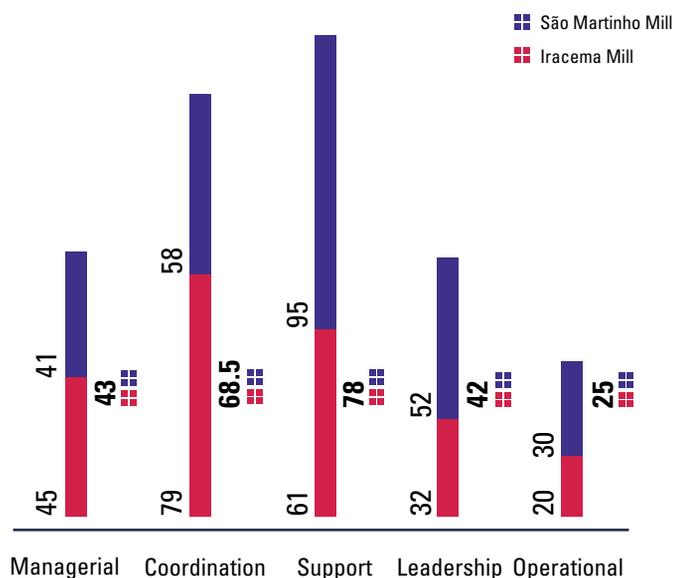
In the 2013/14 season, employees received an average of 23 hours of training each (figure based on the average number of training hours by gender at the Iracema and São Martinho mills).

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

### Average number of training hours by gender



### Average number of training hours by job category



## Leadership

### [G4-DMA Diversity and Equal Opportunity]

Aware of the importance of leadership in the performance of its operations, the São Martinho Group adopts strategic approaches such as Skills and Abilities Evaluation, which maps the skills and abilities of the employees in the course of their activities, encouraging the permanent exchange of information and enabling the improvement of personal and professional relations and development, as well as higher salaries.

At the end of the process, participants receive an Individual Development Plan (PDI) prepared in association with their immediate superior at the time of feedback. There is also a Manager Development Program which is drawn up based on the gaps identified in the Skills Evaluation and other HR strategic planning tools and covers all management levels. It is composed of the following development initiatives: Management Meetings, Leadership Development Module, Executive Coaching, and Leadership Knowledge.

Also concerned with the legacy of current leadership, the Group has developed the Leaders of Tomorrow program within the Trainee Program, which is open every two years for new graduates from outside the Company. There is also the Values in Action program for existing employees. In 2013, 20 people participated in the Trainee Program and 59 in the Values in Action program.

## Integration

All new employees take part in the Integration Program, which familiarizes them with the Organization's values and practices in the agricultural, industrial, HR, IT, and occupational health and safety areas. During their professional career, all of them will take part in initiatives to strengthen the Group's organizational culture.

## Compensation

### [G4-11 G4-DMA Labor relations]

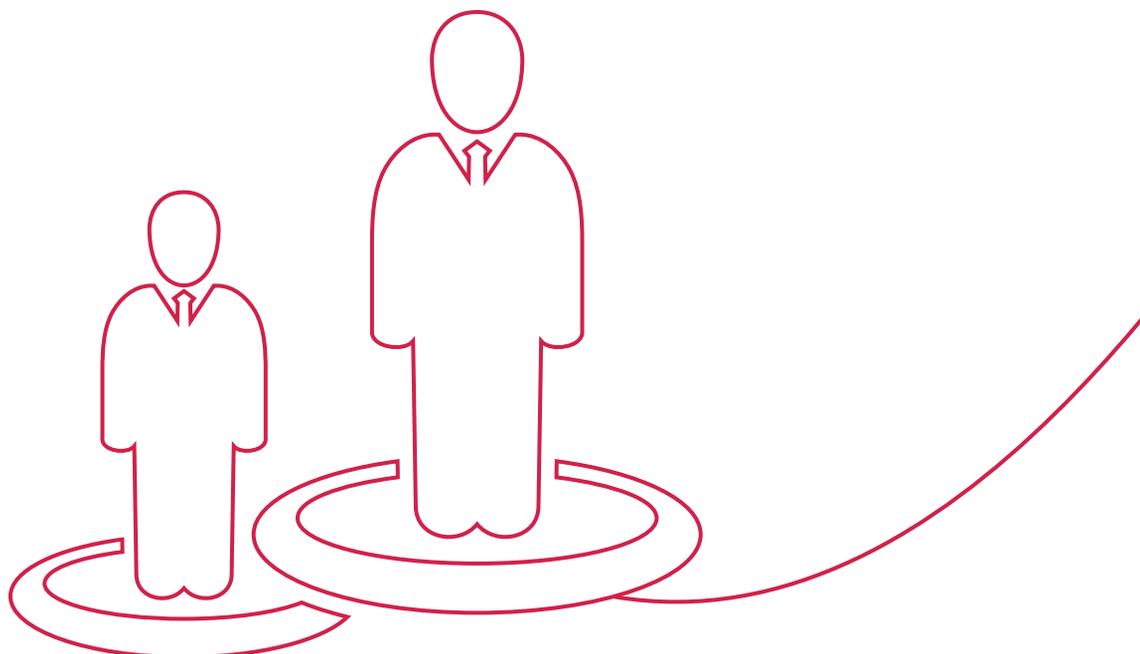
The São Martinho Group maintains a compensation policy that is aligned with market practices and in keeping with the objectives of the Organization, which, together with its organizational processes, seeks ways to ensure effective internal and external fairness, as well as to sustain its personnel management pillars. With this in mind, it periodically checks compensation and benefit practices and tendencies, participates in industry surveys and study groups and uses electronic tools to identify and analyze the pertinent data.

All positions are evaluated and classified in accordance with the Hay methodology. Fixed compensation is defined by pay scales with a 50% spread (from 80% to 120%), providing the Company with ample remuneration flexibility. Salary levels are defined and compared based on the market average. Raises within a pay scale are based on merit and/or the results of the Skills and Abilities Evaluation.

The São Martinho Group offers a strategic compensation system to its employees, as well as:

- Variable monthly compensation
- A profit sharing program (PPR)
- Management bonuses
- Compensation for skills and abilities

In addition to ensuring compensation that is compatible with the job market, all employees are covered by collective bargaining agreements, which the Group believes to be essential in ensuring a balance between capital and labor. During agreement negotiations, the demands presented by the unions and workers' committees are discussed and evaluated until a consensus on the best option is reached. In addition, all agreements include provisions regarding consultations and negotiations.



## Benefits

[G4-LA2]

In order to ensure employee satisfaction, the Company offers the following benefits which are extendable to all Group employees:

| BENEFITS                             | TEMPORARY OR INDEFINITE CONTRACT (YES OR NO) | FULL TIME/PART TIME (YES OR NO)             | CLTS/ INTERNS/ TRAINEES/ OTHERS (YES OR NO)                 |
|--------------------------------------|--|---|---|
| <b>Health Care (Health Plan)</b>     | Yes  | Yes   | Yes   |
| <b>Health Insurance</b>              |  | Yes for the senior management               |   |
| <b>Dental Care</b>                   | Yes  | Yes   | Yes   |
| <b>Funeral Assistance</b>            | Yes  | Yes   | Yes   |
| <b>Christmas Food Basket</b>         | Yes  | Yes   | Yes   |
| <b>Workplace Accident Coverage</b>   | Yes  | Yes   | Yes   |
| <b>Extension of Maternity Leave</b>  | Yes  | Yes   | Yes (except interns)  |
| <b>Food Cards</b>                    | Yes  | Yes   | Yes (except interns)  |
| <b>Meal Cards</b>                    | Yes (São Paulo Office employees)             | Yes (São Paulo Office employees)            | Yes (São Paulo Office employees)                            |
| <b>Meal Card – Company Refectory</b> | Yes (except São Paulo Office employees)      | Yes (except São Paulo Office employees)     | Yes (except São Paulo Office employees)                     |
| <b>Collective Transport</b>          | Yes  | Yes   | Yes   |
| <b>Private Pension Fund</b>          | Yes  | Yes   | Yes (except interns)  |
| <b>Flu Vaccine</b>                   | Yes  | Yes   | Yes   |
| <b>Group Life Insurance</b>          | Yes  | Yes   | Yes   |
| <b>Complementary Assistance</b>      | Yes  | Yes   | Yes (except interns)  |
| <b>Advance /Purchase Cards</b>       | Yes  | Yes   | Yes (except interns)  |
| <b>Medicine Cards</b>                | Yes  | Yes   | Yes (except interns)  |
| <b>Credit Cooperative</b>            | Yes (after being employed for three months)  | Yes (after being employed for three months) | Yes (after being employed for three months, except interns) |
| <b>Housing Assistance</b>            | Yes  | Yes   | Yes (except interns)  |
| <b>Freight Refund</b>                | Yes  | Yes   | Yes (except interns)  |

## Health and safety

### [G4-DMA Occupational Health and Safety]

The São Martinho Group is committed to providing and maintaining a safe and healthy working environment, ensuring the welfare of all its regular and outsourced employees and visitors. With this in mind, in 2013 the Company reformulated its policy and developed the Occupational Health and Safety (SSO) area which is dedicated exclusively to its health and safety pillars. Specialized services are also available at each of its units.

The new occupational health and safety management system aims to be totally aligned with the Company's department and objectives, providing clear and unified guidance to all its employees, especially at managerial level.

The Company is also committed to ensuring and maintaining a safe and healthy working environment for all its regular and outsourced employees and visitors through:

- Compliance with the applicable legislation and other internal requirements;
- Prevention of losses and personal injury, aiming at "zero accidents";
- The continuous pursuit of improvements to projects, procedures and behavior;
- Active participation in occupational health and safety programs, verifications, inspections, and audits.

We therefore believe that:

- Leadership is the biggest health and safety management promoter;
- It is the responsibility of everyone to identify, control, eliminate and/or reduce hazards and risks;
- Health and safety are São Martinho Group values and play a key role in the success of its operations;
- The pursuit of occupational health and safety excellence is an integral part of our day-to-day activities;
- Irrespective of the importance of a job or the urgency of a service, they must be given sufficient time and planning to be carried out in a safe manner.

In 2013, the Company created a corporate area dedicated exclusively to health and safety and reformulated its policy



## Health, Safety and Quality of Life Programs

### [G4-DMA Occupational Health and Safety]

In addition to promoting safety and the prevention of accidents, the São Martinho Group has several programs geared towards preventing sickness and maintaining the health of its employees, as well as improving their quality of life, in the firm belief that ensuring a safe and healthy workplace is crucial to the proper functioning of its operations.

Among these programs, it is particularly worth mentioning the following: the Stop Smoking Campaign, the High Blood Pressure Control and Prevention Program, the Clinical Monitoring Program, the Workplace Exercise Program, the Balanced Nutrition Program, the Health for Ever Program, the Vaccination Campaign, the Temporary Rehabilitation Program, and the Occupational Health Medical Control Program.

As part of its concern for valuing and defending life, the Company always seeks to identify potential risks to the safety of its employees and it has developed several preparation and awareness-raising programs designed to eliminate and/or mitigate these risks. Examples include the Water, Food and Waste Quality Program; the Hearing Conservation Program; the Environmental Risk Prevention Program; the Aspect, Hazard, Impact and Risk Survey; the Study and Implementation of Regulatory Standards; Internal Workplace Accident Prevention Week; Internal Rural Workplace Accident Prevention Week; and Cross Inspections.

The São Martinho Group supports and develops practices designed to engage all of its professionals and therefore creates campaigns to raise awareness through simple and objective information, such as the following:

- **World No Tobacco Day**
- **International Day Against Drug Abuse and Illicit Trafficking**
- **World Diabetes Day**
- **World AIDS Day**
- **National Cholesterol Control Day**
- **National No Smoking Day**

## Health and safety indicators

### [G4-LA6 G4-LA7 G4-HR7]

The São Martinho Group has adopted the strictest standards for safety and the appropriate conditions for ensuring health and well-being, offering a workplace and working activities that respect the physical integrity of its employees. At the same time, it is engaged in intensive prevention efforts through the work of the Internal Accident Prevention Commissions (Copa's), investments in state-of-the-art personal protective equipment (PEP) – developed and certified to meet ergonomic requirements – and training its team of workplace engineers, safety technicians, doctors and nurses. It also seeks to raise awareness through a series of campaigns (Health, Quality of Life, etc.), programs (the Environmental Risk Prevention Program and the Occupational Health Medical Control Program), and health and safety dialogues.

The Company is equally concerned with preparing the professionals who care for the safety of its employees. With this in mind, all visitors, Group employees and service providers are subjected to a process of integration by the Occupational Safety area, during which they receive guidance on the Company's safety and asset security standards and procedures in order to ensure their safe access to employees at the mills.

| Indicators  | Iracema Mill | São Martinho Mill |
|---|--------------|-------------------|
| Frequency rate of accidents with leave of absence <sup>1</sup>            | 3.0          | 6.5               |
| Frequency rate of accidents without leave of absence <sup>2</sup>         | 2.1          | 4.6               |
| Frequency rate of accidents with or without leave of absence <sup>3</sup> | 5.2          | 6.6               |
| Rate of severity <sup>4</sup>   | 661          | 1,695             |
| Days lost <sup>5</sup>  | 524          | 1,335             |
| Days deducted <sup>6</sup>  | 6,000        | 6,000             |
| Deaths <sup>7</sup>   | 1            | 1                 |
| Rate of absenteeism <sup>8</sup>  | 4.97         | 4.01              |
| Occupational illnesses <sup>9</sup>                                       | 0            | 0                 |

Notes:

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

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

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

<sup>4</sup> (Number of working days lost + Number of working days deducted) per 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.

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

Additional Information: The provisions set forth in Ministry of Labor and Employment Ordinance 3214 of 1978; Ministry of Social Security Law 8213; and Brazilian Standard (NBR) 14280 – Registry of Work Accidents of the Brazilian Standards Bureau (ABNT) were used to collect and compile these data.

Data related to the 2013/14 harvest year begun April 2013 and ended March 2014.

## Relationship Management Cell

Concerned with managing its employees' relationships, the São Martinho Group aims to create a Relationship Management Cell in the 2014/15 harvest year. In order to improve the daily lives of its employees and ensure that they remain with the Company, the cell aims to develop a deeper understanding of the termination process and what triggers it and, especially, to seek improvements in employee-company relations.

Its primary function is to develop alternatives for avoiding terminations and, should the situation reach this point, offer support and guidance to the employees in question in accordance with their individual needs. In order to support these employees, the Group has created New Times, a manual with information and practical advice to assist employee in the search for new opportunities in the job market.

Also in the 2014/15 harvest year, the Group plans to establish performance standards for recruitment and selection processes.

## Partnership networks

One of São Martinho's pillars is its relations with producers and partners, given that they play an essential role in the sustainability of its business, jointly accounting for approximately two-thirds of total crushed sugarcane volume. Consequently, one of São Martinho's biggest challenges is to maintain long-lasting relations with these stakeholders.

As part of this effort, each year the Group holds two major events for producers: 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 usefully applied to the coming harvest, as well as 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.

In order to facilitate the management of information on sugarcane production, the Company has created an exclusive, password-protected 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.

In order 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.

## Supplier selection and screening

### **[G4-12 G4-DMA Employment G4-DMA Supplier screening for labor practices G4-LA14]**

One of the São Martinho Group's priorities when contracting suppliers is to ensure their compliance with the legislation in general, especially the labor laws dealing with the payment of social and social security charges and adequate compensation, and the outsourcing of specialized services only.

After submitting tax, labor and social security clearance certificates, as well as specific documentation related to occupational health and safety, the OHS area undertakes an in-depth evaluation in order to subsequently ensure the suppliers' integration with the unit in which the service will be provided and that they are aware of all standards related to safety and the delivery of personal protective equipment.

When suppliers fail to comply with these procedures, they are notified of the need to regularize their status under pain of contractual termination. If the non-compliance is verified on the first day of the contract, the supplier will not be accepted.

In order to join the Group, suppliers must present the OHS area with documentation attesting to the conclusion of the integration and training phases as well as the validity of the other documents presented. In addition, teams in each Company unit will periodically inspect the documentation regarding each type of service and the validity of the integrations.

In the 2013/14 harvest year, the Company analyzed 446 potential new suppliers, 26 (6%) of which were selected using labor practice criteria. All in all, the Company contracted 2,818 suppliers, giving a total of 6,346 registered partners.

The main suppliers and partners make intensive use of labor, agricultural and industrial technology, automotive equipment, fuel and agricultural inputs.

The key procurement categories are as follows:

- Administrative Services
- Equipment Maintenance Services
- Construction Labor Services
- Leasing Services
- Transportation Services
- Fuel and Lubricants
- Industrial Inputs
- Agricultural Assets
- Agricultural Inputs
- Benefits
- Industrial Assets
- Tires

## Monitoring of working conditions

### [G4-DMA Child Labor G4-DMA Forced or compulsory labor]

Given that respect for people is one of the Company's pillars, supply contracts contain a clause through which the supplier undertakes not to make use of or permit child, forced or compulsory labor. As compliance with labor legislation is a Group imperative, none of its operations bear any significant risks of this nature.

In order to strengthen this commitment, the Group offers internal training courses for its employees to further their professional development, as well as a program for teenage apprentices to prepare them for the labor market in association with the *Associações Oficinas Mãe*, in Iracemápolis, and the *Associação de Amparo e Proteção ao Menor*, in Pradópolis (organizations to protect the rights of minors).

In additionally, the Third-Party Sugarcane area, responsible for acquiring cane that has not been grown on Company land, monitors suppliers' working conditions and disseminates good practices among them.

In 2013, the São Martinho Mill, in association with Fundação Solidariedade and the Guariba Sugarcane Suppliers Association (Socicana), compiled a booklet enabling the self-assessment of its 415 sugarcane suppliers in regard to conformity with various social, economic and environmental aspects, seeking their sustainability.

Another milestone in 2013 was the renewal of the Iracema Mill's Bonsucro certification. The two aspects audited were the non-existence of child and forced or compulsory labor.

## Investors and shareholders

Since São Martinho S.A.'s shares began trading on the BM&FBovespa in 2007, the Group's Investor Relations team has been disclosing information to the market in both Portuguese and English, including notices, material facts and financial statements. It 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

### [G4-DMA Local communities]

São Martinho's relationship with society is inseparable from its business, which is why respect for people is one of its values and the surrounding community is understood as one of its pillars. Consequently, it seeks to promote the social and economic development of these communities through the programs listed below:

The São Martinho Group implements initiatives to foster the social and economic development of its local communities



- **Santa Rita Soccer School/ Pradópolis Center**

**Project:** The São Martinho Mill is implementing 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 also monitors school performance and attendance and offers educational talks. Funding is provided by the Federal Sports Incentive Law.

- **The São Martinho Race:** Every year, the São Martinho Group sponsors a race that is open to employees from all of its units and consists of 5km and 10km courses through the São Martinho Mill's sugar plantations. The fifth edition, in 2013, attracted around 1,000 competitors.
- **TIFUI Project:** Also every year, the Itacema Mill Internal Soccer Tournament seeks to bring all employees together, the necessary materials and funding for the games, which take place at the unit, being supplied by the Company. The tenth edition was held in 2013 with approximately 182 participants.



- **Winter Clothing Campaign:**

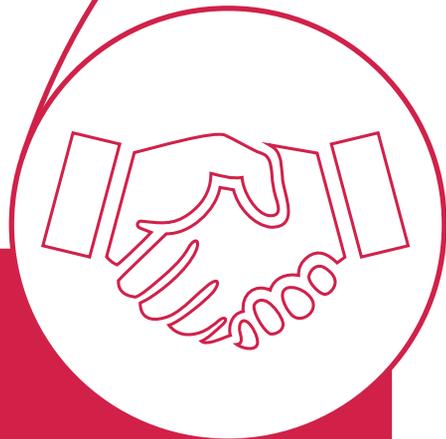
Every year, São Martinho's employees join forces to contribute to the campaign. As a result, thousands of coats, blankets, sweaters and blouses are collected and donated to municipal social development and support agencies and charitable associations in order to save lives and warm hearts.



- **Book Fair:** Each year, the São Martinho Mill provides its employees with an opportunity to visit the National Book Fair in Ribeirão Preto and encourages them to read by giving them books. In 2013, 35 teenagers from the Projov program and 120 employees benefited.
- **Reading is Living:** Supported by the Rouanet Cultural Incentive Law, the Company donates works of drama to municipal schools and libraries in Pradópolis, Guataparará, Dumont, Guariba, Barrinha and Itacemápolis. In January 2014, 570 such books were donated.



- **Projob First Job and Rangers:** Every year, this program, developed in association with institutions in Iracemápolis and Pradópolis (SP), promotes access to the labor market for 54 students from the public school system, aged between 16 and 18. At the end of the program, the youngsters have the opportunity of remaining with the Company.
- **Nova Fronteira do Inglês:** This program provides English classes to teenagers under the wing of the Association for the Support and Protection of Minors (AAPM) and is funded by tax incentives transferred from the São Martinho Mill to the Municipal Fund for the Rights of Children and Teenagers. In 2013, 264 teenagers from the municipal school system benefitted from the program.
- **Future Entrepreneurs Program:** Developed in Iracemápolis in association with the NGOs Junior Achievement and Limeira Institute of Development, the project shows high school students how a company works, covering concepts such as marketing, finance, human resources and production. For 15 weeks, the students have the opportunity to develop and market a product, based on their own market research, under the supervision of Iracema volunteers. In 2013, a class of 35 students concluded the course.
- **Sesi Games Project:** The result of an association between the Industrial Social Service (Sesi) and the Iracema Mill, this program encourages the practice of sports and teamwork among employees. In 2013, around 50 employees took part in the initiative.
- **Tele-classrooms:** Since 2001, the Iracema Mill, in association with the municipal governments of Iracemápolis and Limeira and the Bradesco Foundation, has covered the cost of six tele-classrooms, outfitted with video equipment, teaching materials and monitors. In 2013, the project enabled 160 students to resume their studies.
- **Good School Year:** Developed at the Iracema Mill, this program aims to help mill employees keep their children in school through the distribution of two school kits, one for students from first to fifth grade and the other for students from sixth to ninth grade. Parents can enroll for the benefit every year, with delivery of the kits in February. In 2013, 510 kits were distributed.



- **Christmas Without Hunger Campaign:** Carried out annually, this program encourages the spirit of solidarity and volunteerism among the Company's employees. In 2013, around 2,900 kg of non-perishable foodstuffs were collected and donated to five social institutions.
- **Blood donation**  
A Drop of Goodness: Begun in 2013, this campaign aims to build up blood banks in these São Paulo municipalities. Around 300 employees answered the call and helped save lives. The program is carried out in partnership with blood centers in Ribeirão Preto and Limeira.
- **Fire prevention**  
Fire Prevention Booklet: Two thousand fire prevention booklets entitled "More Care, Lower Risks" were distributed in schools in the São Martinho Mill region. The Company also gave 25 lectures to 900 teachers and 400 students at schools in six cities in the region: Pradópolis, Barrinha, Guariba, Motuca, Guatapar and Rinco.
- **Social inclusion**  
Economically Active Social Inclusion: Through this program, begun in February 2013 in association with the Ministry of Labor and Employment, the National Industrial Training Service (SENAI) and the Guariba and Pradópolis municipal authorities, the São Martinho Mill provides professional training courses for people with disabilities (PWD). With the goal of fostering social inclusion and the preparing economically active citizens, specialized teachers and a multidisciplinary team develop specific training sessions for a group of approximately 60 apprentices.

The courses, with both theoretical and practical content, consist of 800 hours of training and last for approximately one year. There are also extra classes in remedial education whenever necessary. In Guariba, 31 students took part in the Administrative Assistant courses, while 27 students attended the Warehouseman course. At the end of the program, all students were awarded a professional qualification certificate.

Participants are hired as apprentices and receive a salary during the training period, in accordance with the Federal Apprenticeship Law.

### **Iracemópolis Movie Theater Rebuilding Project**

In the 2014/15 harvest year, the Iracema Mill, in association with the Iracemópolis Culture and Art Association, will renovate the city's old cinema and turn it into a modern and comfortable movie theater, with room for 316 people and a 12-meter stage allowing several types of show. The idea behind the investment, which is estimated at around R\$2.5 million, is to provide the local community with leisure and cultural activities.

## **Government**

### **[G4-16 G4-DMA Public Policy]**

The São Martinho Group seeks to build relationships with government agencies, largely through the Brazilian Sugarcane Industry Association (UNICA). The public policy development process in the sugar and ethanol industry is conducted solely through trade unions and professional and industry associations, such as UNICA.

In March of each year, the São Martinho and Iracema units' sugar-energy sector's Environmental Protocol certificate is renewed. This Protocol is a voluntary agreement first entered into between the São Paulo mills, UNICA, and the state government in 2008 and is renewed every year upon presentation of targets and results related to the elimination of sugarcane burning during harvesting as well as other aspects of sustainable production.

The Environmental Protocol is part of the Green Ethanol project, which encourages sustainable ethanol production in partnership with the sugar and ethanol industry, underpinned by respect for natural resources, pollution controls and social and environmental responsibility. In accordance with the Protocol, the mills have already eliminated burning in mechanizable areas and will eradicate it in non-mechanizable areas by 2017.

The Group also participates in the Renovation Program, a UNICA initiative supported by the Inter-American Development Bank (IDB) whose goal is to train rural workers in new occupations due to the advance of mechanization.

In addition to having a seat on UNICA's Governing Board, the Company is also a member of the Board of the Ribeirão Preto Chapter of the Brazilian Agribusiness Association, the São Paulo Board of Commerce, the Company-School Integration Center and the Brazilian Foreign Trade Association. It is also Vice-President of the São Paulo State Industry Federation (FIESP) and Coordinator of the São Paulo State Sugar Producers' Association (SIAESP) and the São Paulo State Ethanol Producers' Association (SIFAESP). In all cases, its financial contribution is restricted to the basic membership fee.

# 6

## Corporate governance

By complying with some of the most important and strictest listing regulations in the market, the São Martinho Group ensures total transparency and equal treatment for all its shareholders

### Overview

#### [G4-7]

The São Martinho Group has been a publicly-held company since February 2007, when its shares began trading in the Novo Mercado segment of the São Paulo Securities, Commodities and Futures Exchange (BM&FBovespa), under the ticker SMT03. When adhering to the Novo Mercado, which contains only those companies with the highest level of corporate governance, the Company undertook to comply with some of the most important and strictest listing regulations in the market, including internationally, thus ensuring total transparency and equal treatment for all its shareholders.

Underlining its commitment to best market practices, in 2010 the Group completed the merger of part of the industrial assets 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 industrial park. i.e. all operations related to linked to the production of sugarcane, sugar, ethanol and their byproducts. In addition, Usina São Martinho S.A. altered its name to Vale do Mogi Empreendimentos Imobiliários S.A. (also a wholly-owned subsidiary) as well as its corporate purpose, which is now focused on the development of the

Group's 52,636 hectares of land in the Ribeirão Preto, Limeira, and Piracicaba regions, which includes 1,525 hectares (15,250,000 m<sup>2</sup>) close to urban perimeters and therefore with substantial real estate potential. In addition to managing these assets, Vale do Mogi aims to monetize land in urban centers through partnerships in real estate projects.

Also as part of the corporate restructuring process, in 2011 São Martinho S.A. merged with Omtex (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.

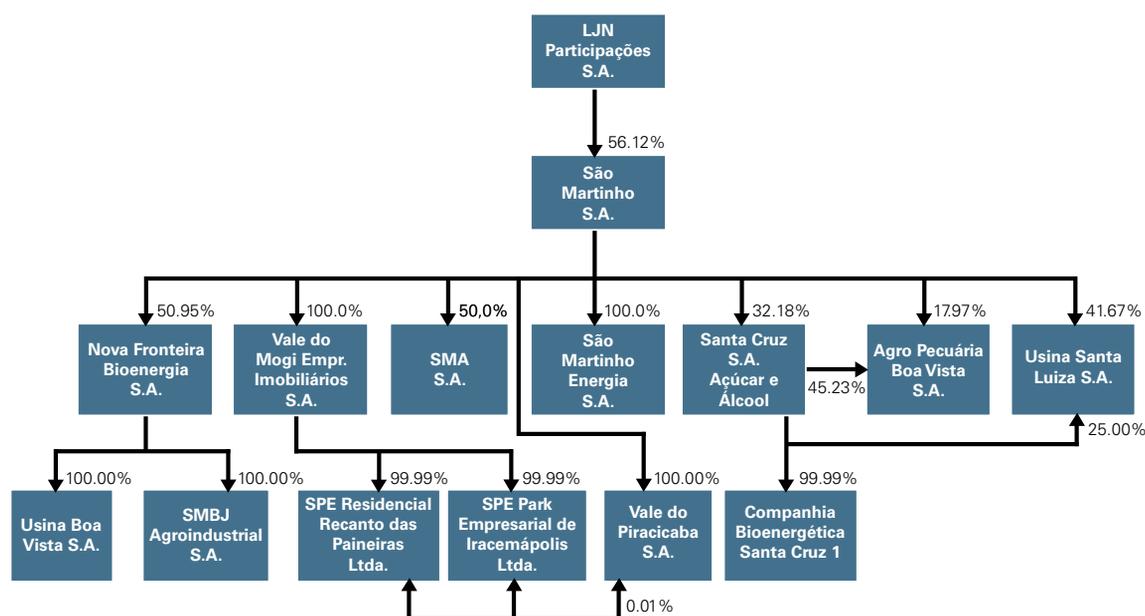
The other changes arising from the reorganization refer to the inclusion of the Group's previously mentioned partnerships with Amyris Biotechnologies and Petrobrás Biocombustível S.A. The latter resulted in the creation of Nova Fronteira Bioenergia, the parent company of Usina Boa Vista and SMBJ Agroindustrial.

In 2011, the Group acquired an interest in Usina Santa Cruz, giving it a 32.18% stake in the unit, which increased to 36.08% in February 2014 with the acquisition of a further 3.9%. It is also responsible for 100% of the unit's management through the Shared Service Center.

Also in 2011, the Group acquired a 17.97% interest in Agro Pecuária Boa Vista S.A., a company controlled by the shareholders of Santa Cruz S.A. Açúcar e Alcool which owns 20,144 hectares of land located within an average radius of 27 km from the Santa Cruz industrial unit.

In 2013, aiming to facilitate and standardize the evaluation of investments, São Martinho altered its project approval framework. Nowadays, the viability of proposed investments is analyzed by a special committee and the proposals are only submitted to the Executive Board if approved, thereby streamlining the process and further improving corporate governance.

The São Martinho Group's ownership structure is shown below.



| SHAREHOLDER BREAKDOWN |             |
|-----------------------|-------------|
| SHAREHOLDERS          | % OF SHARES |
| LJN Participações     | 56.12       |
| Indirect Shareholders | 3.95        |
| Management            | 0.56        |
| Treasury              | 0.55        |
| Free Float            | 38.82       |
| Total                 | 100.00      |

## Rating 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), recognized worldwide as a leader in financial market intelligence services. The ratings reflect, among other factors, the Company's conservative capital structure, the high agricultural yield of its sugarcane plantations and its low sugar and ethanol production costs.

### Recognition

In recognition of the importance the Company attributes to good corporate governance practices, the São Martinho Group received the 2013 ABRASCA Value Creation Award in the Sugar and Ethanol category. This annual award is given to those companies that have created the most value in the last three years, underpinned by sustainable results, excellent risk management procedures, transparency and social and environmental initiatives.



## Governance structure

[G4-34]

### Board of Directors

The Board of Directors is a collegiate decision-making body, responsible for establishing the overall guidelines of the business, including its long-term strategy. It also elects the executive officers and supervises their management. 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, which are fully compliant with Brazilian Corporation Law (Law 6404) and all the Novo Mercado listing rules, states 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 31, 2012.

| BOARD OF DIRECTORS                   |                    |
|--------------------------------------|--------------------|
| Name                                 | Position           |
| João Guilherme Sabino Ometto         | Chairman           |
| Luiz Antônio Cera Ometto             | Vice Chairman      |
| Nelson Marquês Ferreira Ometto       | Member             |
| Murilo César Lemos dos Santos Passos | Independent Member |
| João Carvalho do Val                 | Member             |
| Marcelo Campos Ometto                | Member             |
| Luiz Olavo Baptista                  | Member             |

At the request of both the minority and controlling shareholders, the Annual Shareholders' Meeting of July 2013 installed the Company's Fiscal Council, which will remain operative until the next Annual Shareholders' Meeting to resolve on the financial statements for the fiscal year ending March 31, 2014. The following members were elected:

(a) by indication of the minority shareholders

Jorge Michel Lepeltier as a sitting member and Massao Fábio Oya as an alternate member.

(b) by indication of the controlling shareholders:

Marcos Ribeiro Barbosa and Maurício Curvelo de Almeida Prado as sitting members and Rodrigo Maito da Silveira and José Roberto Martinez de Lima as alternate members.

## 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, who may accumulate positions at the discretion of the Board of Directors. It currently consists of the seven members listed below. Members are elected by the Board of Directors for a one-year term and may be removed by the same body.

| BOARD OF EXECUTIVE OFFICERS |  |
|-----------------------------|--|
| Name                        | Position                                       |
| Fábio Venturelli            | CEO  |
| Agenor Cunha Pavan          | Managing Agroindustrial Officer                |
| Mário Gandini               | Agroindustrial Officer                         |
| Felipe Vicchiato            | Chief Financial and Investor Relations Officer |
| Rodrigo Tetti Garcia        | Administrative Officer                         |
| Fernando Zaneti             | Agroindustrial Officer – Iracema Mill          |
| Helder Luiz Gosling         | Commercial and Logistics Officer               |

Note: There is another, non-statutory member of the Board of Executive officers, namely Márcia Maria Cubas de Almeida – Human Resources, Legal and Sustainability Officer.

## Management committees

The São Martinho Group created three committees focusing on specific management issues to support the decisions of the Board of Directors and strengthen the Group's corporate governance structure. The committees are composed of Board members and invited members and their mission is to analyze matters related to their respective competences and prepare proposals to be submitted to the Board of Directors. 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 and/or 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, external auditors' proposals 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 individual professional performance)
  - To evaluate the performance of the executive officers

## Risk management

### [G4-DMA Economic Performance]

The mission of the São Martinho Group's risk management area is to foresee potential threats to the Company's long-term financial and operational health, as well as manage market risks through the use of financial instruments. The area, which was created in 2011, is also responsible for identifying new opportunities and ensuring clear and transparent communications regarding the Company's risk exposure and the development of the initiatives implemented.

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.

The main risks that São Martinho seeks to mitigate are listed below. In addition, the area also analyzes the risks related to new investments and strategic decisions and ensures compliance with the approved risk policies.

**Prices:** The price of São Martinho's products are affected by swings in supply and demand, as well as economic, political and financial instabilities in Brazil and abroad that could impact the Company. A reduction in the price of sugar or ethanol can have an adverse effect not only on the businesses directly related to these products, but may also imply a change in the production mix. In order to reduce this risk, São Martinho maintains 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 abroad and that a portion of its liabilities is denominated in foreign currencies, the exchange rate is a crucial variable for the Company's profitability, which is why the 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 in both the short and long term. In order to protect itself against liquidity risks, São Martinho maintains a debt profile in which it is fully capable of meeting its current obligations, while also presenting a balance sheet and profit expectations that ensure its future sustainability. It also has all the conditions necessary to continue investing in the growth of its businesses.

**Production outflow:** As São Martinho is engaged in the large-scale production of sugar, its agility in regard to production outflow can represent an opportunity or a risk. Given that rail transport is preferable due to its low costs, the Company entered into a partnership with Rumo Logística to modernize the São Martinho Mill's rail access terminal - which had already been inaugurated - and build a silo with a sugar storage capacity of 60,000 metric tons, ensuring a sugar transshipment capacity of 2 million metric tons per year. However, the Company is also aware that it cannot depend on a single means of transport, which is why it also maintains a significant highway transportation capacity.

**Sugarcane supply:** Part of São Martinho's production relies on sugarcane purchased from third parties or harvested from leased land. For this reason, and due to the impact of weather conditions on the harvest, the Company must always be alert to the risk of not having its raw material needs met. In addition to forming closer ties with its suppliers, one way of mitigating this risk is to maintain strict control over short, medium and long-term purchase contracts or leases, monitoring them constantly in order to renew those that are about to expire or seek out new partnerships.

**Availability of personnel:** Business growth is intrinsically linked to increased hiring and training. Consequently, São Martinho always monitors key positions and the existence of potential replacements. It also monitors whether there are job openings to be filled and which skills must be developed within the Group so that its employees are better equipped to advance its business interests. Technical, analyst and management levels are included in this monitoring program.

The mission of the São Martinho Group's risk management area is to foresee potential threats to the Company's long-term financial and operational health

## Corporate ethics

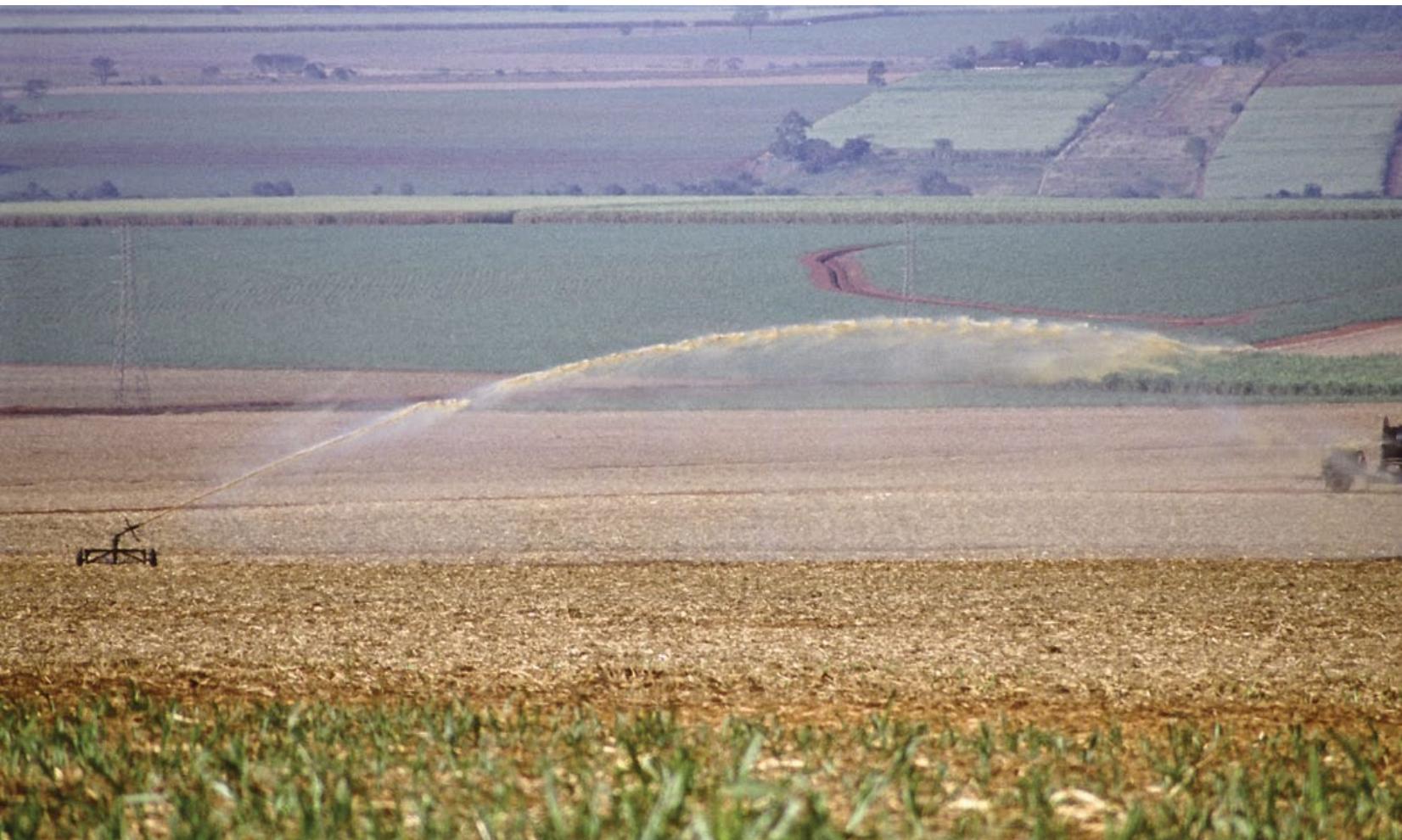
### [G4-56 G4-HR3 G4-DMA Grievance mechanisms for impacts on society G4-S011]

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 the specific guidelines set forth in its Code of Ethics and Professional Conduct, which contains the 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.

In order to ensure that the issues related to ethics and professional conduct are dealt with clearly and securely with employees, in 2011 certain communication channels were implemented to receive complaints, suggestions and/or criticisms, including the toll-free telephone line 0800 777 3131, the sending of an e-mail to [etica@saomartinho.com.br](mailto:etica@saomartinho.com.br), or by written correspondence (in a sealed envelope, with or without identification) to Alameda Caiapós nº 243, Barueri, CEP:06460-110, São Paulo – SP. All of these channels provide users with maximum reliability and confidentiality (if requested), given that they are managed by a third-party company.

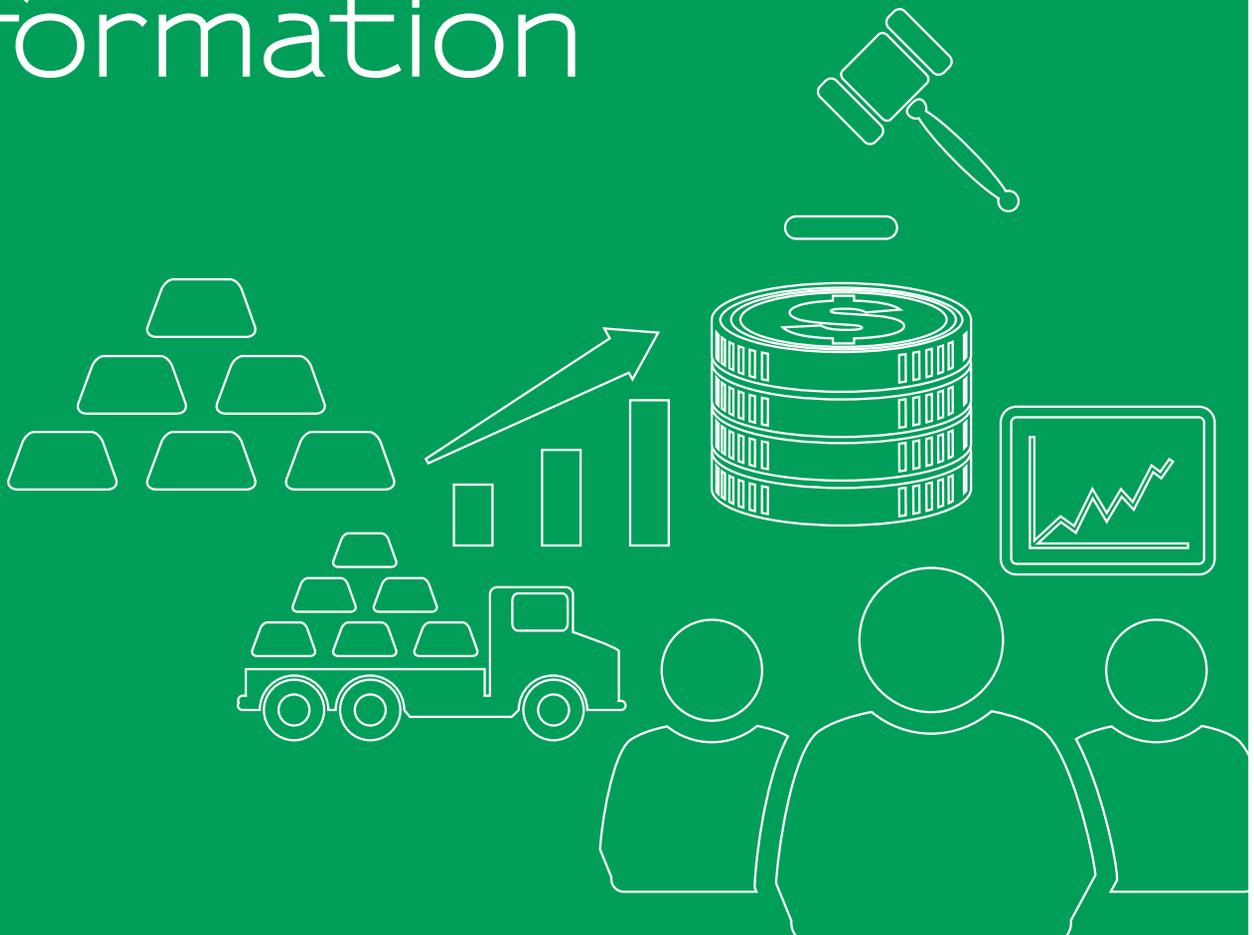
For the São Martinho Group, these are vital tools because they provide it with feedback on its performance vis-à-vis stakeholders. By means of the Ethics Channel, Executive Committees and Working Groups, it can investigate complaints, through formal documents, and, whenever necessary, establish internal inquiries to ascertain the truth of the facts, as well as register and verify the measures taken to resolve the grievances.

In the 2013/14 harvest year, nine incidences of discrimination were reported; one of which through the Ethics Channel and the others by labor complaint channels. Although all were subjected to the internal inquiry procedure, none could be proved. The Ethics Channel also reported a complaint regarding impacts on the society. Subsequently, the Company held meetings with the group involved in order to adjust their professional conduct.



7

# Additional information



## Financial statements

|  | CPC 19           |                  |               | Pro-forma        |                  |              |
|--|------------------|------------------|---------------|------------------|------------------|--------------|
| SÃO MARTINHO S.A. - CONSOLIDATED                                 | 12M14            | 12M13            | Chg. (%)      | 12M14            | 12M13            | Chg. (%)     |
| RS '000  |                  |                  |               |                  |                  |              |
| Gross Revenue  | 1,583,863        | 1,340,047        | 18.2%         | 2,047,162        | 1,708,566        | 19.8%        |
| Deductions from Gross Revenue                                    | (50,188)         | (48,557)         | 3.4%          | (75,985)         | (72,611)         | 4.6%         |
| <b>Net Revenue</b>   | <b>1,533,675</b> | <b>1,291,490</b> | <b>18.8%</b>  | <b>1,971,177</b> | <b>1,635,955</b> | <b>20.5%</b> |
| Cost of Goods Sold (COGS)  | (1,089,056)      | (929,720)        | 17.1%         | (1,440,705)      | (1,233,695)      | 16.8%        |
| <b>Gross Profit</b>  | <b>444,619</b>   | <b>361,770</b>   | <b>22.9%</b>  | <b>530,472</b>   | <b>402,260</b>   | <b>31.9%</b> |
| Gross Margin (%)   | 29.0%            | 28.0%            | 1.0 p.p       | 26.9%            | 24.6%            | 2.3 p.p      |
| <b>Operating Expenses</b>  | <b>(200,785)</b> | <b>(182,837)</b> | <b>9.8%</b>   | <b>(227,555)</b> | <b>(203,450)</b> | <b>11.8%</b> |
| Selling Expenses   | (73,893)         | (59,779)         | 23.6%         | (90,329)         | (72,466)         | 24.7%        |
| General and Administrative Expenses                              | (113,553)        | (102,094)        | 11.2%         | (138,050)        | (127,561)        | 8.2%         |
| Equity Income  | (16,444)         | (23,696)         | -30.6%        | (399)            | (3,615)          | -89.0%       |
| Other Operating Expenses, Net                                    | 3,105            | 2,732            | 13.7%         | 1,223            | 192              | 537.0%       |
| <b>Operating Profit, Before Financial Effects</b>                | <b>243,834</b>   | <b>178,933</b>   | <b>36.3%</b>  | <b>302,917</b>   | <b>198,810</b>   | <b>52.4%</b> |
| <b>Financial Result, Net</b>                                     | <b>(55,273)</b>  | <b>(63,515)</b>  | <b>-13.0%</b> | <b>(107,197)</b> | <b>(100,651)</b> | <b>6.5%</b>  |
| Financial Revenues   | 34,971           | 38,065           | -8.1%         | 43,764           | 44,093           | -0.7%        |
| Financial Expenses   | (110,081)        | (87,781)         | 25.4%         | (158,450)        | (124,012)        | 27.8%        |
| Monetary and Exchange Variations - Net                           | 33,451           | (544)            | n.m.          | 27,021           | (19,184)         | n.m.         |
| Derivatives Results  | (13,614)         | (13,255)         | 2.7%          | (19,532)         | (1,548)          | 1161.8%      |
| <b>Income (Loss) Before Income and Social Contribution Taxes</b> | <b>188,561</b>   | <b>115,418</b>   | <b>63.4%</b>  | <b>195,720</b>   | <b>98,159</b>    | <b>99.4%</b> |
| Income Tax and Social Contribution - Current                     | (8,918)          | (1,911)          | 366.7%        | (10,287)         | (2,226)          | 362.1%       |
| Income Tax and Social Contribution - Deferred                    | (44,642)         | (40,557)         | 10.1%         | (50,432)         | (22,983)         | 119.4%       |
| <b>Net Income</b>  | <b>135,001</b>   | <b>72,950</b>    | <b>85.1%</b>  | <b>135,001</b>   | <b>72,950</b>    | <b>85.1%</b> |
| Net Margin (%)   | 8.8%             | 5.6%             | 3.2 p.p       | 6.8%             | 4.5%             | 2.4 p.p      |

| SÃO MARTINHO S.A. CONSOLIDATED - ASSETS     |                  | CPC 19           |                  | Pro-forma        |  |
|---|------------------|------------------|------------------|------------------|--|
| R\$ Thousand                                |                  |                  |                  |                  |  |
| ASSETS                                      | Dec/13           | Mar/13           | Dec/13           | Mar/13           |  |
| <b>SHORT-TERM ASSETS</b>                    |                  |                  |                  |                  |  |
| Cash and Cash Equivalents                   | 551,359          | 531,141          | 670,741          | 634,290          |  |
| Trade Receivables                           | 72,106           | 51,739           | 95,051           | 62,667           |  |
| Derivative Financial Instruments            | 33,553           | 79,232           | 37,467           | 84,998           |  |
| Inventories                                 | 99,658           | 101,503          | 145,028          | 148,661          |  |
| <b>Taxes Recoverable</b>                    | 64,367           | 43,313           | 79,339           | 57,085           |  |
| Income Tax and Social Contribution          | 34,237           | 33,370           | 37,349           | 36,655           |  |
| Dividends receivable                        | 232              | 353              | 420              | -                |  |
| Other Assets                                | 7,145            | 6,423            | 10,919           | 7,610            |  |
| <b>TOTAL SHORT-TERM ASSETS</b>              | <b>862,657</b>   | <b>847,074</b>   | <b>1,076,314</b> | <b>1,031,966</b> |  |
| <b>LONG-TERM ASSETS</b>                     |                  |                  |                  |                  |  |
| <b>Long-term Receivables</b>                |                  |                  |                  |                  |  |
| Marketable Securities                       | -                | -                | 9,187            | 9,037            |  |
| Inventories                                 | 25,790           | 13,196           | 50,235           | 35,592           |  |
| Related Parties                             | 1,925            | 2,013            | 11               | 10               |  |
| Deferred Income Tax and Social Contribution | -                | 6,968            | 48,867           | 56,785           |  |
| Trade Receivables                           | 1,592            | -                | 1,592            | -                |  |
| Trade Receivables from Copersucar           | 1,361            | 1,228            | 1,546            | 1,398            |  |
| Taxes Recoverable                           | 68,201           | 47,834           | 94,808           | 67,438           |  |
| Judicial Deposits                           | 31,969           | 35,654           | 34,479           | 38,769           |  |
| Other Assets                                | 120              | 250              | 321              | 395              |  |
|   | <b>130,958</b>   | <b>107,143</b>   | <b>241,046</b>   | <b>209,424</b>   |  |
| <b>Investments</b>                          | 537,764          | 567,145          | 10,589           | 11,488           |  |
| <b>Biological Assets</b>                    | 596,309          | 544,167          | 863,368          | 797,400          |  |
| <b>Property, plant and equipment</b>        | 2,717,791        | 2,627,129        | 3,432,148        | 3,339,886        |  |
| <b>Intangible Assets</b>                    | 192,917          | 230,657          | 202,486          | 242,946          |  |
| <b>TOTAL LONG-TERM ASSETS</b>               | <b>4,175,739</b> | <b>4,076,241</b> | <b>4,749,637</b> | <b>4,601,144</b> |  |
| <b>TOTAL ASSETS</b>                         | <b>5,038,396</b> | <b>4,923,315</b> | <b>5,825,951</b> | <b>5,633,110</b> |  |

| SÃO MARTINHO S.A. CONSOLIDATED- LIABILITIES       | CPC 19           |                  | Pro-forma        |                  |
|---|------------------|------------------|------------------|------------------|
| R\$ Thousand                                      |                  |                  |                  |                  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       | Dec/13           | Mar/13           | Dec/13           | Mar/13           |
| <b>SHORT-TERM LIABILITIES</b>                     |                  |                  |                  |                  |
| Borrowings  | 439,644          | 240,405          | 592,294          | 363,529          |
| Derivative Financial Instruments                  | 56,398           | 14,297           | 63,814           | 15,149           |
| Trade Payables                                    | 64,429           | 77,059           | 90,602           | 98,235           |
| Payables to Copersucar                            | 2,040            | 2,040            | 2,234            | 2,263            |
| Salaries and Social Contributions                 | 58,847           | 50,153           | 75,720           | 66,523           |
| Taxes Payable                                     | 11,040           | 10,225           | 13,749           | 12,485           |
| Income Tax and Social Contribution                | 611              | 314              | 891              | 484              |
| Related Parties                                   | -                | -                | -                | 398              |
| Dividends Payable                                 | 32,063           | 17,326           | 32,483           | 17,326           |
| Advances from Customers                           | 883              | 957              | 3,143            | 3,341            |
| Aquisition of Investment                          | 10,725           | 71,808           | 10,725           | 71,808           |
| Other Liabilities                                 | 17,290           | 16,393           | 15,676           | 12,405           |
| <b>TOTAL SHORT-TERM LIABILITIES</b>               | <b>693,970</b>   | <b>500,977</b>   | <b>901,331</b>   | <b>663,946</b>   |
| <b>LONG-TERM LIABILITIES</b>                      |                  |                  |                  |                  |
| Borrowings  | 1,151,177        | 1,176,045        | 1,616,928        | 1,618,397        |
| Payables to Copersucar                            | 206,014          | 194,440          | 230,254          | 215,478          |
| Taxes Payable in Installments                     | 46,318           | 48,436           | 53,452           | 55,758           |
| Deferred Income Tax and Social Contribution       | 807,880          | 828,868          | 854,330          | 867,891          |
| Provision for Contingencies                       | 56,649           | 60,171           | 62,048           | 66,331           |
| Aquisition of Investment                          | -                | 9,849            | -                | 9,849            |
| Advances for future capital increase              | -                | -                | 31,220           | 30,931           |
| Other Liabilities                                 | 436              | 3,912            | 436              | 3,912            |
| <b>TOTAL LONG-TERM LIABILITIES</b>                | <b>2,268,474</b> | <b>2,321,721</b> | <b>2,848,668</b> | <b>2,868,547</b> |
| <b>SHAREHOLDERS' EQUITY</b>                       |                  |                  |                  |                  |
| Share Capital                                     | 737,200          | 614,150          | 737,200          | 614,150          |
| Adjustments to Book Value                         | 1,116,709        | 1,265,869        | 1,116,709        | 1,265,869        |
| Revenues Reserves                                 | 230,277          | 232,556          | 230,277          | 232,556          |
| Treasury Shares                                   | (11,839)         | (13,811)         | (11,839)         | (13,811)         |
| Stock options granted                             | 3,605            | 1,853            | 3,605            | 1,853            |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 | <b>2,075,952</b> | <b>2,100,617</b> | <b>2,075,952</b> | <b>2,100,617</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>5,038,396</b> | <b>4,923,315</b> | <b>5,825,951</b> | <b>5,633,110</b> |

| SÃO MARTINHO S.A.  | CPC 19         |                | Pro forma      |                |
|--|----------------|----------------|----------------|----------------|
| R\$ Thousand   | 12M14          | 12M13          | 12M14          | 12M13          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                              |                |                |                |                |
| <b>Net Income in the period</b>  | <b>135,001</b> | <b>72,950</b>  | <b>135,001</b> | <b>72,950</b>  |
| Adjustments  |                |                |                |                |
| Depreciation and amortization  | 126,217        | 151,902        | 173,715        | 209,505        |
| Harvested biological assets (depreciation)                               | 179,872        | 177,359        | 274,066        | 243,617        |
| Variation in fair value of biological assets                             | (915)          | (13,377)       | 5,379          | (4,754)        |
| Amortization of intangible assets  | -              | -              | 1,942          | -              |
| Residual cost of investments and property, plant and equipment disposals | 16,444         | 23,696         | 399            | 3,615          |
| Result of investment and property, plant and equipment disposals         | (2,321)        | 770            | (2,690)        | 825            |
| Interest, monetary and foreign exchange variations, net                  | 93,375         | 76,469         | 151,040        | 131,221        |
| Derivatives Financial Instruments  | (174)          | 14,063         | 5,141          | 9,201          |
| Constitution of provision for contingencies, net                         | 16,847         | 14,521         | 19,593         | 15,987         |
| Deferred income tax and social contribution                              | 44,642         | 40,557         | 50,432         | 22,983         |
| Constitution of provision for inventory losses                           | -              | (526)          | -              | (527)          |
| Adjustments to present value and others                                  | 8,216          | 14,278         | 8,788          | 13,949         |
|  | <b>617,204</b> | <b>572,662</b> | <b>822,806</b> | <b>718,572</b> |
| <b>Changes in assets and liabilities</b>                                 |                |                |                |                |
| Trade receivables  | (11,140)       | (17,555)       | (23,531)       | (21,873)       |
| Inventories  | 5,617          | 9,310          | 8,624          | (8,731)        |
| Taxes recoverable  | (38,732)       | (52,197)       | (45,965)       | (51,679)       |
| Financial Investments  | -              | -              | 664            | (1,999)        |
| Related parties  | -              | -              |                | (2)            |
| Other assets   | 3,098          | 5,425          | 864            | 5,016          |
| Trade payables   | 9,014          | (28,104)       | 17,663         | (36,947)       |
| Salaries and social charges  | 8,693          | 5,362          | 9,331          | 9,225          |
| Taxes payable  | 3,749          | 2,617          | 5,197          | 2,066          |
| Obligations with Copersucar  | 4,084          | (12,814)       | 6,102          | (15,030)       |
| Taxes payable in installments  | (5,035)        | (4,729)        | (5,364)        | (5,407)        |
| Provision for contingencies - settlements                                | (27,619)       | (28,928)       | (31,735)       | (31,142)       |
| Other liabilities  | (7,178)        | (6,702)        | (4,019)        | (6,237)        |
|  | <b>561,755</b> | <b>444,347</b> | <b>760,637</b> | <b>555,832</b> |
| <b>Cash provided by operations</b>                                       | <b>561,755</b> | <b>444,347</b> | <b>760,637</b> | <b>555,832</b> |
| Interest paid  | (85,872)       | (36,037)       | (125,079)      | (64,885)       |
| Income tax and social contribution paid                                  | (2,465)        | (1,678)        | (2,591)        | (2,166)        |
| <b>Net cash provided by operating activities</b>                         | <b>473,418</b> | <b>406,632</b> | <b>632,967</b> | <b>488,781</b> |

| <b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>   |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|
| Financial resources used in investments   | (77,124)         | (244,658)        | (77,124)         | (244,805)        |
| Additions to property, plant and equipments, intangible assets and deferred charges | (271,482)        | (221,698)        | (329,657)        | (288,090)        |
| Additions to biological assets (planting and crop treatment)                        | (242,283)        | (224,056)        | (354,959)        | (361,770)        |
| Proceeds from sale of property, plant and equipment                                 | 12,783           | 1,746            | 13,566           | 2,090            |
| Sale of biological asset and rights   | 47,500           | -                | 47,500           | -                |
| Cash and cash equivalents acquired from subsidiary                                  | 1                | -                | 1                | -                |
| Advance for future capital increase   | (1,414)          | (3,176)          | -                | (1,202)          |
| Dividends and interest on own capital   | 1,330            | 1,216            | -                | 4,213            |
| <b>Net cash used in investing activities</b>  | <b>(530,689)</b> | <b>(690,626)</b> | <b>(700,673)</b> | <b>(889,564)</b> |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>  |                  |                  |                  |                  |
| New borrowing - third parties   | 520,705          | 733,999          | 668,872          | 954,342          |
| Repayment of borrowing - third parties  | (415,275)        | (177,551)        | (537,166)        | (300,133)        |
| Advance for future capital increase   | -                | -                | 290              | 7,386            |
| Payment of dividends and interest on capital  | (30,000)         | (36,084)         | (29,898)         | (36,084)         |
| Payment of dividends and interest on capital  | -                | (1,785)          | -                | (1,785)          |
| Purchase of treasury shares   | 2,059            | 780              | 2,059            | 780              |
| <b>Net cash provided by financing activities</b>                                    | <b>77,489</b>    | <b>519,359</b>   | <b>104,157</b>   | <b>624,506</b>   |
| <b>Increase (decrease) in cash and cash equivalents</b>                             | <b>20,218</b>    | <b>235,365</b>   | <b>36,451</b>    | <b>223,723</b>   |
| <b>Cash and cash equivalents at the beginning of the period</b>                     | <b>531,141</b>   | <b>295,776</b>   | <b>634,290</b>   | <b>410,567</b>   |
| <b>Cash and cash equivalents at the end of the period</b>                           | <b>551,359</b>   | <b>531,141</b>   | <b>670,741</b>   | <b>634,290</b>   |



## GRI indicators

| STANDARD DISCLOSURES          |  | Page/Response   |
|-------------------------------|--|---|
| <b>Strategy and Analysis</b>  |  |   |
| G4-1                          | Statement from the the most senior decision maker of the organization about the relevance of sustainability to the organization.                             | Page 4  |
| <b>Organizational Profile</b> |  |   |
| G4-3                          | Name of the organization.  | Page 10   |
| G4-4                          | Primary brands, products and/or services   | Page 14   |
| G4-5                          | Location of organization's headquarters  | The organization's headquarters are located at Fazenda São Martinho, sem número, Pradópolis - São Paulo CEP 14850-000   |
| G4-6                          | Number and names of the countries where the organization operates  | The Group operates in Brazil only.  |
| G4-7                          | Nature of ownership and legal form   | Page 58   |
| G4-8                          | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)  | Page 10 - The São Martinho Group also operates in the commodities market.   |
| G4-9                          | Scale of the organization  | Pages 10, 23, 41 - In the reporting period, the Company's net debt totaled R\$1,549.2 million, while net equity stood at R\$2,075.9 million   |
| G4-10                         | Total number of employees by employment contract and gender  | Page 41 - The São Martinho Group does not control outsourced workers by gender. The total number is calculated based on a monthly average, as registered by the entry of these workers through the turnstiles of the units. |
| G4-11                         | Percentage of total employees covered by collective bargaining agreements  | Page 47   |
| G4-12                         | Description of the organization's supply chain   | Page 52 - In the 2013/14 harvest year, the São Martinho Group spent approximately R\$807,777,241.00 with suppliers. In addition, the Company does not have, in its own system, the types of supplier included in the chain. |
| G4-13                         | Significant changes during the reporting period regarding the organization's size, structure, ownership or supply chain                                      | There were no significant changes of this nature in the São Martinho Group during the reporting period.   |
| G4-14                         | Whether and how the precautionary approach or principle is addressed by the organization   | Page 26   |
| G4-15                         | Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses | The São Martinho Group does not subscribe to or endorse any such charters, principles, or other initiatives.  |
| G4-16                         | Membership of associations   | Page 57   |

| STANDARD DISCLOSURES                              |  | Page/Response   |
|---|--|---|
| <b>Identified Material Aspects and Boundaries</b> |  |   |
| G4-17   | Entities included in the organization's consolidated financial statements or equivalent documents                            | The Group's consolidated financial statements include São Martinho S/A (Iracema and Pradópolis units), Usina Boa Vista S/A, Santa Cruz S.A. Açúcar e Alcool, Vale do Mogi Empreendimentos Imobiliários Ltda., Nova Fronteira Bioenergia S/A, São Martinho Energia S/A, Agro Pecuária Boa Vista S/A, Usina Santa Luiza S/A, SMA - Indústria Química S/A, SPE Resid. Rec Paineiras, SPE Park Emp Iracemápolis and Vale do Piracibada S/A. All the information in the statements has been audited by PricewaterhouseCoopers. |
| G4-18   | Process for defining the report content and Aspect boundaries  | Page 6  |
| G4-19   | Material Aspects identified in the process for defining report content   | Page 6  |
| G4-20   | Boundaries of the material Aspects within the organization   | Page 6  |
| G4-21   | Boundaries of the material Aspects outside the organization  | Page 6  |
| G4-22   | Effect of any restatements of information provided in previous reports   | There were no restatements of information in relation to the previous report.   |
| G4-23   | Significant changes from previous reporting periods in the Scope and Aspect Boundaries                                       | This is the first report prepared in accordance with the GRI's G4 guidelines.   |
| <b>Stakeholder Engagement</b>                     |  |   |
| G4-24   | Stakeholder groups engaged by the organization   | Page 6  |
| G4-25   | Basis for identification and selection of stakeholders with whom to engage   | Page 6  |
| G4-26   | Approach to stakeholder engagement   | Page 6  |
| G4-27   | Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to them | The Company does not have formal mechanisms for registering topics and concerns raised by its stakeholders. However, it does actively interact with these groups, facilitating the identification of such topics and concerns through an administrative body in each unit and through the Ethics Channel, the main stakeholder communications channel.  |
| <b>Report Profile</b>                             |  |   |
| G4-28   | Reporting period for the information provided  | Pages 6, 9  |
| G4-29   | Date of most recent previous report  | The Group's most recent previous report was for the 2012/13 harvest year and was prepared in accordance with GRI guidelines.  |
| G4-30   | Reporting cycle  | The São Martinho Group produces reports on an annual basis in accordance with the harvest year.   |
| G4-31   | Contact point for questions regarding the report or its contents   | Page 76   |
| G4-32   | Summary of GRI content   | This report follows the Core "in accordance" option.  |
| G4-33   | Policy and current practice with regard to seeking external assurance for the report   | This report was not submitted to external assurance.  |
| <b>Governance</b>                                 |  |   |
| G4-34   | Governance structure of the organization and its composition   | Page 60   |

| Ethics and Integrity          |   |  |
|-------------------------------|---|--|
| G4-56                         | The organization's values, principles, standards and norms, such as codes of conduct and ethics   | Page 63  |
| SPECIFIC STANDARD DISCLOSURES |   |  |
| Aspect/Indicator              |   | Omissions  |
| Economic                      |   |  |
| G4-DMA                        | Economic performance  | Pages 21, 62   |
| G4-EC1                        | Direct economic value generated and distributed   | Page 25  |
| Materials                     |   |  |
| G4-DMA                        | Materials   | Page 30  |
| G4-EN1                        | Materials used by weight or volume  | Page 30  |
| Energy                        |   |  |
| G4-DMA                        | Energy  | Page 31  |
| G4-EN3                        | Energy consumption within the organization  | Page 31  |
| G4-EN4                        | Energy consumption outside of the organization  | Page 31  |
| G4-EN5                        | Energy intensity  | Page 31  |
| G4-EN6                        | Reduction of energy consumption   | The São Martinho Group does not have energy reduction mechanisms.                          |
| Water                         |   |  |
| G4-DMA                        | Water   | Page 32  |
| G4-EN8                        | Total water withdrawal by source  | Page 32  |
| G4-EN10                       | Percentage and total volume of water recycled and reused  | Page 32  |
| Biodiversity                  |   |  |
| G4-DMA                        | Biodiversity  | Pages 27, 36   |
| G4-EN11                       | Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas                             | Page 36  |
| Emissions                     |   |  |
| G4-DMA                        | Emissions   | Page 33  |
| G4-EN15                       | Direct greenhouse gas (GHG) emissions (Scope 1)   | Page 33  |
| G4-EN16                       | Indirect greenhouse gas (GHG) emissions from purchased energy (Scope 2)   | Page 33  |
| G4-EN17                       | Other indirect greenhouse gas (GHG) emissions (Scope 3)   | Page 33  |
| G4-EN21                       | NOx, SOx and other significant air emissions  | Page 33  |
| Effluents and Waste           |   |  |
| G4-DMA                        | Effluents and waste   | Page 37  |
| G4-EN22                       | Total water discharge by quality and destination  | Page 32  |
| G4-EN23                       | Total weight of waste by type and disposal method   | Page 37  |
| Products and Services         |   |  |
| G4-DMA                        | Products and services   | Page 28  |
| G4-EN27                       | Extent of impact mitigation of environmental impacts of products and services   | Page 28  |
| Compliance                    |   |  |
| G4-DMA                        | Compliance  | Page 28  |
| G4-EN29                       | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations                             | Page 28 - In the 2013/14 harvest year, the Company received only three monetary sanctions. |
| Transport                     |   |  |
| G4-DMA                        | Transport   | Page 33  |
| G4-EN30                       | Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce | Page 33  |

| SPECIFIC STANDARD DISCLOSURES                  |  | Page/Response   |
|--|--|---|
| <b>Environmental Grievance Mechanisms</b>      |  |   |
| G4-DMA   | Environmental grievance mechanisms   | Page 28   |
| G4-EN34  | Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms  | Page 28   |
| <b>Employment</b>                              |  |   |
| G4-DMA   | Employment   | Page 52   |
| G4-LA1   | Total number and rates of new employee hires and employee turnover by age group, gender and region   | Page 41   |
| G4-LA2   | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation                                      | Page 48   |
| G4-LA3   | Return to work and retention rates after parental leave, by gender   | Page 41   |
| <b>Labor/Management Relations</b>              |  |   |
| G4-DMA   | Labor/management relations   | Page 47   |
| G4-LA4   | Minimum notice periods regarding operational changes, including whether these are specified in collective agreements   | There are no specified notice periods in the São Martinho Group's collective agreements. However, they all contain a clause dealing with consultations and negotiations.  |
| <b>Occupational Health and Safety</b>          |  |   |
| G4-DMA   | Occupational health and safety   | Page 49   |
| G4-LA6   | Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender                    | Page 50   |
| G4-LA7   | Workers with high incidence or high risk of diseases related to their occupation   | Page 50 - The São Martinho Group does not have any workers with a high incidence or high risk of diseases related to their occupation   |
| <b>Training and Education</b>                  |  |   |
| G4-DMA   | Training and education   | Page 46   |
| G4-LA9   | Average hours of training per year per employee by gender, and by employee category  | Page 46   |
| <b>Diversity and Equal Opportunity</b>         |  |   |
| G4-DMA   | Diversity and equal opportunity  | Pages 41, 47  |
| GA-LA12  | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity | Page 41   |
| <b>Supplier Assessment for Labor Practices</b> |  |   |
| G4-DMA   | Supplier assessment for labor practices  | Page 52   |
| G4-LA14  | Percentage of new suppliers that were screened using labor practices criteria  | Page 52   |
| <b>Investment</b>                              |  |   |
| G4-DMA   | Investment   | The Company considers an investment to be material if it has a significant impact on the financial statements due to its amount in relation to the Company's revenue/assets. Given that the Company undertook no material investments in the 2013/14 harvest year, this aspect is not applicable. |
| G4-HR1   | Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening                      | There were no significant investment agreements and contracts in the 2013/14 harvest year.  |

| SPECIFIC STANDARD DISCLOSURES                           |  | Page/Response   |
|---|--|---|
| <b>Non-discrimination</b>                               |  |   |
| G4-DMA  | Non-discrimination   | Page 41   |
| G4-HR3  | Total number of incidents of discrimination and corrective actions taken   | Page 63   |
| <b>Freedom of Association and Collective Bargaining</b> |  |   |
| G4-DMA  | Freedom of association and collective bargaining   | The São Martinho Group does not interfere in or attempt to influence the freedom of association of its suppliers.   |
| G4-HR4  | Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights     | No operations or suppliers have been identified where the right to exercise freedom of association and collective bargaining has been violated or is at significant risk of being violated.   |
| <b>Child Labor</b>                                      |  |   |
| G4-DMA  | Child labor  | Page 53   |
| G4-HR5  | Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor                                    | The Company only hires workers above the age of majority. In projects involving minors, there are no such risks.  |
| <b>Forced or Compulsory Labor</b>                       |  |   |
| G4-DMA  | Forced or compulsory labor   | Page 53   |
| G4-HR6  | Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of all forms of forced or compulsory labor | The São Martinho Group has not identified any operations or suppliers that are exposed to the risk of forced or compulsory labor.   |
| <b>Security Practices</b>                               |  |   |
| G4-DMA  | Security practices   | Page 50   |
| G4-HR7  | Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations   | Page 50   |
| <b>Local Communities</b>                                |  |   |
| G4-DMA  | Local communities  | Pages 27, 53  |
| G4-SO2  | Operations with significant actual and potential negative impacts on local communities   | One of the most significant impacts comes from the waste materials used in organic fertilizer applications (filter cake and vinasse), due to their unpleasant odor.   |
| <b>Public Policy</b>                                    |  |   |
| G4-DMA  | Public policy  | Page 57 - For the São Martinho Group, the development of public policies geared towards the sugar-energy sector is essential in order to ensure the execution of its activities in accordance with the prevailing legislation, so that possible negative impacts on society can be mitigated or eliminated. |
| G4-SO6  | Total value of political contributions by country and recipient/beneficiary  | The Company made no donations to political parties in the 2013/14 harvest year.   |
| <b>Grievance Mechanisms for Impacts on Society</b>      |  |   |
| G4-DMA  | Grievance mechanisms for impacts on society  | Page 63   |
| G4-SO11   | Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms   | Page 63   |

## Credits and contacts

[G4-31]

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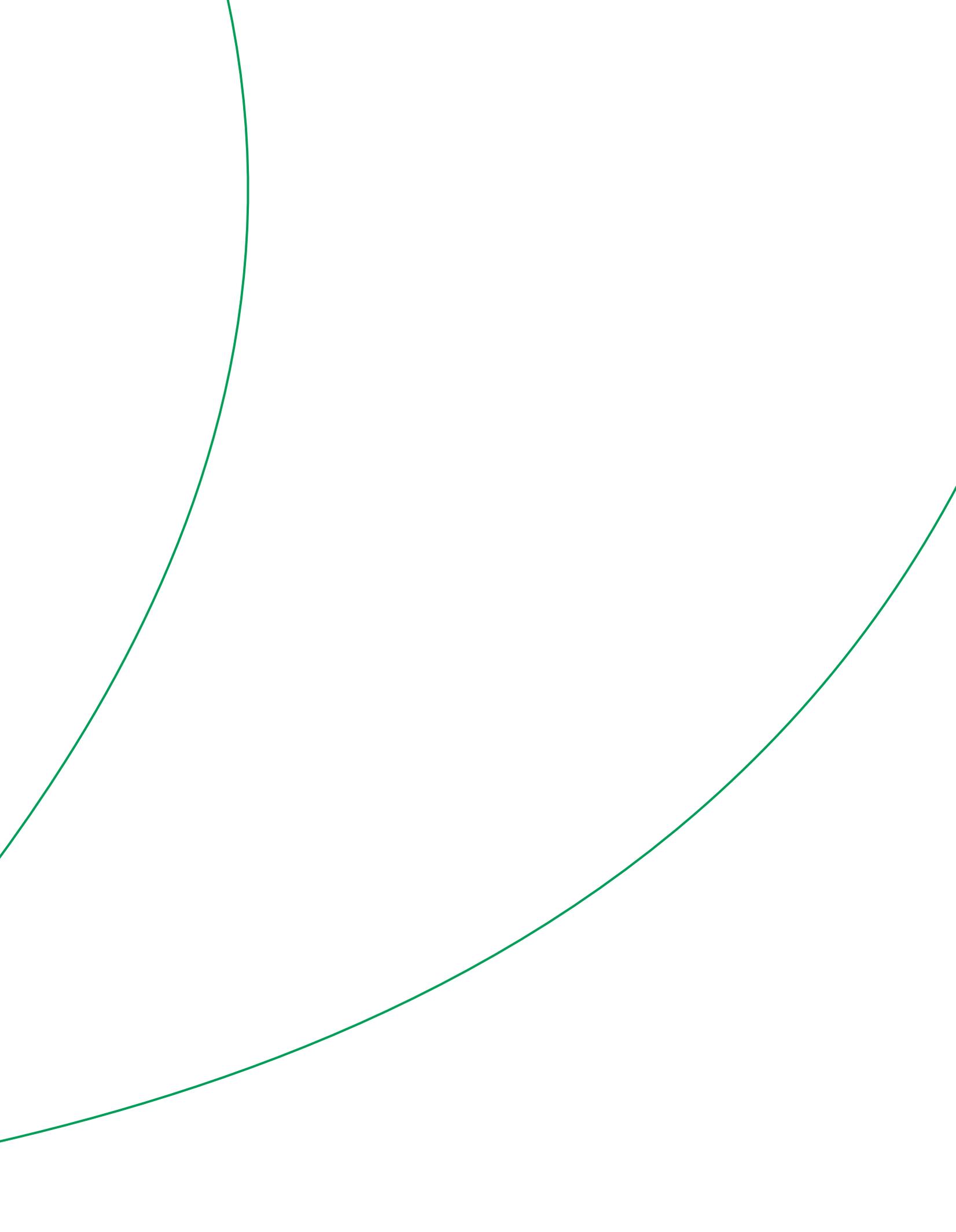
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### **Photos**

São Martinho archives







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