

2016/2017
ANNUAL AND
SUSTAINABILITY
REPORT



São Martinho

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INTRODUCTION

The *2016/2017 São Martinho Annual and Sustainability Report* presents the results for the crop year in accordance with the guidelines of the Global Reporting Initiative (GRI), an international metric for communicating economic, social and environmental performance.

Following the Core “In accordance” option of GRI methodology, it demonstrates the company’s results from April 1st 2016 to March 31st, 2017.

Please address any doubts or requests for information about the report to the email comunicacoes@saomartinho.com.br.

Enjoy reading it!

MESSAGE FROM THE CEO

G4-1 AND G4-2

Dear reader,

The *São Martinho Annual and Sustainability report* provides a summary of our social, environmental and economic performance in 2016/2017, which we would like to share with you.

In this edition, we will present some achievements, such as the complete acquisition of the Boa Vista mill (Goiás), which was consolidated during the course of 2017.

In terms of the operation, worthy of note were the increase in cane processing capacity, in particular at the Santa Cruz mill (SP), and the frosts which affected some 40,000 hectares of our cane plantations, the worst hit being the São Martinho mill (SP).

Nonetheless, we achieved robust financial results, with an increase in net income and

record cash generation, a performance which I attribute to the ongoing improvements in our operations and the trust the market, shareholders and customers deposit in our work. This trust is attested by the fact that São Martinho obtained financing from the International Finance Corporation (IFC), linked with the World Bank, for investment in modernization and for working capital. This process involved a rigorous assessment and audit process, encompassing social, environmental, safety and corporate governance aspects.

In the report, we present a summary of our investments, strategies and indicators related to diverse areas: our employees, our relations with communities, partners and suppliers, ethics, soil use, the conservation of water resources and waste management, respect for



people and care for the environment, values we consider to be fundamental for a company that works on the land, in the process generating value for shareholders and for society.

Once again, I would like to thank our employees for their hard work and dedication. And in the coming pages I invite you to verify what we did in 2016/2017 and what we have planned for the future.

Enjoy!

Fábio Venturelli

Chief Executive Officer, São Martinho

The complete acquisition of the Boa Vista mill was one of São Martinho's key achievements during 2016/2017.

2016/2017 CROP HIGHLIGHTS



19.3
million

metric tons of
sugarcane processed



720 k

MWh
of energy exported

1,301 k

metric tons
of sugar produced



UP 5.8%

compared with the previous year

R\$ 3.122^b

Net revenue in the crop year,
10.3% more than in 2015/2016

37.2%

increase in net
income, which reached

R\$ 283.9 million

Recognitions

III Best Companies for Disabled Workers Award

The 150 Best Companies to Work For – *Guia Você S/A*

40 Best Companies to Start your Career - *Você S/A, FIA* and
Cia de Talentos

Latin America Executive Team 2016 – 15 awards, including best CEO, best
CFO and best IR professional

The Agricultural Chemical Laboratory received an award from the Instituto
Agrônômico de Campinas (IAC)







With four mills in
operation, São Martinho
is one of the sector
leaders in Brazil

Corporate Profile

SÃO MARTINHO

Founded at the beginning of the 20th century, São Martinho is one of the largest sugarcane producers in the Brazilian sugar-energy sector. Since the construction of its first mill in the state of São Paulo, the company has been consolidating its position in the processing and sale of cane derivatives, such as sugar, ethanol and bioenergy. Its current crushing capacity is around 24 million metric tons per year. [G4-3](#), [G4-9](#)

The operating structure comprises four units, located in the states of São Paulo and Goiás: São Martinho, located in Pradópolis, and Santa Cruz, in Américo Brasiliense, both in the Ribeirão Preto region in São Paulo; Itacema, in Itacemópolis, close to Limeira in São Paulo; and Boa Vista, in Quirinópolis, Goiás.

In February 2017, Nova Fronteira, a joint venture formed in 2010 with Petrobras Biocombustível, was fully incorporated by São Martinho, which assumed management of the unit and the business, considered to be one of the most modern in the segment. [G4-13](#)

With its shares traded on the B3 S.A. index (former BM&FBovespa), under the ticker symbol SMT03, the company has a corporate office in São Paulo and a Shared Service Center (SSC) for its support areas in the municipality of Pradópolis, São Paulo. [G4-5](#)



100%

of the Boa Vista mill came under the company's control in 2017

Mission G4-56

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

Vision

To triple cane processing volume by 2020 and be the leader in value generation, by producing and commercializing sustainable products and winning over new markets.

Values

- ▶ Integrity and ethics
- ▶ Respect for people and for the environment

São Martinho Pillars

- ▶ Safety
- ▶ People and relationships, partners and suppliers, customers, shareholders, employees and other workers, and the community
- ▶ Technology
- ▶ Sustainability
- ▶ Value creation
- ▶ Growth

Timeline

An overview of the main events in the company's history since its first sugarcane mill

2010
Creation of the Nova Fronteira Bioenergia S.A. joint venture, controller of Usina Boa Vista S.A. and SMBJ Agroindustrial S.A.

2008
inauguration of the Boa Vista mill, one of the most modern in the world in ethanol production technology

2007
Company goes public on the B3 S.A. exchange (Code SMT03)

2000
unification of the administrative structure to professionalize operations

1914
construction of the first sugarcane mill (Olaria)

1932
beginning of sugar production on the Boa Vista farm

1937
purchase of the Iracema mill, initially as an alcohol distillery

1949
acquisition of the São Martinho mill

2011

acquisition of a 32.18% stake in Santa Cruz S.A. – Açúcar e Alcool and a 17.97% interest in Agropecuária Boa Vista S.A.

2012

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

2013

inauguration of the thermoelectric plant at the São Martinho mill

2014

conclusion of the acquisition of the Santa Cruz mill followed by the beginning of the integration process

2017

In another leap forward, São Martinho S.A. incorporates 100% of the Boa Vista mill

OUR BELIEFS G4-56

We at São Martinho, believe that care is an essential mindset for the success of our business.

This is why we respect and take care of people; supporting their personal and professional development and providing ongoing, shared technical training.

We are careful in our **attitudes**, exercising cautious, coherent management, acting in accordance with what we say and generating **trust** among our employees, shareholders, customers, government, suppliers, partners and communities.

We take care of our business, enhancing production processes, with a view to achieving **excellence**, always.

We believe in not only taking care of the company, but also of the environment and **society**, by generating value.

We believe this is the way forward for the business. If you are going to do something, do your best.

100%

of São Martinho employees agree that CARE is an essential company belief.

UNITS AND BUSINESSES

Operations map

GRI G4-6; G4-9



1 São Martinho mill



CANE PROCESSING CAPACITY

10.5 million metric tons per crop



EMPLOYEES

4,721

This is the largest sugarcane processing mill in the world, as well as being a global benchmark in process mechanization. With a 480,000 metric ton storage capacity, the unit has an extensive logistics infrastructure, including an internal railway branch line that can transport 16,000 metric tons per day. São

Martinho also has a thermoelectric power plant that produces energy based on cane bagasse – a renewable and sustainable source that can reduce atmospheric emissions and rationalize water use. The energy generated powers the unit, and the surplus is commercialized.

This unit produces sugar and ethanol. Since 2012, the unit has been certified by Bonsucro – an international standard of sustainability requirements applied to the sugar-energy industry –, providing customers with assurance regarding management and process quality. This certification enables the company to export to more mature and demanding markets, such as the European Union and some Asian countries.

2 Iracema



CANE PROCESSING capacity

3 million metric tons per crop



EMPLOYEES

2,071

3 Boa Vista mill



CANE PROCESSING
CAPACITY

5 million metric tons per crop



EMPLOYEES

2,383

The unit used to be part of Nova Fronteira Bioenergia, a joint venture with Petrobras Biocombustível, today fully owned by São Martinho. In this mill, the focus is on ethanol production and co-generation of energy, with one of the most modern cane processing plants

in the world. Worthy of note are the 100% mechanized harvesting, the elimination of burning cane straw and the unit's modern Industrial Operations Center, with full monitoring of processes in real time.

4 Santa Cruz mill



CANE PROCESSING CAPACITY

5.6 million metric tons per crop



EMPLOYEES

3,294

The mechanization rate at this unit is 100% for planting and over 90%

for harvesting. Incorporated into São Martinho in recent years, the unit has international ISO 9001, ISO 14001 and Bonsucro certification, attesting to international standards of environmental care and quality management. The mill produces anhydrous ethanol and hydrated ethanol to global standards, and its portfolio encompasses VHP sugar, electrical energy and sugarcane yeast.

Portfolio GRI G4-4, G4-6, G4-8

SUGAR

The São Martinho mills produce diverse types of sugar. Worthy of note among them is the standard VHP (very high polarization) variety, aimed mainly at the export market.

ETHANOL

Three types of ethanol are produced at the mills: hydrated, fuel used in ethanol-powered or flexible fuel vehicles; anhydrous, which is added to gasoline; and industrial ethanol, used in the paint, cosmetics and alcoholic beverage industries.

ELECTRICAL ENERGY

The residual bagasse from cane crushing is reused as raw material for producing electricity, a renewable source that powers the mills, while the surplus is commercialized.

BYPRODUCTS

The company also commercializes a series of byproducts. These include yeast (used for animal feed), fusel oil (used as a solvent and in the manufacture of explosives), and sodium salt from ribonucleic acid (RNA).

GOVERNANCE

In line with good market practice, São Martinho values equal treatment of shareholders, transparency in strategic decision making, proper risk control and continuous communication with shareholders and investors. [G4-7](#)

The governance structure comprises the Board of Directors, the Advisory Committees - Technological Innovation, People Management and Finance, Audit and Risk Management - and the Executive and Operations Board.

BOARD OF DIRECTORS [G4-34](#)

This joint decision making body is responsible for general oversight of the business, including its long-term targets and strategic directives, the appointment of directors and the supervision of executive management.

The company bylaws provide for seven board members, one of whom is independent. Members are elected by the General Shareholders' Meeting for two-year terms.

The current Board members were elected at a General Shareholders' Meeting held on July 29, 2016.

João Guilherme Sabino Ometto
Chairman

Marcelo Campos Ometto
Vice Chairman

Guilherme Fontes Ribeiro
Luiz Olavo Baptista
Maurício Krug Ometto
Nelson Marques Ferreira Ometto

Murilo Cesar Lemos dos Santos Passos
Independent member

COMMITTEES G4-34

Currently there are three advisory committees constituted to provide support for the Board of Directors in decision making in specific areas. Each committee undertakes prior studies in its areas of competence, presenting its analyses to the Board to support joint decision making.

ADVISORY COMMITTEES

Committee	Function
Finance, Audit and Risk Management	To analyze/assess financial questions, quarterly and annual reports, proposals for external audits and tax planning; to analyze the risks involved in investments and large-scale financial operations, as well as risks that could affect the company's sustainability; to ensure best corporate governance practices are upheld through the development of efficient processes and internal controls; to promote a single management culture and to optimize the risk/return ratio and the allocation of capital
People Management	To oversee strategic personnel management planning; to define short and long-term variable remuneration (bonus linked to results and professional performance); and to appraise executive performance
Technological Innovation	To periodically review the direction the business is taking; to support the identification of new products/services that add greater value to the company; to support the board in the identification and development of alternative growth strategies; and to monitor the development and growth of new businesses

EXECUTIVE BOARD G4-34

In accordance with the São Martinho S.A. bylaws, the Executive Board may have from two to nine statutory members. Members may hold more than one position, at the discretion of the Board of Directors.

Fábio Venturelli
CEO

Agenor Cunha Pavan
Vice president and Agroindustrial Managing Director

Felipe Vicchiato
Director of Finance and Investor Relations

Helder Luiz Gosling
Commercial and Logistics Director

Rodrigo Tetti Garcia
Administrative Director

Ricardo Azevedo Gonçalves
Agroindustrial Director, São Martinho unit

Carlos Fernando Zaneti de Andrade
Agroindustrial Director, Iracema unit

Marcos Helder Pavan Monaco
Agroindustrial Director, Santa Cruz unit

Ivan Barcellos Dalri
Agroindustrial Director, Boa Vista unit

Non-statutory directors

Elias Eduardo Rosa Georges
Legal, Compliance and Institutional Relations Director

Luciana Carvas
Human Resources Director

Mário Ortiz Gandini
Agriculture and Technology Director

FISCAL COUNCIL G4-34

Independent from management, the committee may function on a permanent basis or not. In the latter case it functions during a specific period.

It oversees management activities, reviews the company's financial statements and reports its conclusions to the shareholders.

Current members:

Effective

Maurício Curvelo de Almeida Prado

Carlos Alberto Ercolin

Massao Fábio Oya

Alternates

Marcos Ribeiro Barbosa

Isabel Cristina Bittencourt Santiago

Jorge Michel Lepeltier

Risk Management

São Martinho's approach to monitoring, mapping and controlling risks is aimed at protecting the organization's assets, reputation and performance, based on a long-term vision and focused on anticipating transformations or trends that could affect the future of the business.

With a structured Risk Management area, the company maps opportunities with a view to ensuring transparent communication about the units' and areas' actions and levels of exposure, maintaining direct dialogue with senior management. The area works independently and reports directly to the CEO

and the Board of Directors.

An ongoing analysis of all company units determined six risk categories (see *table*). Moreover, the risk management area contributes towards valuing ethics and compliance in the company and and controlling specific risks affecting the operation and assets, establishing measures such as taking out insurance policies and implementing process improvements.

RISK MAPPING

Category	Nature	Actions & responses
Revenue	The prices of São Martinho products are affected by supply and demand , as well as by factors related to economic, political and financial instability in Brazil. A reduction in the price of sugar or ethanol may provoke adverse effects not only on business related to the specific product, but also on the production mix	<ul style="list-style-type: none">- Systematic pricing strategy- Monitoring of the business environment

Category	Nature	Actions & responses
Currency exchange position	With significant revenues coming from the overseas market, the company may be directly affected by the exchange rate, leading to potential losses in profitability	<ul style="list-style-type: none"> - São Martinho Exchange Rate Policy, linked with the Sugar Pricing Policy - Adoption of criteria for correlating variables
Financial leverage and liquidity	The company constantly monitors indebtedness in relation to equity and cash generation. Similarly, liquidity may be affected by the nature of the business	<ul style="list-style-type: none"> - Analysis of own equity and cash generation versus indebtedness - Debt profile in alignment with financial obligations - Earnings expectations and equity position favor sustainability
Product transportation	Sugar is a commodity, and agile transportation can mean the difference between opportunity and risk. Inclement conditions, congestion or logistics difficulties could affect the company's revenue flow and commercial relations	<ul style="list-style-type: none"> - Preference for rail transportation - Installation of rail terminal inside the São Martinho unit, in partnership with Rumo Logística, with a transshipment capacity of up to 2 million metric tons of sugar per year
Cane supply	Part of São Martinho's production is dependent on sugarcane bought from third-parties or harvested on the lands of partners. For this reason, and in function of the climatic impacts which may affect the crop, the company runs the risk of not having its demand for raw material fulfilled	<ul style="list-style-type: none"> - Strengthening relations with suppliers - Detailed control of purchase contracts and partnerships (short, medium and long term) - Monitoring of percentage of cane acquired externally and guarantee of supply volume
Availability of manpower	Business growth depends directly on the capacity to hire more people and to train and develop them. This is especially important when hiring people for strategic positions	<ul style="list-style-type: none"> - Monitoring of key positions and human capital demands by area and unit - Definition of competencies to be developed in the organization to enhance personnel development

ETHICS AND TRANSPARENCY

Ensuring a culture of integrity is a key management principle at São Martinho. During the crop year, a major step towards this was the appointment of a Legal, Compliance and Institutional Relations director, whose mission is to drive synergies between the three areas at corporate level, systematizing practices in the business units, enabling the transfer of knowledge and experience and proposing improvements to management processes.

As part of the measures initiated in the first half of 2017, and to be continued throughout 2017/2018, a compliance diagnosis was commissioned. This was conducted by an external specialist with a view to mapping all practices, risks and points for improvement in diverse company areas.

Also worthy of note in the period was the drafting of the São Martinho Governance Manual, a compilation of the main standards in this area, which is distributed to key managers and leaders. This involved the systematization and revision of the company's policies on Financial Operations, Disclosure and Securities Trading, Anti-corruption and Transactions with Associated Parties and Conflicts of Interest.

CODE OF ETHICS AND PROFESSIONAL CONDUCT

Since 2010, the code has set forth the standards and principles to be upheld by everyone in the company, encompassing employees, interns, managers, consultants, directors, members of the Board of Directors and Fiscal Council, as well as the employees of service providers.

Since 2011, the company has also had a specific ethics channel to clarify doubts and to receive reports of breaches, complaints and suggestions related to ethics and professional conduct. Cases may be reported by telephone (0800 777 3131, toll-free), the email (etica@saomartinho.com.br) or post, in a sealed envelope, with or without identification of the sender (Alameda Caiapós, 243, Barueri, CEP: 06460-110, São Paulo/SP).

The reports are managed by a third-party, guaranteeing security and confidentiality in the process. Executive committees and working groups are responsible for investigating the reports. Investigative tools are made available when necessary.

The Ethics Channel also handles reports related to safety. The idea is to enhance communication of situations involving risks, complaints and comments about the conduct of drivers in traffic – a question of particular importance in the company's business. The contact number is provided on all company vehicles bearing the São Martinho logo.

Anti-corruption

The Internal Controls area is responsible for actions such as risk mapping, implanting controls to mitigate impacts and monitoring the effectiveness of such controls in order to avoid exposing the company to financial impacts or risks to its image and reputation.

The internal controls enable the company to identify and address non-conformance and implement improvements in the operation. In parallel, reports made through the Ethics Channel are audited.

Company operations are submitted to corruption-related risk assessments as necessary. In the 2016/2017 crop year, the cases analyzed resulted in process enhancements, improvements in the controls and disciplinary measures imposed on those involved, which were duly recorded and reported at the appropriate levels.

G4-SO3; G4-SO5

The Anti-Corruption Policy is one of the company's main tools for combating non-compliance. Fully aligned with Brazilian legislation and distributed to all employees, the document is addressed in the induction of all new employees and suppliers, as well as being available online on the company's website.

In the 2016/2017 crop year, no specific anti-corruption training was undertaken; however, this question is reinforced among employees on an annual basis in the company's Behavioral Awareness program. The question of "beliefs" was highlighted during the year, addressing the pillars people, mindsets (including trust) and business. G4-SO4



100%

of the employees
have access to the
Anti-Corruption policy



Strategy and Performance

Consistent competitive differentials and long-term investments put the company in an outstanding position in the sector



ATTENTION TO SCENARIOS AND CHALLENGES

Diverse conditions, in particular climate and agronomics, have a profound effect on performance in the sugar-energy sector. Such factors are taken into account in company strategy, which seeks to anticipate any externalities, mitigate risks and make use of competitive advantages to drive continuity and value generation for shareholders.

Technological innovation, expertise, large extensions of company land and privileged locations are some of São Martinho's differentials. Incorporated into strategy and routine operations, these aspects ensure high productivity in the mills and on the farms, customer satisfaction and good relations with partners, communities and employees.

MECHANIZATION AND LEADING EDGE TECHNOLOGY

In the sugar-energy sector, mechanized harvesting is a requirement to guarantee the proper mitigation of social and environmental impacts.

STRATEGY

The company relies on its differentials and innovations to guarantee the business

COMPETITIVE ADVANTAGES

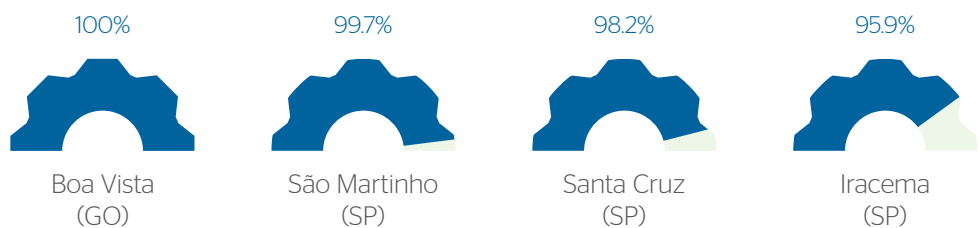


98.9%

consolidated
mechanization
percentage



MECHANIZATION RATE PER MILL



São Martinho is a pioneer in this respect, with the highest average mechanized harvest rate in the country. In the 2016/2017 crop year, this reached 98.9%.

In addition to mechanization, the company employs latest-generation technologies for monitoring and preserving the soil, including studies of the physical, chemical and biological conditions of the land. The goal is to reduce losses and ensure sustainability in planting. Crop rotation, terracing and reduced

and localized preparation are also used to help preserve the soil.

EXTENSION OF COMPANY LANDS

Currently around ⅓ of the sugarcane processed in the São Martinho mills is the company's own. Of this total, 70% comes from partners' lands* – properties selected based on criteria such as proximity to the mills, logistics facilities and suitability for mechanized growing. These requirements are designed to drive high productivity per

Research and innovation in soils

Investment in innovation is one of the factors that differentiates the company from its competitors.

At the Agricultural Chemical Laboratory, installed in Pradópolis (SP) since 1979, the organization studies solutions to optimize soil use, reduce its impacts and maximize productivity in cane growing.

In proficiency assessments undertaken by the Instituto Agronômico de Campinas (IAC) for laboratories conducting soil analyses for agricultural purposes, the laboratory achieved an average excellence rate of 99%. This put it in second place among the 132 laboratories rated during the 2016/2017 crop year.

Also worthy of note was IAC's recognition of the regularity of the laboratory's assessments compared with the other participants. The unit also received an "A" rating in the most recent assessment conducted by the institute. Created by the São Paulo state Agricultural Department in the 1980's, the proficiency program assesses laboratories aligned with criteria and methods established by the IAC, a pioneer in soil analysis in Brazil.

OUR INVESTMENT

100%

of the company units included

20,000

soil samples analyzed annually

212,000
hectares

covered by the analyses.

Aspects examined:

- soil correction;
- rational fertilization;
- soil surveys to define production environment.

Laboratory recommended

for Inmetro accreditation
in Chemical Soil Analysis and Sampling (ABNT
NBR ISO/IEC 17025:2005 standard)



Technology + productivity

São Martinho is engaged in concluding its Agricultural Operations Center at the Iracema Mill. This involves the installation of a unit to control and manage agricultural assets, driving a positive impact on operational costs and efficiency.

Another important project is studying the application of pre-sprouted plantlets on the company's properties. Tests were undertaken with the technology in the 2016/2017 crop year. When combined with other planting techniques, this will drive greater savings in agricultural costs and higher cane availability in the longer term.

hectare, reduce transportation costs and maximize sugar extraction from the cane in processing, given that the sugar content is reduced over time.

A total of 209,036.27 hectares of land belongs to partners, who number 1,551 (considering a 50.95% stake in the Boa Vista mill).

DIFFERENTIATED LOCATION

Its presence in the states of São Paulo and Goiás, strategic in the sugar-energy sector, ensures the company has competitive logistics costs and minimizes the risk of not meeting delivery deadlines, due to the proximity to port terminals and warehouses – such as Santos, on the São Paulo coast. To drive even greater process efficiency, São Martinho has its own railway branch line and a bulk storage warehouse.

QUALITY IN STRATEGIC DECISION MAKING

The company management team combines industry experience, knowledge of the organization's processes and policies and the technical and professional qualifications necessary for leadership. Aware of the need to keep its human capital abreast of innovations, trends and the outlook for agribusiness, São Martinho has programs to monitor key positions and the development of its leaders. In the field, employees receive training in the operation of tractors, machinery and cane harvesters, ensuring their alignment with the new market reality.

** Partners' lands are operated under contracts between São Martinho and agricultural producers.*

Investing in technology and productivity gains is fundamental for São Martinho, which has an outstanding capacity to generate cash and raise capital



INVESTMENT CAPACITY

Given its debt profile, market position and cash generation capacity, São Martinho has an outstanding capacity to raise and allocate funds to strategic projects that drive gains in productivity, quality and agility for the business.

In the 2016/2017 crop year, the company invested some R\$ 600 million in increasing sugarcane processing capacity. From the 2017/2018 crop year, industrial capacity will total 24 million metric tons, resulting from the conclusion of investments in Santa Cruz and the recent incorporation of the Boa Vista mill.

IFC financing

The IFC, an institution linked with the World Bank, approved US\$ 90 million in long-term financing for São Martinho. The total amount includes an 8-year US\$ 60 million loan funded by the IFC, and another five-year US\$ 30 million loan granted by ABN-Amro.

The funds will be applied in an extensive investment program to boost efficiency and agricultural and industrial productivity, which

includes the modernization of the mills. Part of the funds will finance working capital.

The IFC applies rigorous environmental, social, health and safety criteria, among others, in assessments for the concession of loans.

OPERATING AND FINANCIAL RESULT

São Martinho ended the 2016/2017 crop year with a total crush volume of 19.3 million metric tons of sugarcane. Sugar production was 5.8% higher than in the previous crop, totaling 1,301,000 metric tons. Anhydrous ethanol production was 398,000 cubic meters, while hydrated ethanol totaled 269,000 cubic meters. The average total recoverable sugar (TRS) produced at São Martinho was 130.3 kilograms per metric ton, a 1.1% increase over the previous year.

As announced to the market, the São Martinho plantation was affected by three intense frosts during the 2016/2017 crop year, impacting productivity (TCH) and cane quality (TRS). This was the main reason for the 3.7%

reduction in cane processed compared with the 2015/2016 crop year. Priority was given to sugar production in function of the better market prices.

Energy co-generation is another important activity for the company, supplying the business's energy needs with clean energy based on the burning of biomass. A total of 720 GWh was generated during the crop year.

São Martinho had an adjusted EBITDA of R\$ 1.44 billion during the year, up 11.1% on the

OPERATING DATA

	2015/2016	2016/2017*	Variation (%)
Cane processed (thousands of metric tons)	20,024	19,281	-3.7%
Sugar (thousands of metric tons)	1,230	1,301	5.8%
Anhydrous ethanol (thousands of m³)	445	398	-10.6%
Hydrated ethanol (thousands of m³)	306	269	-12.1%
Energy exported (thousands of MWh)	741	720	-2.8%
Average TRS (kg/t)	128.9	130.3	1.1%

**Takes into account the result of the 50.95% stake in the Boa Vista mill.*

previous year. Net income also grew by a significant 37.2%, reaching R\$ 283.9 million.

Brazil continues to be a reference in the sugar-energy industry, as one of the largest

FINANCIAL INDICATORS (THOUSANDS OF R\$)

	12M16	12M17*	Variation (%)
Net income	2,831,124	3,122,348	10.3%
Adjusted EBITDA	1,301,240	1,445,083	11.1%
Adjusted EBITDA margin	46.0%	46.3%	0.3 p.p.
Adjusted EBIT	569,254	707,172	24.2%
Adjusted EBIT margin	20.1%	22.6%	2.5 p.p.
Net profit	206,946	283,867	37.2%
Leverage ratio (net debt/EBITDA)	2.14 x	1.55 x	

**Takes into account the result of the 50.95% stake in the Boa Vista mill from April 2016 to February 2017 and 100% for March 2017.*

37.2%

Increase in net income compared with the previous year



DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED* G4-EC1

Total Net Revenue (Thousands of R\$)	2014/2015	2015/2016	2016/2017
Sugar	1,089,147	1,258,727	1,644,630
Hydrated alcohol	430,732	501,887	475,445
Anhydrous alcohol	531,721	799,775	763,431
Electrical energy	189,114	185,573	152,089
Real estate business	31,177	23,210	21,289
Others	77,873	61,952	65,464
Net Revenue	2,349,764	2,831,124	3,122,348

* Excludes effect of hedge accounting for foreign currency debt and PPA plan.

**TOTAL NET REVENUE (THOUSANDS OF R\$)
2016/2017 CROP**

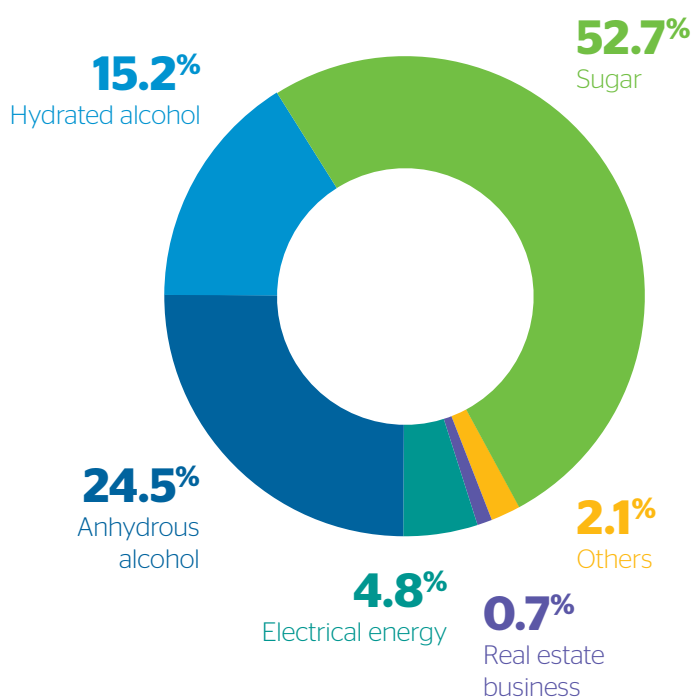


R\$ 3.122 b

Net revenue

R\$ 1.44 b

Adjusted EBITDA in 2017



INDUSTRY OUTLOOK AND GUIDANCE FOR 2017/2018

sugar producers and the global leader in the production of sugarcane-based ethanol. In spite of challenges in the infrastructure area, the country is promising for companies in the industry due to the high availability of arable lands, the access to leading edge technology, and the distribution network, adapted to the varied geography with different transportation modalities and channels.

According to the industry association UNICA (União da Indústria de Cana-de-Açúcar), the Central South region crushed a total of 6071 million metric tons of cane, a decrease of 1.7% compared with the previous crop. The average TRS totaled 133.0 kilograms per metric ton of cane, of which 46.3% was employed in sugar production and 53.7% in ethanol.

Total sugar production in the Central South region was 35.6 million metric tons in the 16/17 crop, 14.1% up on the previous crop year. Nevertheless, this performance was more positive than in the previous years, stimulated by more competitive international prices, due to the high demand and the producers' decision to prioritize sugar production because of the higher margin compared with ethanol.

The consolidated variation in ethanol prices during the year was 8.7% (Esalq anhydrous, net) and 9.5% (Esalq hydrated, net). In the last quarter of the crop year, prices underwent a reduction of approximately 12%, reflecting a combination of increased taxes on ethanol sales, higher imports of anhydrous ethanol from the US, and a drop in oil prices.

For the 2017/2018 crop, UNICA projects a crush volume of 585 million metric tons, a decrease of 3.7% compared with the previous

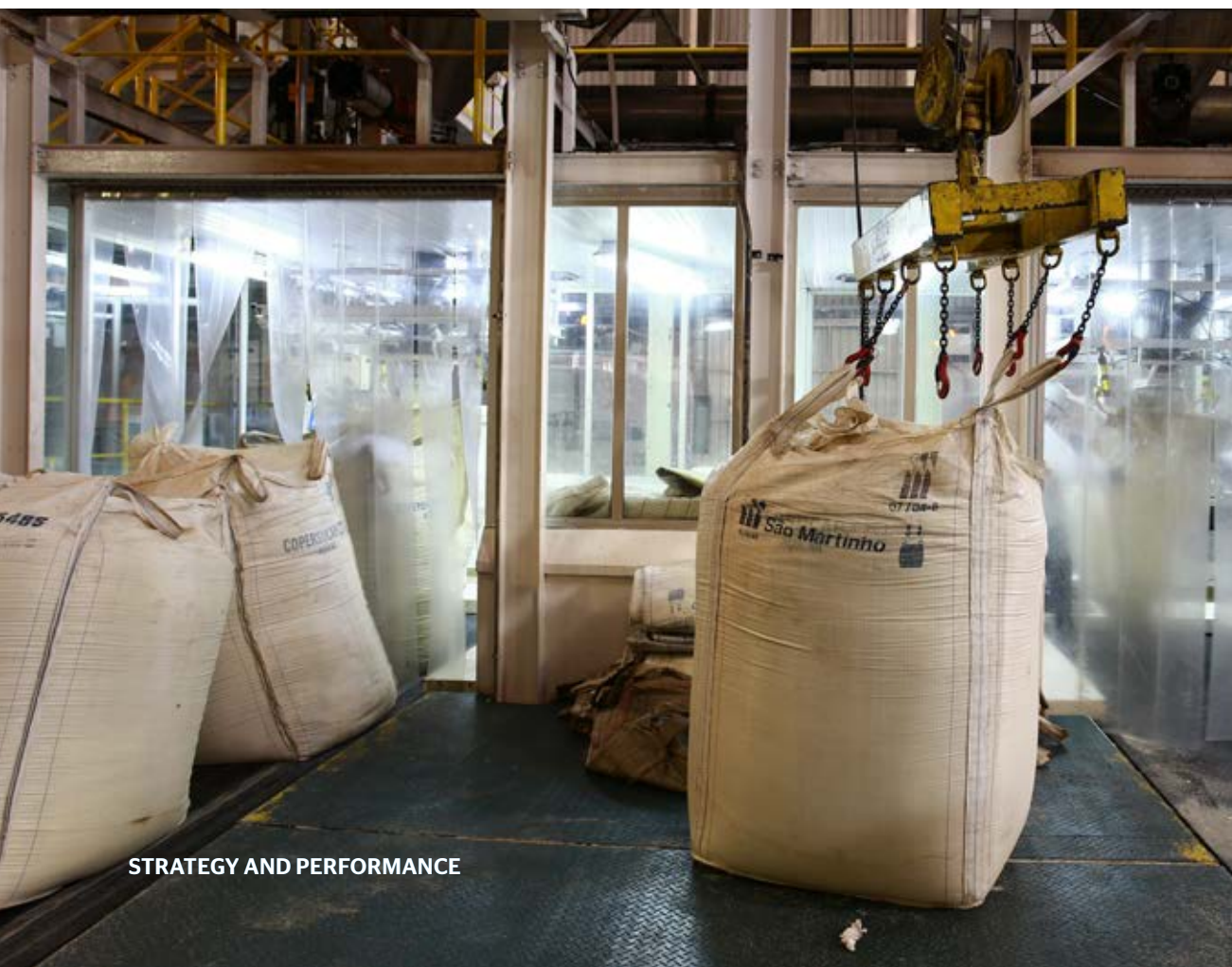
-3.7%

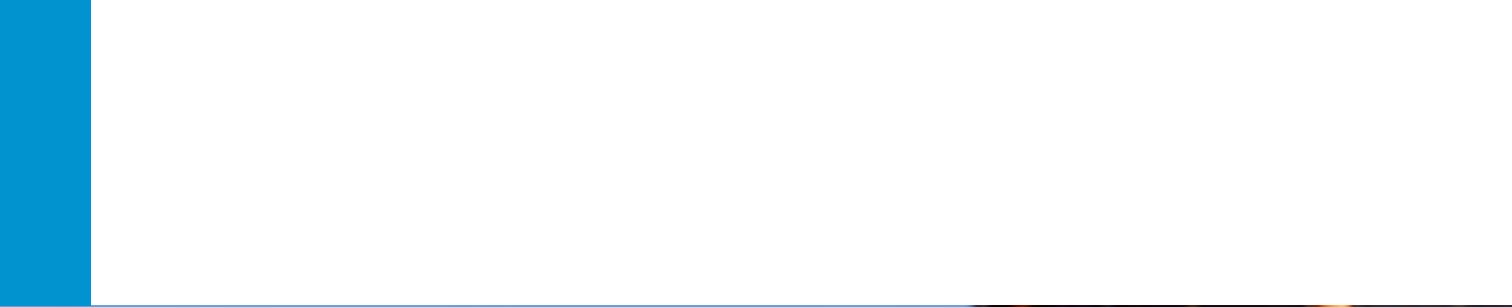
Reduction in metric tons of cane between 2016/2017 and 2017/2018, according to UNICA projection

Brazil is promising for the sugar-energy sector due to the high availability of arable lands, access to leading edge technology and the distribution network.

crop. The reduction reflects lower availability of area for harvesting, due to an increase in 18-month cane renewal.

The expectation for sugar production in the Central South region for the next cycle is 35.2 million metric tons, 1.2% lower than the 2016/2017 crop - mainly due to the drop in international prices for the product.





Relations

G4-24, G4-25, G4-26, G4-27

Ongoing dialogue with society and partners guarantees the company's reputation and robustness, as well as driving business results



CONSULTATION AND ENGAGEMENT

São Martinho is aware that caring for stakeholder relations equates to caring for the business. The stakeholder groups that the company mobilizes on a regular basis include employees, the community, the press, suppliers, shareholders and providers of capital.

As part of the company's ongoing evolution in terms of best market practices, it undertakes periodic consultations which contribute to its materiality matrix.

This comprises a map of the most relevant social, environmental and economic-financial topics from the standpoint of the groups involved in and impacted by São Martinho's activities.

The most recent process was conducted in the 2014/2015 crop year. It was based on Global Reporting Initiative (GRI) guidelines and involved the analysis of internal and industry documents, interviews, focus groups and an online consultation process encompassing the work force, community, press and suppliers. The stakeholder groups were defined by means of a diagnosis undertaken by a cross-functional team. [G4-24](#), [G4-25](#)

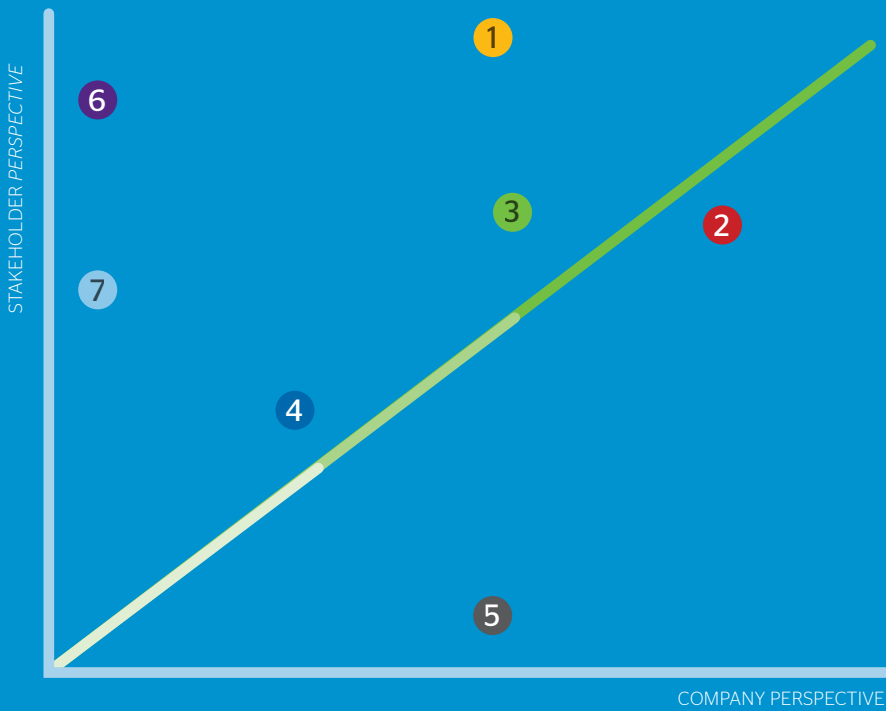
The cross-referencing of the stakeholder groups' assessment of the sustainability aspects presented - which they were asked to classify as "Very relevant", "Relevant" or "Of little relevance" - and the company's perception of its activities resulted in the demarcation of the relevant topics, that is, those which could reflect economic, social and environmental impacts or that could influence the assessments and decisions of the stakeholder groups.

In addition to providing basic inputs for company management and strategy, the materiality process contributed to the definition of the GRI indicators disclosed in this report. [G4-18](#)

TOPICS

The mapping exercise encompassed an online consultation and analysis of studies and policies

Materiality^{G4-19,} G4-20, G4-21



- 1 Local community engagement
- 2 Incentives for the local economy
- 3 Employee satisfaction
- 4 Research and development
- 5 Proper waste disposal
- 6 Efficient water use
- 7 Ethics and transparency

Of little relevance
Relevant
Very relevant

MANDATORY ITEMS FOR CORE “IN ACCORDANCE” OPTION

Key



Employees (management and operational)



São Martinho mill



Iracema mill



Santa Cruz mill

Material aspect	Material topic	Page(s)	Boundary	
			Within the Organization	Outside the Organization
Economic performance	• ETHICS AND TRANSPARENCY	22 and 23	C SM IR SC	Local communities, Customers, Stock market, Shareholders, Suppliers
Market presence	• Incentives for local economy	50 to 53	C SM IR SC	Local communities, Suppliers
Indirect economic impacts	• Engagement with the local community • Incentives for the local economy	58 and 59	SM IR SC	Local communities, Sector associations, Suppliers, NGOs, Public healthcare policies
Procurement practices	• Incentives for the local economy	58 and 59	SM IR SC	Local communities, Suppliers
Water	• Efficient water use	64 to 66	SM IR SC	Local communities, Municipal public services
Effluents and waste	• Proper waste disposal • Efficient water use	67 and 69	C SM IR SC	Local communities
Employment	• Employee satisfaction	41 to 45	C SM IR SC	Local communities
Investments	• Ethics and transparency	22 and 23	C SM IR SC	Local communities, Customers, Shareholders, Government, Press, Suppliers, Stock market
Non discrimination	• Ethics and transparency	22 and 23	C SM IR SC	Customers, local communities, Shareholders, Press, Suppliers
Local communities	• Engagement with the local community	53 to 57	SM IR SC	Local communities
Anti-corruption	• Ethics and transparency	22 and 23	C SM IR SC	Customers, Stock market, Shareholders, Local communities, Government, Press, Suppliers
Public policies	• Ethics and transparency	22, 23 and 48	C SM IR SC	Sector associations, Stock market, Shareholders, Local communities, Customers, Government, Press, Suppliers
Unfair competitive practices	• Ethics and transparency	22 and 23	C SM IR SC	Suppliers, Customers, Stock market Shareholders
Grievance and complaint mechanisms related to impacts on society	• Engagement with the local community • Employee satisfaction	41 to 45 53 to 57	C SM IR SC	Local communities, Sector associations, NGOs

Obs.: data for the Boa Vista mill, recently taken over by SMSA, will be incorporated into the Annual Report indicators from the 2017/2018 crop year.

EMPLOYEES

The São Martinho organizational culture is grounded in professional practices based on safety, respect, partnership and camaraderie. These are factors that are taken into account in managing the company's human capital, aimed at developing people and aligning them with corporate values and business vision.

Investments in people over recent years have led to important recognitions for the organization. During the crop year, for example, São Martinho was one of 15 large companies in São Paulo selected in the 3rd Award for the Best Companies for Disabled Workers. This initiative, organized by the State Department of Rights for the Disabled, is aimed at generating visibility for best company practices in inclusion and diversity.

Moreover, for the sixth time the company was included in the list "The 150 Best Companies to Work for" in the energy sector category. This was organized by *Guia Você S/A* and published by Editora Abril. São Martinho was also classified in the 2016 edition of the survey "The Best Companies to Start Your Career", run by *Guia Você S/A*; this was the company's second appearance.

The positive perception in the market reflects São Martinho's investments in the development and well being of its employees and in the offer of solid career paths. In the 2016/2017 crop year, for example, R\$ 4,641,195 was invested in training (not taking Boa Vista into account).



R\$ 4.6 M

Invested in training during
the crop year

PEOPLE PER FUNCTIONAL LEVEL*** G4-10

	2014/2015 crop		2015/2016 crop		2016/2017 crop	
	Men	Women	Men	Women	Men	Women
Board (Board of Directors + Fiscal Council)	10	0	10	0	10	0
Director level	8	1	8	1	8	1
Management	32	2	27	2	29	2
Heads/coordination	33	3	43	3	44	3
Technical/supervision ¹	323	7	286	9	282	8
Administrative	329	156	370	170	355	179
Operational ²	8,466	655	8,435	583	8,373	534
Trainees ³	8	3	16	11	19	9
Support	44	2	51	2	64	2
Third-parties	863	82	1,122	77	2,436	118
Apprentices	118	24	134	23	147	35
Interns	16	20	23	23	16	16
Total by gender	10,250	955	10,525	904	11,783	907
Total	11,205		11,429		12,690	

PEOPLE BY TYPE OF CONTRACT*** G4-10

	2014/2015 crop		2015/2016 crop		2016/2017 crop	
	Men	Women	Men	Women	Men	Women
Fixed-term	499	39	543	40	508	53
Permanent	8,855	814	8,819	764	8,805	719
Total by gender	9,354	853	9,362	804	9,313	772
Total	10,207		10,166		10,085	

*The numbers of people at the following levels were not taken into account: Board (Board of Directors and Fiscal Council), statutory directors, third-parties and interns. During the crop, the headcount increases.

PEOPLE BY TYPE OF EMPLOYMENT*** G4-10

	2014/2015 crop		2015/2016 crop		2016/2017 crop	
	Men	Women	Men	Women	Men	Women
Full-time	9,259	829	9,236	784	9,158	737
Part-time	95	24	126	20	155	35
Total by gender	9,354	853	9,362	804	9,313	772
Total	10,207		10,166		10,085	

*Six-hour work shift.

**The numbers of people at the following levels were not taken into account: Board (Board of Directors and Fiscal Council), statutory directors, third-parties and interns. During the crop, the headcount increases.

***Indicator encompasses the São Martinho, Santa Cruz and Iracema mills.

Management, remuneration and benefits

At the end of the 2016/2017 crop year, São Martinho had a total of 10,085 employees. The majority of these are men and work in the operational area. Employees are contracted under Brazil's CLT labor legislation. Additionally, 2,554 third-parties provide services for the organization. During the crop year, a total of 373 temporary harvest workers were contracted under the applicable legislation. G4-10

All employees are covered by collective bargaining agreements. For the company, such agreements are fundamental to ensure a balance in the relationship between capital and labor. Consequently in negotiation processes the demands presented by unions and commissions are discussed and assessed with a view to reaching a consensus as to the best option. All agreements have clauses on consultation and negotiation. G4-11

At São Martinho, remuneration practices are geared towards driving competitiveness in the business based on the three strategic human resources pillars: attracting, retaining and developing people. The company's values are also underscored: integrity, ethics and respect

São Martinho employees benefit from appraisal, communication and development processes aimed at retaining talent. For São Martinho, caring for employees is one of the secrets of business success

for people. The criteria applied are average market salaries and recognition of good employee performance.

The company's benefits policy is also aligned with strategy. In addition to complying with labor legislation requirements, the company seeks to offer benefits that are attractive for employees. All employees are entitled to the benefits, and eligibility is dependent on the unit in which the employee works. A description of the main benefits:

- Medical and dental assistance
- Canteens at the units
- Food vouchers
- Meal vouchers (São Paulo branch)
- Group life insurance
- Complementary allowances (reimbursement for glasses, lenses, orthotic and prosthetic devices)
- Shopping card/advance
- Medication card or drugstore discounts
- Christmas hamper
- Credit cooperative
- Work place exercise program
- Extended maternity and paternity leave, in accordance with "Empresa Cidadã" legislation
- Company bus at units and transportation vouchers (São Paulo branch)
- Private pension plan
- Influenza vaccination G4-LA2

Relationship Management Cell

Communication and Culture Diagnosis

With the purpose of mapping the elements in its culture, understanding employees' perception of how the company communicates with its shareholders and measuring the efficiency of the channels employed, in the 2017/2017 crop year São Martinho conducted a Communication and Culture Diagnosis.

The process was based on samples of employees from all the mills, areas and shifts, by means of focus groups, individual in-depth interviews, as well as quantitative questionnaires. The objective was to conduct a thorough mapping exercise. Listening to the employees resulted in a series of strengths to be capitalized and points to be improved/developed inside the company.

Consequently, in addition to going deeper into the São Martinho Way of Being, another result of the work was the definition of the São Martinho beliefs.

TRANSPARENCY AND COHERENCE ARE ALSO PART OF OUR WAY OF BEING

The Corporate Communication area seeks to drive employee satisfaction and alignment, employing different channels to provide news and to disseminate the company's values and concepts.

The area produces the publication *Nossa Gente* on a quarterly basis. It is aimed at the whole work force, but principally employees who do not have constant intranet access. It comprises short, straightforward reports on daily life in the units, training, awards and the main events in the mills. The paper is delivered to all employees by their managers together with their pay slip.

The magazine *Nossas Notícias*, published every six months with a circulation of 5,000, is distributed to external stakeholders, such as suppliers, the community, investors and opinion formers, as well as to administrative employees.

Aimed at improving company-employees relations, the cell seeks to monitor, assess and avoid terminations or, when they do occur, ensure they are coherent with the company's ethical principles. Comprising Human Resources area staff, the cell provides guidance for employees who have been dismissed by means of the *Novos Tempos* (New Times) manual, which offers information and advice on managing finances and on seeking a new job.

The electronic newsletter *Nossas Notícias na Semana* is for all employees who have email access. Published every two weeks, it is available on the intranet and on the company's institutional website.

Notice boards, located at strategic points in the units and in the buses that transport the agricultural area employees, provide up-to-date company information, as well as healthcare communications, institutional campaigns, and announcements of internal job vacancies.

The company also runs internal campaigns to inform and alert employees about subjects of interest and strategic company actions that affect employees, either in the work place or outside of it.

Other communication tools include the intranet, whose front page is updated with company news on a daily basis, and the social networks.

São Martinho is on Facebook, and has already had more than 20,000 likes; it has more than 25,000 followers on LinkedIn.

Lastly, there is the institutional website, focused on the day-to-day life of the organization with information of interest to its various stakeholder groups.



Human rights G4-HR2

Development and career plan

See some of the programs designed to promote the technical, behavioral and educational development of company employees

- **Operational behavioral training** - in place for 18 years, it is aimed at developing competencies and disseminating the São Martinho mission, vision and values to the work force. One of the advances in recent years has been the improvement in performance management processes, based on the assessment of training courses by participants.
- **Succession plan** - a tool to map, retain and develop talent for key positions. Committees are organized in the units to map employees, appraise their performance and identify their potential.
- **Career Paths** - by mapping the desired profile for all positions in agricultural and industrial processes, the company is able to plan the its manpower requirements, which enables management of employees' careers.

São Martinho seeks to disseminate notions of human rights among its employees. The recently-published company beliefs reached a total of 70% of the work force (*further information* in Corporate profile), highlighting care for people, mindsets and business.



70%

of the employees trained in the São Martinho beliefs

EMPLOYEE TURNOVER INDICATORS G4-LA1

TERMINATIONS BY GENDER

	2014/2015 crop		2015/2016 crop		2016/2017 crop	
	Number	Rate	Number	Rate	Number	Rate
Men	1,645	0.1612	1,452	0.1428	1,305	0.1294
Women	134	0.0131	128	0.0126	132	0.0131

TERMINATIONS BY AGE GROUP

	2014/2015 crop		2015/2016 crop		2016/2017 crop	
	Number	Rate	Number	Rate	Number	Rate
Under 30 years	655	0.0642	460	0.0452	443	0.0439
From 30 to 50 years	848	0.0831	824	0.0811	753	0.0747
Over 50 years	276	0.0270	296	0.0291	241	0.0239

The numbers of people at the following levels were not taken into account: Board (Board of Directors and Fiscal Council), statutory directors, third-parties and interns. During the crop, the headcount increases.

FOCUS ON TALENT

During the crop year, São Martinho hired 1,318 people (encompassing the Iracema, Santa Cruz and São Martinho mills). All new employees are trained and receive orientation with respect to the company's management policy by means of the Induction Program - which provides them with information on the diverse areas (Agricultural, Industrial, Human Resources, Information Technology, Health and Safety etc.). Organizational culture is also reinforced through periodic refresher programs.

It is company policy to ensure that internal recruitment is the main channel for filling vacancies. The idea is to retain talent in the organization, boost employee satisfaction and promote their professional growth. São Martinho also invests in employees engaged in harvest work, providing training in the mechanization process - a differential which boosts workers' technical qualifications in equipment operation.

With its sights set firmly on the future, every two years the company runs the Trainee Program, open to recent graduates. The last program started in 2016. Values in Action is another initiative aimed at existing employees in the organization.

Health and safety

Employees, third-parties and visitors to the São Martinho units are expected to follow procedures designed to promote a safe and healthy work place. With a structured health and safety policy, the company also has in place a management system which establishes the communication of guidelines and standardization of procedures aimed at minimizing accidents and incidents.

ADMISSIONS BY GENDER

	2014/2015 crop		2015/2016 crop		2016/2017 crop	
	Number	Rate	Number	Rate	Number	Rate
Men	1,601	0.1569	1,479	0.1455	1,229	0.1219
Women	96	0.0094	77	0.0076	89	0.0088

ADMISSIONS BY AGE GROUP

	2014/2015 crop		2015/2016 crop		2016/2017 crop	
	Number	Rate	Number	Rate	Number	Rate
Under 30 years	811	0.0795	631	0.0621	545	0.0540
From 30 to 50 years	733	0.0718	760	0.0748	653	0.0647
Over 50 years	153	0.0150	165	0.0162	120	0.0119

The numbers of people at the following levels were not taken into account: Board (Board of Directors and Fiscal Council), statutory directors, third-parties and interns. During the crop, the headcount increases.

The company's key health and safety guidelines are:

- Leaders are the main promoters of health and safety in the work place
- Everyone is responsible for identifying, controlling, eliminating and/or reducing hazards and risks
- Health and safety are key values for São Martinho and fundamental factors of success for its operations
- The pursuit of excellence in occupational health and safety is an integral part of company routines
- No work is so important and no task is so urgent that it cannot be planned and undertaken in safety

PROGRAMS AND INITIATIVES

See some of the company's noteworthy measures to control risks and promote health and safety:

- Anti-smoking
- Control and Prevention of Hypertension
- Clinical Accompaniment Program
- Work Place Exercises
- Balanced Diet
- Always Healthy



**MORE THAN
15**

health and safety initiatives
undertaken in the mills

- Vaccination Campaign
- Temporary Rehabilitation Program
- Occupational Health Medical Control Program
- Water, Food and Waste Program
- Hearing Conservation
- Environmental Risk Prevention
- Regulatory Standard Study and Implementation Program
- Internal Accident Prevention Week (Sipat in the Portuguese acronym)
- Agricultural Work Internal Accident Prevention Week (Sipatr)
- Integrated Inspections

GOVERNMENT AND SECTOR G4-15, G4-16

São Martinho seeks to maintain relations with public authorities, partners and competitors based on its ethics, integrity and compliance policies, advocating the interests of the sector and the sustainable development of the country.

Relations with government bodies and institutions are conducted essentially by means of the sector association UNICA (União da Indústria de Cana-de-Açúcar). Development processes related to public policy for the sugar-energy sector are conducted exclusively through sector associations and organizations.

The company has representatives on the UNICA board, on the board of the Centro de Tecnologia Canavieira S.A., as well as in Ciee (Enterprise-School Integration Center)

A representative is a vice president in Fiesp (the São Paulo State Federation of Industries). The company is also represented on the board of Deinfra - the Fiesp Infrastructure Department. Furthermore, a company representative is the chairman of the board of Siaesp, the São Paulo State Sugar Industry Association.

In all these associations, the company pays only a basic fee as a member organization.

All relations with these organizations are oriented by the company's Code of Ethics and Professional Conduct, as well as by the anti-corruption instruments adopted in routine management (*read more in the chapter Ethics and integrity*).

Since São Martinho went public in 2007, the company has developed practices to ensure accountability and to communicate with investors and shareholders.

Relations with governments and institutions are geared towards advocating industry interests, in line with company policy and management guidelines

MARKET AND INVESTORS

This is the responsibility of the Investor Relations (IR) team, which issues communications, material facts and financial statements in two languages (Portuguese and English), in accordance with market standard practices and whenever this is deemed appropriate.

The IR team provides services and manages relations with all São Martinho investors, as well as dealing with financial and market analysts.

The company is known for the qualifications and experience of its executives. Organized by Institutional Investor, the 2016 Latin America Executive Team survey resulted in 15 awards for the organization, including categories such as best CEO, best CFO and best IR professional.

The company values dialogue with financial institutions, participation in Brazilian and international events and proximity with current and potential investors. São Martinho share (SMT03) prices have grown consistently.

In August 2017, the international rating agency Standard & Poor's (S&P) classified São Martinho at BB+ on a global level and BrAAA in the Brazilian market. This rating is the result of the organization's solid financial position, the high productivity and mechanization rates in its processes, as well as the company's competitive sugar and ethanol costs, among other factors.

BrAAA
is São Martinho's rating in Brazil from Standard & Poor's, reflecting the robustness of the business

BREAKDOWN OF SHAREHOLDERS (IN APRIL 2017)

Shareholders	Ordinary shares	%
LJN Participações S.A.	190,242,864	52.26
Indirect controlling shareholders	12,789,105	3.51
Managers	2,044,815	0.56
Treasury	5,431,517	1.49
Free float	153,503,028	42.18
Total	364,011,329	100.00



Local Development

In function of its commitment to local communities, São Martinho develops social responsibility projects and economic impact analyses



OUR NEIGHBORS

The sugar-energy sector is an important driver of development in the regions in which it operates. Activities in the sector promote diverse positive social and economic impacts – such as boosting the local economy, generating direct and indirect employment, training manpower and improving practices in the supply chain, reinforcing the sector's contribution to society.

Respect for people and good community relations are incorporated into São Martinho's social responsibility policy, – which establishes values such as ethical conduct and transparency in relations with stakeholders. Alignment with best market practices, including social and environmental certification in production and foment for education and local development, reinforces the potential benefits the company brings to the regions in which it operates.

IN NUMBERS

R\$
4.87 million

Total taxes paid
in the 2016/2017 crop year

R\$
634.08 million

Total spending on employee
remuneration and benefits



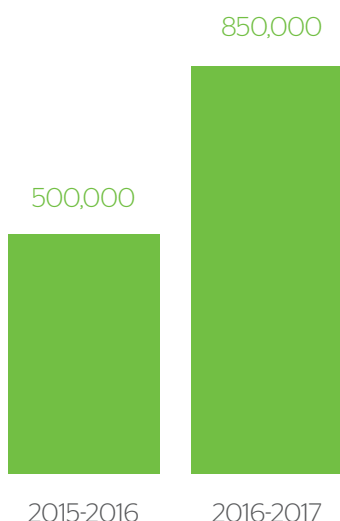
COMMUNITIES

Considering surrounding communities to be a key stakeholder group for the future of the business and for its reputation, the company invests in engagement, qualification and development projects that encompass the municipalities and locations surrounding the São Martinho, Iracema and Santa Cruz mills.

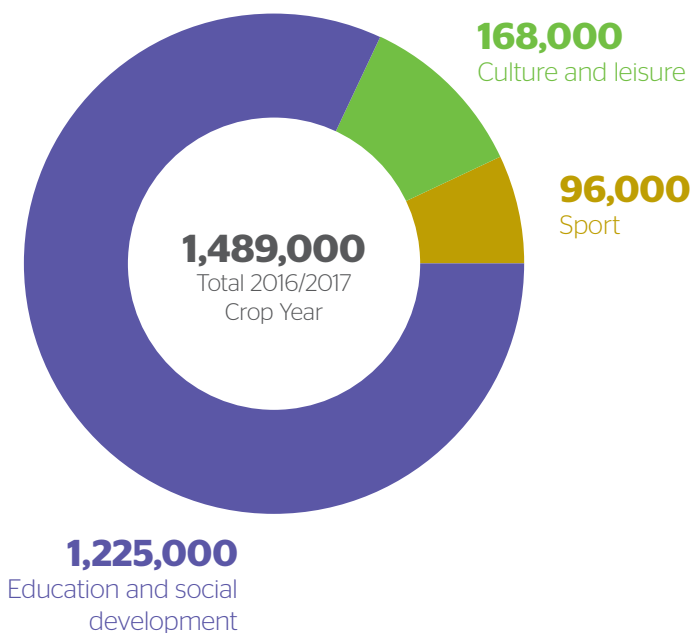
Maintaining continuity, in the 2016/2017 crop year the company invested in supporting social responsibility projects and actions, prioritizing the areas of basic and professional education, sports and culture. Investments include donations for the community (social institutions, old people's homes, associations, nurseries, shelters etc.) and funding for social programs and projects. During the period, donations totaled R\$ 850,000, while social investments came to almost R\$ 1.5 million (see the following charts). G4-SO1, G4-SO2, G4-EC7, G4-EC8

2016/2017 Results

DONATIONS TO COMMUNITIES (R\$)



INVESTMENTS IN SOCIAL PROGRAMS AND PROJECTS (R\$)



Highlighted programs

G4-SO1, G4-SO2, G4-EC8

FIRST JOB AND RANGERS

Organized in partnership with institutions in Iracemápolis and Pradópolis for almost two decades, the main purpose of the program is to create opportunities for young people to find their first job. In 2016, it provided access to the labor market for 51 public school students aged from 16 to 18 years. At the end of the program, the youngsters have the opportunity of either remaining in the company or taking part in recruitment processes for up to one year after leaving it. A number of employees at the São Martinho mill were selected from the Projovem First Job and Rangers program.

APPRENTICE PROGRAM

Developed in partnership with Senai (National Industrial Learning Service), the project trained some 130 apprentices aged from 16 to 24 years for jobs such as boiler operator, industrial machinery maintenance mechanic, stock room attendant and agricultural machinery and heavy goods vehicle maintenance mechanic.

TELE-ROOMS

The Iracema mill has been engaged in this program since 2002, in partnership with the Fundação Bradesco and the Iracemápolis local government, offering young people and adults the opportunity to resume their studies by means of tele-rooms with equipment, teaching material and monitors funded by the company.

GOOD SCHOOL YEAR PROGRAM

Organized in the Iracema and Santa Cruz mills, the program is aimed at helping employees to keep their children at school by providing them with school materials kits. At the Iracema mill the kits are for 1st to 9th year students; at Santa Cruz, the kits are available for pre-school and first year technical school students. A total of 1,740 kits were distributed in 2017.

**MORE THAN
50**

public school students
in Iracemápolis and
Pradópolis impacted by
the Projovem First Job and
Rangers programs

Culture and leisure

On an annual basis, the company sponsors and supports culture and leisure projects and events for its local communities. In the 2016/2017 crop year, the Culture Station project benefited 12,800 children and adults in the cities of Pradópolis, Itacemápolis, Américo Brasiliense in São Paulo, and Quirinópolis in Goiás, with a caravan offering free theater and circus performances, cinema sessions, educational workshops and story telling sessions. The program also gave 120 São Martinho employees the opportunity to visit the National Book Fair in Ribeirão Preto, with a view to promoting the habit of reading. Especially worthy of note were the events made possible after the remodeling of the old cinema in Itacemápolis, the result of a partnership between the Itacema mill and the Itacemápolis Art and Culture Movement (Amaci), enabling thousands of people to access cultural events, such as theater plays, films, symphonic orchestra performances and stand-up comedy sessions.

INCENTIVES FOR SPORT

São Martinho Run – this is an annual 5 and 10 kilometer race organized in the São Martinho mill sugar plantations, which promotes integration among employees from the different units and helps prepare marathon runners for other competitions. The event is open to the public and is divided into different categories: men, women, age group segments, employees and non-employees. The 2016 race attracted some 1,500 runners.

Sesi Games – in partnership with Sesi (Industry Social Service), the Itacema mill seeks to encourage sporting activities and to promote team work among employees. A total of 61 employees participated in diverse activities, such as athletics, truco, volleyball, snooker, swimming and tugs of war.

Internal Soccer Tournament

Itacema mill (Tifui) – in 2017, nine teams numbering a total of 130 employees participated. The top three teams were awarded trophies and medals. The competition is held every year in the inter-harvest period and is aimed at promoting employee integration.



1,500

runners took part in the 2016 São Martinho Race

VOLUNTEER WORK

São Martinho also seeks to promote a sense of respect, companionship, partnership and empathy among its employees and business partners. To do this, the company promotes and communicates social actions, seeking to engage employees in volunteer work on a number of projects.

Entrepreneurs of the Future program

Developed in Iracemápolis, this program shows secondary level students how a company works. The 15-week program includes the presentation of concepts such as marketing, finance and human resources. Participants have the opportunity to develop and commercialize a product, based on market research which they themselves carry out. Iracema mill employees participate voluntarily in the initiative as teachers. The students also participate voluntarily, since the classes are given outside of school hours. The 28

students who took part in the 2016 event created a company that prepared recyclable materials. The students received prizes in three categories. The project is the result of a partnership between the company and the NGOs Junior Achievement and Ideli (Instituto de Desenvolvimento de Limeira).

Hunger-Free Christmas Campaign

São Martinho organizes this campaign annually, aimed at encouraging employees to demonstrate solidarity and engage in volunteer work. It involves the collection of non-perishable foodstuffs during the months of November and December. These are then donated to social institutions in the municipalities of Pradópolis, Iracemápolis, Américo Brasiliense in São Paulo and Quirinópolis in Goiás.



110

employees participated
in the blood donation
campaign

Diversity-oriented programs are aimed at driving inclusion in the labor market under dignified working conditions

Safety and fire prevention: In 2016, the São Martinho mill promoted talks on fire prevention for teachers at municipal and state schools and for residents in towns in the Pradópolis region (São Paulo).

Around 250 teachers from schools in Jaboticabal, Pradópolis, Guariba, Dumont, Guataporá and Mombuca took part in the activities, which are organized and delivered by employees from the São Martinho mill Agricultural Services area. In addition to organizing the talks, the mill distributes booklets providing information and tips on fire prevention. Around 4,000 booklets were handed out to teachers and students at municipal schools in the region.

World Water Day: On an annual basis, São Martinho commemorates World Water Day by organizing awareness activities for students and the community, including phrase composition contests, the planting of seedlings and visits.

Tree Day: To commemorate Tree Day, São Martinho promotes an activity for employees from all company units.

To participate, the employee must send an email to the Environmental area with the phrase "I want to plant a tree". The winners of the draw plant native tree seedlings in special reforestation areas in their respective units.

The trees help preserve water springs, ensuring a higher volume of better quality water in the environment.

Blood donation: Every year São Martinho organizes a campaign to encourage employees from the administrative, industrial and agricultural areas to voluntarily donate blood. The initiative is designed to promote awareness of the importance of blood donation. Some 110 employees participated voluntarily in 2016.

DIVERSITY AND SOCIAL INCLUSION

Promoting equality, well-being, development and inclusion are among the company's fundamental principles, as expressed in its Social Responsibility policy. Actions worthy of note are:

- **Empresa Cidadã Program** – in the beginning of 2010, São Martinho implemented the extension of maternity leave from 120 days to 180 days. It has now extended paternity leave from five to fifteen days, in line with federal government orientations. As a result, all mothers in the company may opt to remain at home for up to six months after giving birth. This extended leave is not yet a widespread practice in the market.
- **Economically active social inclusion** – the company has promoted training courses for disabled people since 2013, in partnership with the Ministry of Labor and Employment, Senai (National Industrial Learning Service) and the local governments of Guariba, Pradópolis, Barrinha, Araraquara, Américo Brasiliense and Iracemápolis. Around 200 disabled people have been training under the program. Currently, 19 disabled professionals trained in the program have been hired to work at São Martinho.

SOCIAL AND ECONOMIC IMPACTS

São Martinho promotes both direct and indirect benefits in the areas surrounding its mills and operations. Hiring and training people and fomenting the development of the production chain (suppliers, customers and agricultural producers) are actions especially worthy of note.

MANAGING SUPPLIERS

Governed by principles that include legal compliance, ethics, conformance with environmental requirements and the protection of human rights, supplier relations have been one of the action focuses during recent years – both to boost business efficiency and productivity and to strengthen the company's reputation.

With a structured procurement policy, the company classifies its 8,228 active suppliers in 60 categories (such as materials, services, equipment, logistics and sugarcane). The criteria used for selecting and managing this stakeholder group include quality, price and delivery times. [G4-12](#)

There is no formal policy whereby local suppliers are prioritized; however, in practice this is what happens. During the crop year

there was a four percentage point increase in the use of local suppliers (*see table*). This is one of the business's main impacts, driving the economies of cities which are distant from large urban centers and whose income is closely geared to tax payments from companies.

In the last crop, the Iracema mill automated the purchase of vehicle maintenance services and materials, consolidating relations with regional suppliers. Also worth noting was a crushing expansion project at the Santa Cruz mill, which drove an increase in purchases from local suppliers. Activity at São Martinho remained stable in comparison with the previous year, without any great changes.

Contracting suppliers involves a series of requirements. Contracts are only signed if and when suppliers guarantee full compliance with legislation, in particular labor legislation. This encompasses respect for human rights - including combating child and slave labor, all types of discrimination - and complying with international labor conventions.

Cane producers*

The cane producers are a fundamental part of the São Martinho value chain. The company maintains ongoing relations with 737 producers, accounting for 72,141.25 hectares of land. Producers have an exclusive area on the company website with restricted access and a series of functionalities – such as tracking of financial, technical and production data.

Meetings are organized with the producers on an annual basis to present crop results, projections and technological trends applicable to cane production. Together with productivity, quality has come increasingly into focus: the company has a 14-member team of field technicians who visit the plantations, map opportunities for improvements and monitor production quality.

**The numbers include the 50.95% stake in the Boa Vista mill.*

LOCAL HIRING G4-EC6

The use of local manpower is another means of driving a positive impact on surrounding communities. São Martinho considers the local community to be the cities in which its units are installed, as well as the municipalities subject to the economic, social or environmental impacts provoked by the organization's operations.

In the 2016/2017 crop year, 98.7%¹ of the operational work force and 60% of the company's senior managers at the mills were from the local communities, an indicator which remained stable compared with previous years.

In addition to hiring people locally, the company undertakes specific projects in areas such as education, healthcare, the environment and social responsibility, aimed at contributing to the development of the region.

¹ In the 2015/2016 crop year, the percentage was 60%. The increase is due to the fact that in 2016/2017, cities directly or indirectly impacted by the company were considered to be local communities. In previous years, only cities in which there are São Martinho units were considered to be local communities.

PROPORTION OF SPENDING ON LOCAL PRODUCERS² G4-EC9

	2014/2015	2015/2016	2016/2017
São Martinho Mill	43.10%	37.30%	38.03%
Iracema Mill	65.30%	46.60%	53.48%
Santa Cruz Mill	45.90%	40.40%	48.14%
São Martinho Mill	42.60%	40.10%	44.10%

² For the organization, local producers are considered to be those located within a radius of 150 km or less of the important operating units.



737

cane producers are engaged in ongoing commercial relations with the company, guaranteeing its access to this fundamental production input





Eco-efficiency indicators
reflect the company's impact
management

Environmental efficiency

MANAGEMENT AND CONTROL

Taking care of the environment in its day to day activities is a decisive commitment for São Martinho's future. Incorporated into the organizational culture, with a specific focus on employee behavior, the pursuit of environmental efficiency translates into actions that pervade the entire production cycle, from growing sugarcane with responsible soil treatment, through the application of best practices in planting, harvesting and producing sugar, ethanol and energy, to the final disposal of waste.

The business is directly dependent on the environment - ranging from suitable climatic conditions for growing sugarcane to the availability and cost of energy. These factors affect the organization's profitability and capital structure, for which reason they are integrated into strategy and management.

The company's environmental policy establishes the sustainable use of natural

resources and the mitigation of all unavoidable business-related impacts. Another important driver is the Precautionary Principle, based on the respectful and functional association between man and nature. This approach is set forth in São Martinho environmental policy and, among other aspects, involves the adoption of a conservative and preventive stance in relation to practices, technologies and processes that are potentially - even if unproven - harmful to the environment. [G4-14](#)

Over recent years, the company's action focuses have been aligned with stakeholders' perceptions of the environmental aspects that are more relevant in terms of impact (*further information on the materiality process on page 38*). Biodiversity, soil use, waste management and water quality are some of the priorities, described in projects and translated into indicators on the following pages.



FOCUSES

Biodiversity, water and emissions are some of the most relevant topics

4.2 MILLION

seedlings planted
in the Viva Nature
project



SOIL

The productivity and durability of the sugar plantations depend on the proper maintenance of the land. In this respect, São Martinho stands out for its application of leading edge technology and adoption of a preventive approach to guarantee the physical, chemical and biological properties of the soil throughout the cane cycle.

Practices such as mechanized planting and harvesting and the elimination of burning cane straw have been consolidated on the company's lands. Other highlights are:

- crop rotation, alternating the planting of sugarcane with other crops (such as soybeans and peanuts), in the course of the renewal of the sugarcane plantations
- leaving the cane straw on the field after the mechanized cutting of the crop in order to retain moisture and minimize soil and nutrient losses
- use of terracing to control erosion by water and soil losses
- reuse of sugarcane residues, worthy of note being fertigation of the crop with vinasse (an effluent rich in potassium, a byproduct of the ethanol distillation process) and fertilization with filter cake

In 2016, the Iracema mill registered concentrated vinasse as a new product - an organic fertilizer - with the Brazilian Ministry of Agriculture, Livestock and Supply.

BIODIVERSITY

The company manages the impacts of its agricultural activities on biodiversity, focusing on ensuring a balance in the biome and in combating problems such as pests and alterations in soil properties in function of the sugarcane crop. The priorities include the conservation of firebreaks, combating and preventing fires, the proper application of agrochemical products, biological control and reforestation.

In these areas, the fauna is identified and monitored, ensuring that the numbers and locations of local biodiversity species are recorded. Using a data bank based on the mapping of species in each region, the company assesses the effectiveness of its reforestation activities.

Riparian areas are fundamental for São Martinho because of their capacity to prevent flooding, erosion and the silting up of water bodies, as well as reducing impacts on the soil. In the riparian vegetation, rainwater infiltrates

the local water table, guaranteeing supply to natural springs, as well as to streams and rivers in the surrounding areas. Two projects in this area are worthy of note:

The Viva Nature project, in place since 2000, has developed a pioneering method for reclaiming riparian vegetation. Initiated at the São Martinho mill, the original target was to plant 1 million tree seedlings in the areas of influence of the company within ten years. However, the project has already passed the mark of 4.2 million seedlings planted in these areas.

Seedling nursery - integrated into the actions of the Environmental Education Centers (further information on page 71), this has a production capacity of 460,000 seedlings a year. A total of 210 different species are cultivated and deployed in projects to reclaim riparian vegetation on

São Martinho land. These plants may also be employed in partnerships with environmental authorities or donated to public authorities and communities.

WATER^{G4-EN9}

Water management at São Martinho involves a painstaking process of monitoring impacts and pursuing efficiencies. This includes measuring the volume of water withdrawn and the wastewater discharged, as well as controlling water quality and availability.

The company uses different water sources in function of the geographical distribution of its units. The Santa Cruz mill withdraws water from four sources: the Paulino, João Mendes and Anhumas streams and the Guarani aquifer (Well 1, Well 2 and Well 3). None of these is in a protected area or a high biodiversity value area. Only the Anhumas stream is important for the local community.

WATER CONSUMPTION BY SOURCE^{G4-EN8}

	2014/2015 crop	2015/2016 crop	2016/2017 crop
Santa Cruz mill*			
Surface water (rivers, lakes, wetlands, oceans)	3,128,609	2,978,065	2,686,010
Ground water	593,280	573,568	1,153,783
Total	3,721,889 m³	3,551,633 m³	3,839,792 m³
Iracema mill**			
Surface water (rivers, lakes, wetlands, oceans)	2,502,463	2,958,917	1,611,412
Total	2,502,463 m³	2,958,917 m³	1,611,412 m³
São Martinho mill			
Surface water (rivers, lakes, wetlands, oceans)	18,399,967	25,283,790	14,941,145
Ground water	393,120	405,150	288,350
Total	18,793,087 m³	25,688,940 m³	15,229,495 m³

**Process optimization enabled increased use of vegetable condensed water, helping reduce withdrawal of surface water. The higher withdrawal of ground water was due to the increase in production of dry yeast.*

***The reduction in consumption was due to the reuse of the vinasse concentrator condensate and the chilling of condensate from sugar production, substituting water that otherwise would have been withdrawn.*

From **25.68** to **15.23** million m³ the reduction in water consumption at the São Martinho mill during the crop year

This was the result of diverse initiatives, worthy of note being:

Reduction in water consumption in the ethanol dehydration process, a fundamental stage for guaranteeing product quality

Refurbishment of the water chilling system ensuring more efficient use of the resource at this stage

Installation of a flow control valve in the pipes of the Rio Mogi water withdrawal pumping system, reducing the flow volume necessary to supply the operation

Relocation of water contamination points in the internal chilling circuit

The São Martinho mill withdraws water from three sources: The Mogi Guaçu River, the Triste stream and the Guarani aquifer (five wells), none of which are located in protected or high biodiversity value areas.

At the Iracema mill, no water sources are affected by withdrawal, since the supply comes from private reservoirs projected for industrial use.

In 2015, the Iracema mill initiated its vinasse concentration operation, which enabled a reduction in water withdrawal and increased reuse in its processes (*see the table in the G4-EN10 indicator*).

Water volumes are controlled using the Integrated Management System (SAP). At the Santa Cruz mill, a project to use condensed water extracted from the sugarcane juice in production processes has enabled a reduction in water withdrawal from surface and ground sources.



3 WATER

sources supply the company's needs

WASTE

In the company, solid waste management is based on the three Rs: reducing the consumption of inputs and materials; reusing byproducts and materials; and recycling, whenever possible, by means of sorting and appropriate disposal.

The Waste Management Program enables the units to control disposal, weighing the waste

RECYCLED AND REUSED WATER G4-EN10

	2014/2015 crop	2015/2016 crop	2016/2017 crop
São Martinho mill			
Total volume of water recycled/reused (m³)	6,496,039.00	7,198,965.00	6,945,298.00
Recirculation rate (%)	35.00	28.47	45.60
Iracema mill			
Total volume of water recycled/reused (m³)	1,916,330.00	2,034,787.22	2,045,826.27
Recirculation rate (%)	77.00	68.77	126.96*
Santa Cruz mill			
Total volume of water recycled/reused (m³)	2,168,208.00	2,349,648.00	33,166,686.23
Recirculation rate (%)	59.00	70.98	86.38

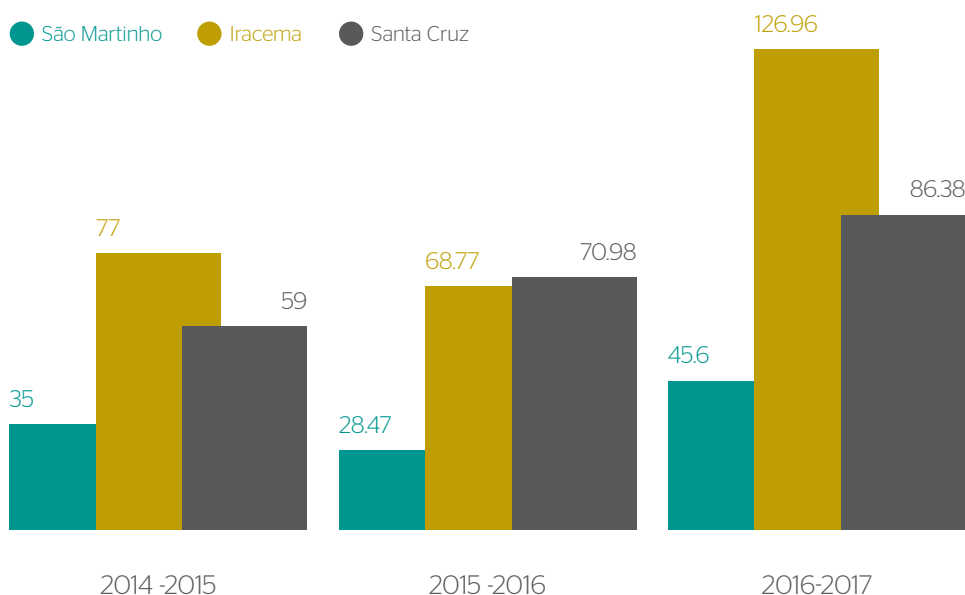
* The Iracema mill recirculation percentage is the result of the reuse of the crude water withdrawn from water courses, in addition to the water from sugarcane submitted to the concentration process. The water withdrawn represents 44% of the 126%, that is, 55%. The water reused from the cane represents 56% of the 126%, that is, 71%.

86%

water recirculation rate at
the Santa Cruz mill

RECIRCULATION RATE PER UNIT

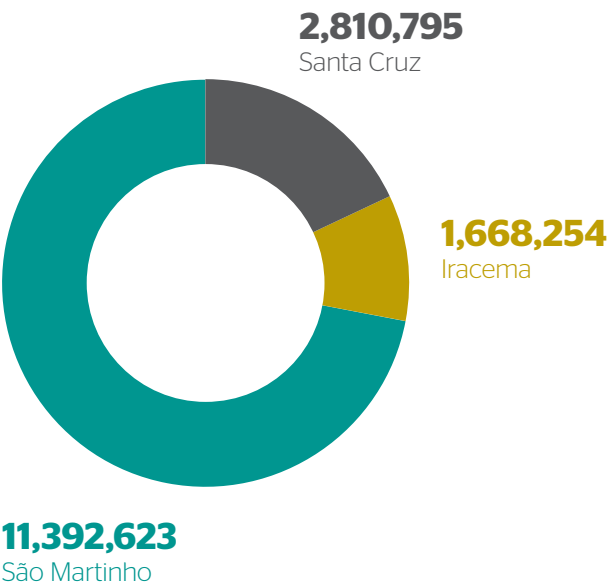
● São Martinho ● Iracema ● Santa Cruz



Effluents G4-EN22

At the São Martinho mill, the water is treated in stabilization ponds and discharged into the Mogi Guaçu River. In the 2015/2016 crop year 16,855,860 m³ was discharged, compared with the 11,392,623 m³ discharged in 2016/2017. At the Santa Cruz unit, the amount used for fertigation in 2015/2016 was 3,284,401 m³, compared with 2,810,795 m³ in the 2016/2017 crop year. Whereas in Iracema, the amount used for fertigation remained stable.

TOTAL WATER DISCHARGE (M³) - 2016/2017 CROP




DISCHARGE
is based on high quality standards

generated and recording it in systems. The São Martinho units have Waste Centers that promote improved selective waste collection practices.

During the crop year, there was an increase in the reuse indicator at the Iracema mill due to the higher volume of bagasse generated. This variation was due to the increased amount of sugarcane fiber processed.

At the Santa Cruz mill, disposal of burnt oil and tires grew because of the increase in the size of the fleet. There was an increase in recycling because of the amount of obsolete material in the industrial area that was scrapped.

EMISSIONS

The São Martinho mills apply technologies and equipment to control the atmospheric pollution caused by gases from their boilers, in accordance with the environmental legislation in force. Gas emissions from the boiler chimneys are monitored on an annual basis, and NO_x and particulate material emissions are reported.

The company conducts an annual inventory of its greenhouse gas (GHG) emissions, including a detailed account of all the operations in the product life cycles; overall results in metric tons of CO₂ equivalent (tCO₂e) are given in the table below.

NON-HAZARDOUS WASTE GENERATED (METRIC TONS) G4-EN23

	2014/2015 crop	2015/2016 crop	2016/2017 crop
Santa Cruz			
Mixing yard	263,638	301,250	295,066.72
Reuse	1,268,131	1,338,128	1,342,969.33
Recycling	1,268	1,000	1,527.50
Landfill	174	213	192
Reverse logistics	—	142	182
Total	1,533,211	1,640,733	1,640,733
Iracema			
Mixing yard	154,467	166,348	186,086
Reuse	812,564	801,239	831,372
Recycling	861	834	610
Recovery (including energy recovery)	62	148	46
Landfill	74	27	40
Reverse logistics	—	150	150
Total	968,028	968,747	1,018,303
São Martinho			
Mixing yard	437,651	561,131	520,694
Reuse	2,702,234	2,877,636	2,772,773
Recycling	195,169	1,355	3,009
Recovery (including energy recovery)	0	3,009	0
Landfill	626	620	832
Reverse logistics	-	583	547
Total	3,335,680	3,444,334	3,297,855

*Types of waste: mixing yard = soot, ashes and filter cake; reuse = bagasse; recycling = metal/glass/paper/plastic; recovery = wood; landfill = non-recyclable waste; reverse logistics = tires.

**Disposed of directly by the reporting organization or by third-parties, as long as this has been confirmed directly by the reporting organization.

HAZARDOUS WASTE (METRIC TONS) G4-EN23

	2014/2015 crop	2015/2016 crop	2016/2017 crop
Santa Cruz			
Reuse	9	10	10
Co-processing	60	54	80
Reverse logistics	165	66	79
Re-refining	127	111	135
Total	361	241	304
Iracema			
Reuse	18	11	9
Incineration (mass burn)	0	0	0
Co-processing	117	119	97
Reverse logistics	9	10	32
Re-refining	34	34	55
Total	178	174	192
São Martinho			
Reuse	55	23	26
Incineration (mass burn)	0	0	0
Co-processing	487	174	152
Reverse logistics	125	58	120
Re-refining	53	102	123
Total	721	356	421

Types of waste: reuse = drums/cylinders/bags/containers; co-processing = hydrocarbon contaminated materials (PPE, yarn, plastic, paper, cardboard, cloth, air filters, hoses, wood, rubber and water)/ glass wool/glass/oil sludge/grease; reverse logistics = batteries/packaging; re-refining = burnt oil.

Biological control

The purpose of biological control is to boost crop productivity by minimizing the use of chemical products. The company monitors and controls the amount of herbicides, insecticides, fungicides, nematicides and plant growth regulators applied to the sugarcane crop by means of integrated management of the pests and diseases that could impact the operation.

From the total emissions, 77% correspond to four items: the production and use of diesel; the use of fertilizers and lime; burning bagasse in the boilers; and the decomposition of straw in the fields.

These emissions are more than offset by the use of two of the company's products (ethanol and electrical energy); the reduction in emissions due to the substitution of gasoline and energy from the grid reached 1,050,800.00 tCO₂e.

Considering only ethanol, the associated emissions (excluding exports) are between 23.1 and 25.6 kg of CO₂e/GJ (a conservative estimate), compared with gasoline (83.8 kg CO₂e/GJ), reaffirming cane ethanol's position as the best biofuel in this area.

ETANOL VERDE (GREEN ETHANOL) PROGRAM

This initiative, adopted in the Iracema, Santa Cruz and São Martinho mills, is part of the Protocolo Agroambiental (Agroenvironmental Protocol), to which the group has been a signatory since its launch in 2008. The certification is renewed annually and attests that the mills adopt measures that stimulate the sustainability of the sugar, ethanol and bioenergy production chain.

SÃO MARTINHO G4-EN15, G4EN16, G4-EN17

Products	Unit	2014/2015 crop	2015/2016 crop	2016/2017 crop
Anhydrous ethanol	m ³	383,187	390,481.21	332,589.80
Hydrated ethanol	m ³	212,535	159,811.31	125,555.12
Sugar	t	1,230,527	1,229,700.07	1,300,585.64
Electrical energy	MWh	564,751	563,072.79	550,621.09
Emissions corresponding to this production				
Scope 1	tCO ₂ e	381,308	385,538.24	452,474.00
Scope 2	tCO ₂ e	1,563	1,806.58	896.00
Scope 3	tCO ₂ e	362,755	373,964.46	351,016.00
Total	tCO₂e	745,626	761,309.28	804,386.00

The points in the protocol aimed at reducing sugarcane agricultural and industrial environmental impacts include: bringing forward the deadline for eliminating the burning of cane straw, protecting forest remnants around water sources and riparian vegetation, controlling erosion, employing best soil use practices, as well as reducing water consumption in industrial processes.

NOTEWORTHY ENVIRONMENTAL PRACTICES G4-EN27

Bonsucro Certification – implanted by the company at the Iracema and Santa Cruz mills, the certification establishes global criteria and indicators for promoting social, environmental and economic improvements in the sugarcane production chain. The purpose is to ensure that all the sugar-energy production chain processes are conducted in a sustainable manner. Currently this certification is required by European Union countries for the purchase of Brazilian ethanol and sugar. Bonsucro certifies that the sugarcane production process and supply chain are compliant with requirements related to legislation, human and labor rights, efficiency in inputs, production and processing to drive increased sustainability, managing biodiversity and ecosystem services, as well as continuous improvement in key areas of the business.

Environmental Education Centers Created in the São Martinho mill in 2000 and extended to Santa Cruz in 2005, the purpose of the centers is to raise the awareness of students, employees and the community about the need to preserve natural resources. The units contain rooms with thematic displays on waste, recycling, water, air, soil, renewable



energy, biodiversity and the sugarcane chain, among others, as well as a room dedicated to environmental controls, where visitors may see how the agricultural and industrial processes in the mills work, in addition to the biological controls for cane pests. These education centers have received approximately 111,000 visitors. At the Iracema mill, environmental education is promoted by means of talks, internal training courses and during the induction of new employees.

About this report

G4-17, G4-18, G4-22, G4-23, G4-28, G4-32

Prepared once again based on the Core option of the Global Reporting Initiative (GRI) G4 guidelines, this document presents indicators mapped in the consultation of stakeholder groups identified during the most recent materiality process (*further information on page 38*).

The scope of the report is the crop year (April 1, 2106 to March 31, 2017), with contents related to the organization's most relevant topics and

the performance of the mills in Brazil. . There were no significant reformulations or alterations in the indicators, nor in the scope or boundaries of the data reported.

GRI content summary

GENERAL STANDARD DISCLOSURES

	Page/response	External assurance
Strategy and analysis		
G4-1 Declaration from key decision maker in the organization (e.g.: CEO, chairman of board of directors or equivalent) about relevance of sustainability for the organization and its sustainability strategy	6	
G4-2 Description of main impacts, risks and opportunities: focus on the organization's main impacts on sustainability and the effects for <i>stakeholders</i>	6	
Organizational profile		
G4-3 Name of organization	12	
G4-4 Primary brands, products and services	17	
G4-5 Location of organization's headquarters	12	

	Page/response	External assurance
G4-6 Number of countries where the organization operates, and names of countries where either the organization has significant operations or ones that are specifically relevant in terms of the sustainability topics addressed in the report	16 and 17	
G4-7 Nature of ownership and legal form	18	
G4-8 Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	17	
G4-9 Scale of organization	12 and 16	
G4-10 Total number of employees UNGC	42	
G4-11 Percentage of employees covered by collective bargaining agreements UNGC	43	
G4-12 Description of organization's supply chain	58	
G4-13 Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	12	
G4-14 Whether and how the precautionary approach or principle is addressed by the organization	62	
G4-15 List of externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	48	
G4-16 Participation in associations (such as industry federations) and/or domestic/international advocacy organizations	48	
Material aspects identified and boundaries		
G4-17 List of all the entities included in the organization's consolidated financial statements or equivalent documents	72	
G4-18 Process for defining the report content and boundaries of aspects	38 and 72	
G4-19 List of material aspects identified in the process of defining the report content	39	
G4-20 Boundary, within organization, for each material aspect	39	
G4-21 Boundary, outside organization, for each material aspect	39	
G4-22 Effect of any restatements of information provided in previous reports and the reasons for such restatements	72	
G4-23 Significant alterations in relation to periods covered in previous reports in terms of scope and boundaries of aspects	72	

Stakeholder engagement

G4-24 List of stakeholder groups engaged by the organization 37 and 38

G4-25 Basis for identification and selection of stakeholders with whom to engage 37 and 38

G4-26 The organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process 37

G4-27 Key topics and concerns raised through stakeholder engagement and the measures adopted by the organization to address these topics and concerns, including the process of reporting them. List which stakeholder group raised each topic and concern 37

Report profile

G4-28 Reporting period (such as fiscal or calendar year) for information provided 72

G4-29 Date of most recent previous report (if any) 2015/2016

G4-30 Reporting cycle (annual, biennial, etc.) Annual

G4-31 Point of contact for questions regarding the report or its content 86

G4-32 "In accordance" option chosen by the organization 72

G4-33 Policy and current practice adopted by organization with regard to seeking external assurance for the report The report was not submitted to external assurance

Governance

G4-34 Governance structure of the organization, including the committees of the highest governance body. Identify any committees responsible for decision making on economic, environmental and social topics 18, 19 and 20

Ethics and integrity

G4-56 Values, principles, standards and norms of behavior in the organization, such as codes of conduct and codes of ethics 13 and 15

SPECIFIC STANDARD DISCLOSURES

Material aspects	DMAs and indicators	Page/response	Omissions	External assurance
Economic category				
Economic performance UNGC	G4-DMA Management approach	31, 32 and 33		
	G4-EC1 Direct economic value generated and distributed	33		
Market presence	G4-DMA Management approach	59		
	G4-EC6 Proportion of senior managers hired from the local community in important operating units	59		
Indirect economic impacts	G4-DMA Management approach	52 to 57		
	G4-EC7 Development and impact of infrastructure investments and services supported	53		
	G4-EC8 Description of significant indirect economic impacts, including extent of impacts	53 and 54		
Procurement practices	G4-DMA Management approach	58 and 59		
	G4-EC9 Proportion of spending on local suppliers in important operating units	59		
Environmental category UNGC				
Water	G4-DMA Management approach	62 to 66		
	G4-EN8 Total water withdrawn by source	64		
	G4-EN9 Water sources significantly affected by water withdrawal	64		
	G4-EN10 Percentage and total volume of water recycled and reused	65 and 66		

Material aspects	DMA and indicators	Page/response	Omissions	External assurance
Emissions	G4-DMA Management approach	70		
	G4-EN15 Direct greenhouse gas (GHG) emissions (Scope 1)	70		
	G4-EN16 Energy indirect greenhouse gas (GHG) emissions (Scope 2)	70		
	G4-EN17 Other indirect greenhouse gas (GHG) emissions (Scope 3)	70		
Effluents and waste	G4-DMA Management approach	62 and 67		
	G4-EN22 Total water discharge, discriminated by quality and destination	67		
	G4-EN23 Total weight of waste, discriminated by type and disposal method	68 and 69		
Social category – labor practices and decent work UNGC				
Employment	G4-DMA Management approach	41		
	G4-LA1 Total number of employees and admission rates of new employees and employee turnover by age group, gender and region	46		
	G4-LA2 Comparison of the benefits for full-time employees and temporary or part-time workers, discriminated by important operating units	43		
Grievance and complaint mechanisms related to labor practices	G4-DMA Management approach	22		
	G4-LA16 Number of grievances and complaints related to labor practices filed, processed and resolved by means of formal mechanism	<p>474 new labor grievances were filed against São Martinho in the fiscal year (April 2016 to March 2017). In the same period, 463 grievances were resolved and 373 labor grievances related to previous years were finalized.</p> <p>The labor grievances increased in function of unemployment in Brazil, which resulted in an increase in litigation for companies in general; structural factors in the company also contributed</p>		

Material aspects	DMA and indicators	Page/response	Omissions	External assurance
Social category - human rights UNGC				
Investments	G4-DMA Management approach	45		
	G4-HR2 Total number of hours training for employees in human rights policies or procedures related to aspects of human rights of relevance to the organization's operations, including the percentage of employees trained	45		
Non-discrimination UNGC	G4-DMA Management approach	45		
	G4-HR3 Total number of cases of discrimination and corrective measures taken	Occurrences of discrimination were not recorded at the São Martinho units during this period.		
Social category - society				
Local communities UNGC	G4-DMA Management approach	52 to 57		
	G4-SO1 Percentage of operations with local community engagement, impact assessment and development programs implemented	53 and 54		
	G4-SO2 Operations with significant actual and potential negative impacts on local communities	53 and 54		
Anti-corruption UNGC	G4-DMA Management approach	23		
	G4-SO3 Total number and percentage of operations assessed for corruption-related risks and significant risks identified	23		
	G4-SO4 Communication and training in anti-corruption policies and procedures	23		
	G4-SO5 Confirmed cases of corruption and measures taken	23		

Material aspects	DMA's and indicators	Page/response	Omissions	External assurance
Public policies UNGC	G4-DMA Management approach	78		
	G4-SO6 Total amount of contributions to political parties and politicians, discriminated by country and recipient/beneficiary		There were no donations during the 2016/2017 crop year	
Anti-competitive behavior	G4-DMA Management approach	78		
	G4-SO7 Total number of law suits brought against organization for anti-competitive and monopolistic practices and their results		The company does not have any suits pending or ended in relation to anti-competitive or monopolistic practices. The group's products are commodities whose prices are determined on exchanges, impeding price fixing between market agents.	
Grievance and complaint mechanisms related to impacts on society	G4-DMA Management approach	22		
	G4-SO11 Number of grievances and complaints related to impacts on society filed, addressed and resolved through formal mechanism		Three complaints related to impacts on society were received by the Ethics Channel; these were addressed and resolved during the course of the crop year. One complaint was related to damage caused by company equipment and processes. A site inspection identified a limited amount of damage, and the company assigned a maintenance team to carry out repairs. The second complaint was related to the location of a bus stop close to residences. The problem was resolved without jeopardizing the community. The third complaint was due to the fact that the company enclosed areas in which the public used to circulate. The company enclosed these area to protect its property, as is customary under such circumstances	

Financial Statements

SÃO MARTINHO S.A. - CONSOLIDATED (R\$ Thousand)	CPC 19			Pro-forma		
	12M17	12M16	Var %	12M17	12M16	Var %
Gross Revenue	2,713,613	2,424,838	11.9%	3,130,157	2,837,663	10.3%
Deductions from Gross Revenue	(104,094)	(86,108)	20.9%	(127,276)	(110,245)	15.4%
Net Revenue	2,609,519	2,338,730	11.6%	3,002,881	2,727,418	10.1%
Cost of Goods Sold (COGS)	(1,926,210)	(1,694,804)	13.7%	(2,174,033)	(1,947,046)	11.7%
Gross Profit	683,309	643,926	6.1%	828,848	780,372	6.2%
Gross Margin (%)	26.2%	27.5%	-1.3 p.p	27.6%	28.6%	-1.0 p.p
Operating Expenses	(14,426)	(157,066)	-90.8%	(122,382)	(254,309)	-51.9%
Selling Expenses	(101,941)	(103,601)	-1.6%	(106,820)	(109,145)	-2.1%
General and Administrative Expenses	(147,813)	(136,687)	8.1%	(164,239)	(155,983)	5.3%
Equity Income	87,365	74,250	17.7%	606	456	32.9%
Other Operating Expenses, Net	147,963	8,972	1549.2% N.M	148,071	10,363	1328.8% N.M
Operating Profit, Before Financial Effects	668,883	486,860	37.4%	706,466	526,063	34.3%
Financial Result, Net	(255,238)	(294,222)	-13.2%	(260,914)	(320,232)	-18.5%
Financial Revenues	114,055	105,139	8.5%	132,553	120,225	10.3%
Financial Expenses	(317,180)	(278,432)	13.9%	(343,569)	(311,272)	10.4%
Monetary and Exchange Variations - Net	2,901	(73,473)	-103.9% N.M	9,312	(78,264)	-111.9% N.M
Derivatives Results	(55,014)	(47,456)	15.9%	(59,210)	(50,921)	16.3%
Income (Loss) Before Income and Social Contribution Taxes	413.645	192.638	114.7%	445.552	205.831	116.5%
Income Tax and Social Contribution - Current	(14,148)	(26,130)	-45.9%	(29,393)	(35,385)	-16.9%
Income Tax and Social Contribution - Deferred	(115,630)	40,438	-385.9% N.M	(132,292)	36,500	-462.4% N.M
Net Income	283,867	206,946	37.2%	283,867	206,946	37.2%
Net Margin (%)	10.9%	8.8%	2.0 p.p	9.5%	7.6%	1.9 p.p

SÃO MARTINHO S.A. CONSOLIDATED - ASSETS (R\$ Thousand)		CPC 19		Pro-forma	
ASSETS	mar-17	mar-16	mar-17	mar-16	
SHORT-TERM ASSETS					
Cash and Cash Equivalents	142,454	266,659	143,002	267,315	
Marketable Securities	1,029,113	706,487	1,029,113	839,127	
Trade Receivables	168,868	86,419	169,129	116,965	
Derivative Financial Instruments	172,917	145,701	172,917	145,701	
Inventories	256,574	229,250	256,574	270,352	
Biological Assets	586,362	470,241	586,362	554,186	
Taxes Recoverable	102,310	58,423	102,325	64,274	
Income Tax and Social Contribution	11,159	113,758	11,232	119,781	
Other Assets	12,293	15,548	12,342	17,066	
TOTAL SHORT-TERM ASSETS	2,482,050	2,092,486	2,482,996	2,394,767	
LONG-TERM ASSETS Long-term Receivables					
Marketable Securities	24,667	5,423	24,667	13,770	
Inventories	88,766	62,309	88,766	71,030	
Related Parties	3,867	1,000	111	-	
Deferred Income Tax and Social Contribution	-	-	-	43,752	
Derivative Financial Instruments	27	43,243	27	43,243	
Trade Receivables	25,810	21,855	26,062	22,246	
Trade Receivables from Copersucar	9,355	6,324	10,017	6,772	
Taxes Recoverable	106,518	110,195	106,518	119,525	
Income Tax and Social Contribution	124,285	-	124,285	-	
Judicial Deposits	32,423	30,300	32,617	32,257	
Other Assets	439	498	439	498	
	416,157	281,147	413,509	353,093	
Investments	31,184	513,233	31,184	25,629	
Property, plant and equipment	5,288,550	4,004,469	5,289,894	4,492,462	
Intangible Assets	473,942	489,557	473,942	489,639	
TOTAL LONG-TERM ASSETS	6,209,833	5,288,406	6,208,529	5,360,823	
TOTAL ASSETS	8,691,883	7,380,892	8,691,525	7,755,590	

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

CPC 19

Pro-forma

LIABILITIES AND SHAREHOLDERS' EQUITY

mar/17

mar/16

mar/17

mar/16

SHORT-TERM LIABILITIES

Borrowings	1,499,583	670,559	1,499,649	776,532
Derivative Financial Instruments	76,097	196,664	76,097	197,238
Trade Payables	138,923	113,907	138,939	137,711
Payables to Copersucar	8,583	21,875	9,094	23,188
Salaries and Social Contributions	121,664	98,231	121,776	110,252
Taxes Payable	20,478	15,570	20,481	19,615
Income Tax and Social Contribution	4,471	916	4,471	916
Dividends Payable	74,243	53,164	74,243	53,164
Advances from Customers	4,174	1,298	4,174	1,606
Aquisition of Investment	11,958	17,937	11,958	17,937
Other Liabilities	28,659	26,591	28,751	32,099
TOTAL SHORT-TERM LIABILITIES	1,988,833	1,216,712	1,989,633	1,370,258

LONG-TERM LIABILITIES

Borrowings	2,219,477	2,836,628	2,219,594	3,048,948
Derivative Financial Instruments	5	65,625	5	65,625
Payables to Copersucar	237,602	237,166	248,360	247,862
Taxes Payable in Installments	14,614	15,419	14,614	17,878
Deferred Income Tax and Social Contribution	663,143	230,173	663,337	232,104
Provision for Contingencies	101,715	60,643	102,532	64,383
Aquisition of Investment	50,130	61,750	50,130	61,750
Other Liabilities	13,044	10,179	-	185
TOTAL LONG-TERM LIABILITIES	3,299,730	3,517,583	3,298,572	3,738,735

SÃO MARTINHO S.A. CONSOLIDATED- LIABILITIES (R\$ Thousand)	CPC 19		Pro-forma	
SHAREHOLDERS' EQUITY				
Share Capital	1,494,334	931,340	1,494,334	931,340
Capital Reserves	(55,662)	-	(55,662)	-
Treasury Shares	10,057	10,531	10,057	10,531
Stock options granted	(92,134)	(26,613)	(92,134)	(26,613)
Adjustments to Book Value	8,284	4,753	8,284	4,753
Profit Reserves	1,432,243	1,295,698	1,432,243	1,295,698
Retained Earnings	606,198	432,656	606,198	432,656
TOTAL SHAREHOLDERS' EQUITY	-	(1,768)	-	(1,768)
TOTAL	3,403,320	2,646,597	3,403,320	2,646,597
Non-controlling interest	-	-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8,691,883	7,380,892	8,691,525	7,755,590

SÃO MARTINHO S.A. (R\$ Thousand)	CPC 19		Pro Forma	
	12M17	12M16	12M17	12M16
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income in the period	283,867	206,946	283,867	206,946
Adjustments				
Depreciation and amortization	230,736	224,429	266,148	260,328
Harvested biological assets (depreciation)	401,134	381,517	471,763	471,659
Variation in fair value of biological assets	25,456	(49,248)	24,207	(55,960)
Amortization of intangible assets	8,311	9,937	8,311	9,937
Equity Income	(87,365)	(74,250)	(606)	(456)
Interest, monetary and foreign exchange variations, net	(3,241)	(3,531)	(3,454)	(3,531)
Negative goodwill in investment in join venture	(142,582)	-	(142,582)	-
Result of investment and property, plant and equipment disposals	2,825	1,455	3,084	1,595
Interest, monetary and foreign exchange variations, net	176,716	318,273	177,175	349,280
Derivatives Financial Instruments	230,637	144,307	234,834	151,328
Constitution of provision for contingencies, net	(2,871)	12,796	(525)	16,469
Deferred income tax and social contribution	129,778	(40,438)	161,685	(36,500)
Adjustments to present value and others	9,530	3,758	9,265	3,217
Income (loss) from ownership diverstment	-	(2,027)	-	(2,027)
	1,262,931	1,133,924	1,493,172	1,372,285
Changes in asset and liabilities				
Trade receivables	(4,957)	37,820	(23,927)	15,475
Inventories	62,229	(82,737)	55,935	(80,263)
Taxes recoverable	(32,615)	(30,245)	(20,567)	(23,312)
Derivatives Financial Instruments	(61,845)	(82,586)	(66,616)	(85,048)
Marketable Securities	-	963	(21)	1,948
Other assets	(16,938)	(9,152)	(17,241)	(9,694)
Trade payables	(27,755)	18,913	(26,050)	24,085
Salaries and social charges	147	13,858	101	14,300
Taxes payable	(6,953)	3,332	(21,382)	5,407
Obligations with Copersucar	(23,088)	(36,302)	(24,811)	(38,962)
Taxes payable in installments	(1,169)	(2,012)	(3,629)	(1,579)
Provision for contingencies - settlements	(9,010)	(17,595)	(11,757)	(21,270)
Other liabilities	22,380	(2,931)	21,011	(2,836)

SÃO MARTINHO S.A. (R\$ Thousand)	CPC 19		Pro Forma	
	12M17	12M16	12M17	12M16
Cash provided by operations	1,163,357	945,250	1,354,218	1,170,536
Interest paid	(208,335)	(188,616)	(227,845)	(213,279)
Income tax and social contribution paid	(5,700)	(6,991)	(7,513)	(7,032)
Net cash provided by operating activities	949,322	749,643	1,118,860	950,225
CASH FLOW FROM FINANCING ACTIVITIES				
Financial resources used in investments	(27,646)	(28,449)	(27,648)	(28,467)
Increased acquisition in ownership	-	-	-	(78)
Additions to property and intangible assets	(357,067)	(279,483)	(391,654)	(324,675)
Additions to biological assets (planting and crop treatment)	(516,704)	(449,437)	(584,356)	(518,445)
Marketable Securities	82,068	(706,487)	54,318	(839,128)
Proceeds from sale of property, plant and equipment	4,269	12,333	4,641	12,771
Cash and cash equivalents acquired from subsidiary	1,362	-	668	-
Gain in cash equivalents acquired from subsidiary	53	-	26	-
Advance for future capital increase	(2,867)	(1,000)	-	-
Net cash used in investing activities	(816,532)	(1,452,523)	(944,005)	(1,698,022)
CASH FLOW FROM FINANCING ACTIVITIES				
New borrowing - third parties	768,924	1,023,010	825,506	1,064,514
Repayment of borrowing - third parties	(903,992)	(984,368)	(1,002,636)	(1,086,920)
Advance for future capital increase	-	-	(111)	216
Purchase of treasury shares	(68,232)	(31,904)	(68,232)	(31,904)
Sale of treasury shares	1,689	10,627	1,689	10,627
Payment of dividends	(55,384)	(67,938)	(55,384)	(67,938)
Net cash provided by financing activities	(256,995)	(50,573)	(299,168)	(111,405)
Increase (decrease) in cash and cash equivalents	(124,205)	(753,453)	(124,313)	(859,202)
Cash and cash equivalents at the beginning of the period	266,659	1,020,112	267,315	1,126,517
Cash and cash equivalents at the end of the period	142,454	266,659	143,002	267,315

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