



São Martinho

ANNUAL & SUSTAINABILITY
REPORT
2017/18

Introduction

São Martinho publishes *Annual & Sustainability Reports* annually to provide stakeholders with an overview of our performance in the previous crop year.

In this edition, for crop year 2017/2018 (April 1, 2017 to March 31, 2018), we report on our social, environmental and economic performance in accordance with the reporting Standards of the Global Reporting Initiative (GRI), an international authority on sustainability reporting. We have also based our report, for the first time, on the annual reporting requirements published by the Brazilian Association of Listed Companies (ABRASCA).

Any questions, requests for information or feedback about the contents of this report can be submitted by e-mail to comunicacoes@saomartinho.com.br. 102-53

We hope you enjoy the report.

Contents

Message from the CEO 04

About São Martinho 07

Our Mills 10

Our Beliefs 12

Corporate governance 13

Ethics and compliance 16

Strategy 18

Competitive advantages 20

Risk management 23

Innovation and technology 25

Integrated Management System 28

Results 30

Operating and financial performance 32

Industry overview and outlook 36

Environmental management 39

Water resources 41

Waste 43

Emissions 44

Soil 45

Relations 46

Employees 50

Customers 61

Government and industry 62

Market and investors 63

Communities 64

Supply chain 68

About this report 70

GRI Content Index 71

Report Production 78

Message from the CEO

GRI 102-14

Another crop year in our journey at São Martinho has come to a close. The results we achieved, and the future we built, in this cycle are a source of pride.

In 2017/2018 we delivered the best performance in the history of the Company as a result of acquisitions and productivity investments in previous years. Our cash income virtually doubled compared with the previous crop year, and net revenue grew by 16%. We processed 22.2 million metric tons of sugarcane, 15.2% more than in 2016/2017, and we enhanced our commercial performance by exploring opportunities to optimally serve the sugar and ethanol markets.

This strong performance, and the new records we set in the year, can be credited to the innovative and entrepreneurial spirit of our employees and leadership. Our acquisition of full ownership of the Boa Vista mill

significantly improved performance given its superior efficiency, strategic location and high level of cogeneration.

As part of efforts to build synergies, we continued to implement our Integrated Management System to standardize the rules, processes and procedures in place at our four mills, and we carried out a variety of investments in productivity and technology to remodel the business.

A key move in the year was our decision to accelerate our pre-sprouted seedlings (PSS) and MEIOSI programs to increase sugarcane processing volumes and achieve 100% utilization of our installed crushing capacity of 24 million metric tons. Another important pillar in our operational improvement investments is an agricultural automation program in which we are implementing 4G connectivity at our operations. These programs will



enable us to optimize the utilization of our properties and assets, further develop our cane-field and mill operations, increase raw material efficiencies, and place us further at the forefront of our industry.

We also continued to focus on human capital development and skills building—especially investment in training—and on supporting communities by providing funding for social programs in communities surrounding our operations. In addition, we conducted a new edition of our materiality exercise, in which we held discussions with stakeholders and identified material social, environmental and economic topics and impacts, which are addressed in detail throughout this report.

Innovation, efficiency, engagement with our culture, a positive reputation and high productivity are key components of our business strategy: our efforts in these areas

Despite the challenges facing the global sugar market, we have a solid foundation on which we will continue to build on the positive results seen in previous years

will help to ensure São Martinho remains among the leading players in Brazil's sugar and ethanol industry.

Lastly, I am pleased to report that, in addition to being nominated to the Você S.A. 150 Best Places to Work ranking for the sixth consecutive year, in 2017 São Martinho was also named the Best Place to Work in the Agribusiness Industry. This important recognition reflects the essence of our core belief of caring: for people, in our actions, and for the business.

Fabio Venturelli
CEO

CROP-YEAR HEADLINES



UBV

Boa Vista mill facilities fully taken over



913 GWh

In exported electricity
(up 27% from the previous crop year)



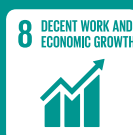
R\$ 22.2 mn

metric tons of sugarcane
(up 15.2% from the previous crop year)



SDGs

Contents in this chapter are related to the following goals:





ABOUT SÃO MARTINHO

IN THIS CHAPTER

Our Mills 10
Our Beliefs 12
Corporate governance 13
Ethics and compliance 16

How we operate, do business and foster a culture of high performance and integrity



São Martinho is one of the most profitable companies in Brazil's sugar and ethanol industry

Who we are

Founded in the early twentieth century by Italian immigrants, São Martinho S.A. is a 100% Brazilian-owned company and a leading player in the Brazilian sugarcane processing and sugar and ethanol industry. [GRI 102-1](#)

From a single mill in the interior of São Paulo, built by the Ometto family in the 1910s, São Martinho has developed into a vertically integrated business spanning sugarcane growing, processing and production and marketing of a range of products, including sugar, ethanol and electricity. We have a crushing capacity of 24 million metric tons and a workforce of 12,000 direct employees. [GRI 102-2](#)

Our four mill operations are located in the states of São Paulo and Goiás: Iracema, in Iracemápolis (SP); São Martinho, in Pradópolis (SP); Santa Cruz, in Américo Brasiliense (SP), and Boa Vista, in Quirinópolis (GO). [GRI 102-4](#)

São Martinho is listed on the São Paulo stock exchange, B3. Our headquarters is in São Paulo City, and we operate a Shared Services Center and corporate offices in Pradópolis, housing supporting functions. [GRI 102-5](#)

In crop year 2017/2018 the Boa Vista mill was fully taken over by and consolidated into the financial reporting of São Martinho. Now fully owned by the Company after seven years as a joint venture with Petrobras Biocombustível, the operation has uniquely modern facilities and, as a pure ethanol plant, has the potential to improve performance through portfolio diversification. [GRI 102-10](#)

A Brief History

A timeline of São Martinho's operations in the sugar and ethanol industry

1914

First sugarcane mill (Olaria)

1932

Sugar production begins at Fazenda Boa Vista, in Limeira

1937

The Iracema mill is built, initially producing ethanol

1946

The Iracema mill starts production of sugar

1949

São Martinho mill purchased and operations expanded into Ribeirão Preto, which would subsequently become a major sugarcane production hub in São Paulo

2000

Plant management is unified

2007

São Martinho lists on BM&FBovespa (now B3) under the ticker symbol SMT03

2008

São Martinho withdraws membership from Copersucar and operations start at the Boa Vista mill, one of the most modern ethanol plants in the world

2010

The Nova Fronteira Bioenergia S.A. joint venture is created as the parent company of Usina Boa Vista S.A. and SMBJ Agroindustrial S.A.

2011

São Martinho acquires a 32.18% interest in Santa Cruz S.A. Açúcar e Etanol and a 17.97% interest in Agropecuária Boa Vista S.A.

2012

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

2013

The São Martinho thermal power plant starts operation

2014

São Martinho completes the Santa Cruz mill acquisition, followed by management integration

2017

Nova Fronteira Bioenergia merged into São Martinho, which acquires full ownership of the Boa Vista mill

2018

São Martinho takes over operation of the Boa Vista mill

Our Mills

GRI 102-4, 102-7



24 mn

metric-ton crushing
capacity

1. BOA VISTA

PROCESSING CAPACITY
5 million metric tons
of sugarcane per crop year

2,408
EMPLOYEES

Now fully owned by São Martinho, the Boa Vista mill produces ethanol and electric power only, using one of the most advanced sugarcane processing technology platforms in the world. Our Boa Vista operation is highly automated, uses fully

mechanized harvesting and produces a high ratio of electric power output per metric ton of sugarcane.

2. SANTA CRUZ

PROCESSING CAPACITY
5.6 million metric tons
of sugarcane per crop year

3,408
EMPLOYEES

Santa Cruz was acquired by and has been gradually integrated into São Martinho Group over the previous years. It boasts a high level of mechanization and has Bonsucro and ISO (9001 and 14001) certification. The mill produces

a wide range of products, including sugar, ethanol, electric power and yeast in different configurations.

3. SÃO MARTINHO

PROCESSING CAPACITY

10.4 million metric tons
of sugarcane per crop year

4,664

EMPLOYEES

The largest sugarcane processing facility in the world, our São Martinho operation is recognized as a global benchmark for mechanization and applied technology. The operation's pre-sprouted seedling (PSS) facility produces seedlings for all of our business units. With 480,000 metric tons of static sugar storage capacity, the unit has extensive logistics infrastructure, including an internal rail branch line with a throughput capacity of 16,000 metric tons per day.

The facility also has a power plant producing renewable and sustainable electricity from sugarcane bagasse year-round. This helps to reduce air emissions and optimize water utilization and waste disposal. The electricity is used on site and the surplus is sold.

4. IRACEMA

PROCESSING CAPACITY

3 million metric tons
of sugarcane per crop year

2,007

EMPLOYEES

The Iracema mill is certified to Bonsucro standards on sustainability in the sugar and ethanol value chain. It serves the domestic and global markets for sugar and ethanol, especially white sugar and industrial-grade hydrous ethanol for export.

Portfolio

GRI 102-2, 102-6



SUGAR

São Martinho supplies a diverse range of sugar products to customers in the domestic market across different industries, including food and beverages. Products supplied to the export market include VHP and VVHP high polarization sugars.



ETHANOL

São Martinho markets three types of ethanol: hydrous ethanol, used as fuel in ethanol-powered or flex-fuel vehicles; anhydrous ethanol, used as a gasoline and aftermarket additive; and industrial-grade ethanol, used in the coatings, cosmetics and spirits industries.



ELECTRIC POWER

Sugarcane bagasse from crushing is used as a fuel to produce electric power. Electricity is supplied for on-site requirements and the surplus is marketed in Brazil's regulated and free market.



SPECIALTY PRODUCTS

São Martinho enhances value creation by producing specialty products for the nutrition industry. These include dry inactive yeast of different types and other byproducts for a diverse range of customers in the domestic and global markets.

Our beliefs

GRI 102-4, 102-7

Our ethos and approach to doing business are translated in our beliefs

At São Martinho, we believe that caring is essential to the success of our business.

We care for our people by treating them with respect, supporting personal and professional development, and providing ongoing, shared technical training.

We demonstrate care in our actions by using a prudent and consistent management approach that walks the talk, building trust with employees, shareholders, customers, governments, suppliers, partners and communities.

We also take care of our business by relentlessly working to improve our processes to achieve excellence.

By doing so we are taking care not only of our business, but also of the environment and broader society by creating shared value.

We believe this is the right way to build sustainable business. If not our very best, why do anything at all?

Caring

is a guiding principle:
in our actions, in our business,
and towards the people and the
environment around us



Mission

To produce and supply food products, electricity and other products from sugarcane that create value for humanity, in an innovative and sustainable way.

Vision

To triple cane processing throughput by 2020 and be the market leader in value creation by producing and marketing sustainable products and developing new markets.

Values

- Integrity and ethics
- Respect for people and the environment

Our Pillars

- Safety
- Relations with partners and suppliers, customers, shareholders, employees and communities
- Technology
- Sustainability
- Value creation
- Growth

** 2008 baseline.*

Our management practices are focused on integrity



Corporate governance

GRI 102-18

São Martinho is listed in B3's enhanced corporate governance segment, called *Novo Mercado*, which means we are required to implement governance systems modeled after Brazilian and international best practices. Our governance priorities include fair treatment of shareholders, transparent decision-making, business-risk management, and continuous communication with providers of capital.

Our highest governance bodies are the Board of Directors; Advisory Committees (Innovation, People Management, and Finance, Audit & Risk Management); Audit Board and Executive and Operations Board.

BOARD OF DIRECTORS

The Board of Directors is a joint decision-making body responsible for overall oversight of the business. Its duties include setting goals and strategic, long-term

guidance, appointing executive officers and overseeing and monitoring executive management. In accordance with our Bylaws, the Board comprises seven members, with a minimum of two independent members.

Board members are appointed in General Meetings for a term of two years, and may be removed by our shareholders in a General Meeting. Our current Board members were appointed in an Annual General Meeting held on July 27, 2018.

Marcelo Campos Ometto

Chairman

João Guilherme Sabino Ometto

Deputy Chairman

Guilherme Fontes Ribeiro

Member

Maurício Krug Ometto

Member

Nelson Marquês Ferreira Ometto

Member

Murilo César Lemos dos Santos Passos

Independent Member

João Carlos Costa Brega

Independent Member

EXECUTIVE BOARD

The Executive Board may have no less than two and no more than eleven statutory members under our Bylaws. A given member may hold one or more positions on the Executive Board concurrently, at the discretion of the Board of Directors.

Fabio Venturelli

CEO

Agenor Cunha Pavan

Vice President
Cane Field and Mill Operations

Felipe Vicchiato

CFO and Investor Relations Director

Helder Luiz Gosling

Commercial and Logistics Director

Carlos Fernando Zaneti de Andrade

Cane Field and Mill Operations Director,
Iracema

Ricardo Azevedo Gonçalves

Cane Field and Mill Operations Director, São
Martinho

Ivan Barcellos Dalri

Cane Field and Mill Operations Director, Boa Vista

Marcos Helder Pavan Mônaco

Cane Field and Mill Operations Director, Santa Cruz

Mario Ortiz Gandini

Agriculture & Technology Director

Elias Eduardo Rosa Georges

Legal, Compliance & Institutional Relations Director

Luciana Cortes Carvas

Human Resources Director

AUDIT BOARD

Under our Bylaws a non-permanent Audit Board may be established at the request of our shareholders at a General Meeting. The Audit Board is responsible for auditing management activities, reviewing our financial statements and reporting its conclusions to our shareholders.

Massao Fábio Oya

Member

Maurício Curvelo de Almeida Prado

Member

Carlos Alberto Ercolin

Member

Marcos Ribeiro Barbosa

Substitute

Isabel Cristina Bittencourt Santiago

Substitute

Maria Elvira Lopes Gimenez

Substitute

The Board of Directors is responsible for setting business strategy and overseeing executive management



Our governance bodies support efficient and compliant operations

Committees

Our committees drive operational improvement and help to secure the future of the business

ADVISORY COMMITTEES

Advisory committees formed of members of the Board of Directors and external members provide support in decision-making on technical matters within their expertise.

Financial, Audit & Risk Management:

responsible for reviewing/assessing financial matters, quarterly and annual reports, independent auditors' opinions and tax planning; assessing risk in investments and large financial transactions, as well as other risks with the potential to affect our business sustainability; ensuring that best-practice corporate governance is achieved by developing efficient processes and internal controls; promoting an adequate management culture; and optimizing risk to return and resource allocation.

People Management: responsible for providing strategic-planning advice on people management; setting short-and long-term variable compensation policy (bonuses linked to business results and personal performance); assessing effectiveness in talent retention; reviewing succession plans for executive board positions; and assessing executive performance.

Innovation: responsible for periodically reviewing our strategic guidance; helping to identify new value-adding products/services; supporting the board in identifying and developing strategic options for business growth; and monitoring new-business performance and results.

Ethics and compliance

GRI 102-16, 103-1, 103-2, 103-3 | 205



At São Martinho we recognize the responsibility we have and the risks and opportunities we face as a business, and we promote a culture of ethics and integrity and work to ensure it is effectively demonstrated in our practices, activities and business dealings, both within and outside our offices and facilities.

Our Legal, Compliance and Institutional Relations Department, which we created in crop year 2017/2018, is responsible for integrating these three aspects of corporate governance and formalizing practices at our business units.

The most important development at this Department in the crop year was a compliance assessment with support from independent experts to identify threats and measure compliance maturity at São Martinho.

Our primary source of guidance on compliance is the São Martinho Code of Ethics & Business Conduct, which establishes stan-

dards and principles applicable to employees, interns, apprentices, managers, leaders and suppliers. Other sources of guidance include the São Martinho Governance Handbook and policies on matters such as Financial Transactions, Disclosures & Insider Trading, Anti-corruption, and Related Party Transactions & Conflict of Interest.

An Ethics Hotline is available for complaints and reports on potential violations or failure to comply with our values, beliefs and policies. Reports can be made via a toll-free number (0800 777 3131), by e-mail (etica@saomartinho.com.br) or by post (Alameda Caiapós, 243, Barueri, CEP: 06460-110, São Paulo/SP). The São Martinho Ethics Hotline handled approximately 350 cases throughout crop year 2017/2018 (see table).

Reports are managed by a specialist firm, and are kept confidential if so requested by the whistle blower. Cases are investigated by executive committees and working groups that are assembled on a case-by-case basis.



Reports and complaints can be submitted to our Ethics Hotline and are investigated by committees and working groups

The Ethics Hotline has a dedicated section for reports related to safety, where stakeholders can report unsafe situations, submit complaints about facilities and workplace practices, and get information about traffic safety. These three safety-related areas are recognized as being critical for the business.

ANTI-BRIBERY PRACTICES

GRI 205-1, 205-2

São Martinho has an Internal Controls function responsible for identifying risks, implementing mitigation action and monitoring the effectiveness of controls in order to minimize exposure to both financial and non-financial impacts, such as reputational damage.

Internal practices and tools are used to identify and address nonconformities, identify opportunities for improvement, and address anti-bribery concerns reported via the Ethics Hotline through audits.

The anti-corruption behavior expected of employees is outlined in our Anti-corruption Policy, Related Parties Transactions & Conflict of Interest Policy, and Code of Ethics & Business Conduct. Our internal audit works continuously to investigate and monitor any concerns of this nature. A dedicated compliance function was created during the previous crop year as part of a reorganization, and has commissioned the development of audience-appropriate anti-bribery training programs.

GRIEVANCES	2017/2018
total number of grievances filed through grievance mechanisms*	351
number of grievances addressed**	285
number of grievances resolved***	285
total number of grievances filed prior to the reporting period that were resolved during the reporting period****	N/A

* Grievances are classified into the same categories used by the Ethics Hotline: reports, complaints and occupational health and safety.

** Not all reports can be addressed and investigated (insufficient information);

*** Not all reports can be resolved;

**** All hotline cases are required to be resolved as promptly as possible, preferably within the crop year; therefore, no reports from previous crop years have been identified.



STRATEGY

Sustaining industry leadership through competitive advantage and a long-term vision

IN THIS CHAPTER

Competitive advantages 20
Risk management 23
Innovation and technology 25
Integrated Management System 28

CROP-YEAR HEADLINES

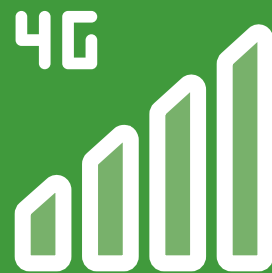
67%

Storage capacity



Innovation

São Martinho was named one of the **150 Most Innovative Companies in Brazil** – *Valor Econômico* and Strategy&

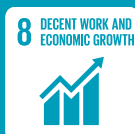


R\$ 60 mn

In investment committed from 2017/2018 to 2020 in an agricultural automation program that is implementing 4G connectivity at our operations

SDGs

Contents in this chapter are related to the following goals:



Looking into the future

São Martinho is part of an industry that plays an important role in Brazil's economy. According to the Brazilian Sugarcane Industry Association (UNICA), more than 1,000 municipalities are benefited by the sugarcane industry, with more than 950,000 people formally employed by, and 70,000 farmers linked to, the sector. Our industry singly generates 2% of Brazil's Gross Domestic Product (GDP), including US\$ 40 billion directly and US\$ 100 billion throughout the broader supply chain.

São Martinho recognizes the opportunities, the financial and non-financial risks and the business prospects that are in our industry, and has developed a strategic plan that leverages the competitive advantages we have built or are building to achieve sustained financial health, growth, high productivity, and a positive reputation in the domestic and global markets.

In response to challenges emerging in recent years and the need to upgrade our technologies and achieve increased efficiencies so we are resilient to stressors—including price fluctuation in the sugar and ethanol industry—São Martinho has invested in capacity building, optimizing asset utilization, innovation, and continual process and management-system improvement as levers to create value and ensure the sustainability of the business. We also rely on intangible assets—such as our relations with communities, partners and the value chain, our reputation and our corporate brand—to drive improved performance and retain our industry leadership.

Competitive advantages

Learn below about what drives our performance and leadership position in the global market



MANAGERS WITH BUSINESS EXPERTISE

The quality of our staff and managers can be partly credited to their market expertise, an aspect that is taken into account in our recruiting and selection processes and enhanced through leadership development practices. As part of our human resources practices, we: monitor the organization for potential succession candidates for key positions; develop and prepare current and future managers; improve talent retention; and ensure we provide a positive work environment. Reflecting these practices, São Martinho was named one of the 150 Best Places to Work in 2017, and the best place to work in the agribusiness industry.

81.7

Our Workplace Happiness Score (IFT) as measured for the 150 Best Places to Work survey



SCALE

Our operations have above-national-average production capacity, and this operational scale provides a significant and material competitive advantage in commodities industries, including the sugar and ethanol industry. The São Martinho mill—the world's largest sugarcane processing facility—has a processing capacity of 10.5 million metric tons of sugarcane.

6 million

metric tons of sugarcane
Average processing capacity across our mills

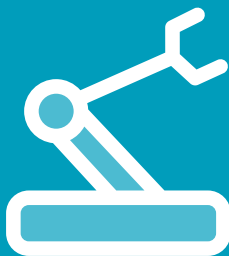


STRATEGICALLY LOCATED ASSETS

Our operations are located in the largest sugar and ethanol industry hubs in Brazil, in the states of Goiás and São Paulo. Our Iracema, São Martinho and Santa Cruz operations in Limeira and Ribeirão Preto, for example, are within close reach of port terminals and warehousing facilities such as those in the Baixada Santista area on São Paulo's coast. The plant after which the Company is named has its own branch rail line, helping to ensure shipments are delivered to customers on time and at competitive costs, while also being used to supply diesel oil, the operation's primary input.

420 km

Separate the São Martinho mill
from the Port of Santos



MECHANIZATION AND STATE-OF-THE-ART TECHNOLOGY

One of the fronts in current efforts to modernize the sugar and ethanol industry is agricultural mechanization. São Martinho is at the forefront of these efforts and boasts one of the highest harvest mechanization rates in Brazil, with our Boa Vista operation, in Quirinópolis (GO), now 100% mechanized.

In crop year 2017/2018, our consolidated mechanization rate was 99.8%, falling slightly short of full mechanization due to, among other factors, the steep terrain and other adverse conditions preventing mechanization on some properties.

99.8%

consolidated harvest mechanization rate



STORAGE CAPACITY

São Martinho has uniquely large sugar and ethanol storage capacity—820,000 metric tons of sugar and 700,000 cubic meters of ethanol—built through targeted investment. This capacity provides the strategic advantage of being able to better time shipments throughout the crop year. These facilities are designed for safety, and have protection systems to minimize the escalation of, and to contain, any emergency situation.

67%

Ratio of storage capacity to output

COMPANY LAND

Developing sugarcane supply partnerships is crucial for maintaining an adequate inventory of sugarcane growing capacity; approximately $\frac{2}{3}$ of the sugarcane processed at our mills is sourced from properties defined as “Company land”. Of this land, 83% is partnership or lease land selected based on criteria such as proximity to our mills, logistics efficiency and suitability for mechanization.

Using a hybrid sugarcane sourcing model allows us to achieve higher yields per hectare, reduce haulage costs and maximized sugar yields at our mills by preventing loss of sugar content from aging.

41,387 ha

of Company
land

—

199,734 ha

of partnership and lease land
owned by 918 farming partners
and lessors



INVESTMENT CAPACITY

In crop year 2017/2018 our debt levels fell to a near-historic low, with a ratio of Net Debt to EBIT-DA of 1.26x. Our strategy has enabled us to reduce debt service costs and lengthen average maturities. This, combined with high cash generation capacity, provides the financial health and strength needed to sustain a positive reputation in the market and secure financing at competitive rates, supporting investments in modernization, expansion and capacity building in our operations.

A key development during the crop year was an expansion of our sources of funding. São Martinho raised funds from the capital market through an issue of R\$ 1.35 billion in Agribusiness Receivables Certificates (CRAs), and secured USD 90 million from the International Finance Corporation (IFC), a sister organization of the World Bank and the largest global development institution focused exclusively on the private sector. IFC's stringent social, environmental, health and safety due diligence against international best practice provides a seal of approval of our own practices.

Other important sources of funding in the crop year included:

* A R\$ 138 million BNDES loan, with a maturity of 12 years, for a sugarcane crushing expansion project at the Santa Cruz mill;

* A R\$ 31 million BNDES loan, with a maturity of 12 years, for investment in storage capacity and upgrades at the Boa Vista mill;

* R\$ 667 million in Rural Financing for crop management, harvesting, loading and haulage.

1.26 x

Indebtedness ratio in crop year 2017/2018



Risk management

GRI 102-15

Risk management at São Martinho is a structured, systematic, transparent, organization-wide process that helps to instill a culture of risk management in our day-to-day activities. We believe this provides a foundation on which our decision-making processes and employees can continually improve and will help us to achieve and sustain a leading position in the constantly changing and evolving sugar and ethanol industry.

Incorporating internationally recognized risk management practices developed by the leading organizations in the field, including ISO, COSO, IBGC, CVM and B3 *Novo Mercado*, our Risk Management Policy requires significant business risks to be documented and ranked in a risk matrix based on their impact and likelihood of occurrence, and that those risks have assigned risk owners and are monitored against appropriate indicators.

The primary risk indicators we currently monitor relate to revenues, foreign exchange exposure, financial leverage and liquidity, logistics constraints, sugarcane supply and people management.

The sugar and ethanol industry is experiencing a period of extensive disruption and innovation—from cane field to mill—with industry players exploring opportunities to expand margins/profitability as a way to improve resilience to commodity price shocks, which significantly affect the financial performance of companies in the industry.

6

risk categories are monitored at
São Martinho

MANAGED RISK CATEGORIES

Category	Nature	Actions & response
Revenue	Prices on our products could be affected by changes in supply-and-demand conditions and by economic, political and financial instability in Brazil and internationally. Lower sugar or ethanol prices could have adverse effects not only on our sugar and ethanol businesses, but also on our production mix	<ul style="list-style-type: none"> • A well-defined hedging strategy to protect product margins • Monitoring the business environment
Foreign exchange	Because a significant part of our revenues is derived from foreign markets, any foreign-exchange rate fluctuations could directly affect our operations, potentially eroding our profits	<ul style="list-style-type: none"> • São Martinho's Foreign Exchange Policy, which is linked to our Sugar Pricing Policy
Financial leverage and liquidity	Indebtedness levels are continually monitored against equity and cash generation levels. Liquidity could also be affected as an inherent aspect of our business	<ul style="list-style-type: none"> • Monitoring equity and cash generation levels relative to indebtedness levels • Maintaining an indebtedness profile that accommodates our financial obligations • Ensuring that expected profits and our financial position support sustainability
Logistics constraints	Sugar is a commodity, and efficient logistics are a source of both opportunity and risk. Inclement conditions, congestion or logistics constraints could affect our revenue streams and commercial relations	<ul style="list-style-type: none"> • Shipping products preferably by rail • A rail terminal was built at our São Martinho operation, in partnership with Rumo Logística, with a throughput capacity of up to 2 million metric tons of sugar per year
Sugarcane supply	Part of the sugarcane processed at our São Martinho operation is sourced from third parties or harvested on partner-owned/leased properties. Adverse climate conditions could result in sugarcane supply disruptions preventing us from meeting our sugarcane requirement	<ul style="list-style-type: none"> • Strengthening relations with suppliers • Closely managing sugarcane supply and partnership/lease agreements (short, medium and long-term) • Monitoring the ratio of spot market to contract sugarcane sourcing

Category	Nature	Actions & response
Availability of manpower	Our ability to grow the business hinges directly on the availability of skilled labor and how effective we are at people development and skills building. This is especially true when hiring people to fill strategic positions	<ul style="list-style-type: none"> • Monitoring key positions and human capital requirements by function and business unit • Defining the skills needing to be developed within the organization

Innovation and technology

São Martinho has a strong track record of innovation, and is recognized as a pioneer of mechanized sugarcane planting and harvesting. We have also long been at the forefront of innovation in mill operations and supporting activities such as IT, HR, marketing, new business development and management.

A case in point is our Agricultural Chemical Laboratory (ACL) in Pradópolis, which was built in the 1970s to develop solutions to optimize cultivation.

The laboratory, which has been recommended by INMETRO for accreditation to ABNT NBR ISO/IEC 17025:2005 (Soil Sampling and Testing), has conducted extensive research in recent years, ranging from methods to reduce environmental impacts from planting and harvesting to improvements to enhance operational performance.

Soil testing results are validated by proficiency testing at Instituto Agronômico de Campinas (IAC). In crop year 2017/2018 our laboratory achieved an average excellence rating of 100%, earning it first place among 135 laboratories assessed in the current edition of the program. Our laboratory was also given an “A” rating in a proficiency program run by the São Paulo Department of Agriculture, which assesses laboratories against IAC criteria.

100%

Excellence rating for soil testing
at our Agricultural Chemical
Laboratory



in 2017-2018

100 %

of operations covered by
soil testing

35,000

soil samples tested
annually

220,000

hectares of cropland covered
by testing

Soil testing objectives

Soil testing provides information to support soil improvement, efficient fertilization, assessments of soil suitability for cultivation and other information, covering approximately 220,000 hectares. The laboratory uses an automated system to capture and transmit soil data to our SAP system. This automated process improves efficiency and data reliability by preventing human error caused by manual data entry.

Recognition

Over the last three years—2016, 2017 and 2018—São Martinho has been ranked among Brazil's 150 most innovative companies by business newspaper *Valor Econômico* and consulting firm Strategy& (Price, Waterhouse and Cooper)



130,000

hectares of cropland will be covered by 4G technology by the end of the next crop year

Driving efficiency

São Martinho is continually alert to opportunities to achieve increasingly efficient use of our properties and industrial assets. Two of our ongoing programs are considered strategic and were accelerated during crop year 2017/2018: the PSS and MEIOSI and agricultural automation (COA) programs.

The first program combines two different methods to improve production capacity: pre-sprouted seedlings (PSS), a technology that accelerates seedling production, and Simultaneously Occurring Intercropping and Rotation (MEIOSI).

In the PSS method, which supports rapid multiplication of sugarcane, mini-propagules (small segments of the stem where buds will form) are cut, treated and developed in greenhouses to produce high-capacity seedlings. The technology also helps to improve crop uniformity, vigor and health.

In the MEIOSI method, “mother” rows of sugarcane are planted in the winter and spring, and between them, at a ratio of 1:14, other commercial crops (such as soybeans or peanuts) or green manure crops (such

as crotalaria) are planted in October and November. In February and March the next year, the fallow crops are harvested and replaced with sugarcane using seedlings from the mother row.

These methods have been crucial in enabling São Martinho to achieve 100% utilization of our mill capacity of 24 million metric tons per year.

The second operational improvement initiative—our agricultural automation program, or COA—is currently at an advanced stage of implementation at our São Martinho operation, and will be rolled out at other mills in the coming years. The program will integrate the Company’s full range of advanced agriculture and precision agriculture systems—including onboard computers, driverless systems, drones, software and data management systems—to improve and modernize agricultural operations.

Enhanced cane field productivity

Ensuring efficient, high-quality, real-time communications remains a challenge for large-scale agricultural operations such as ours. With thousands of kilometers of roads on our properties, we believe that innovative technology can help to make our sugarcane field operations more efficient, safe and traceable.

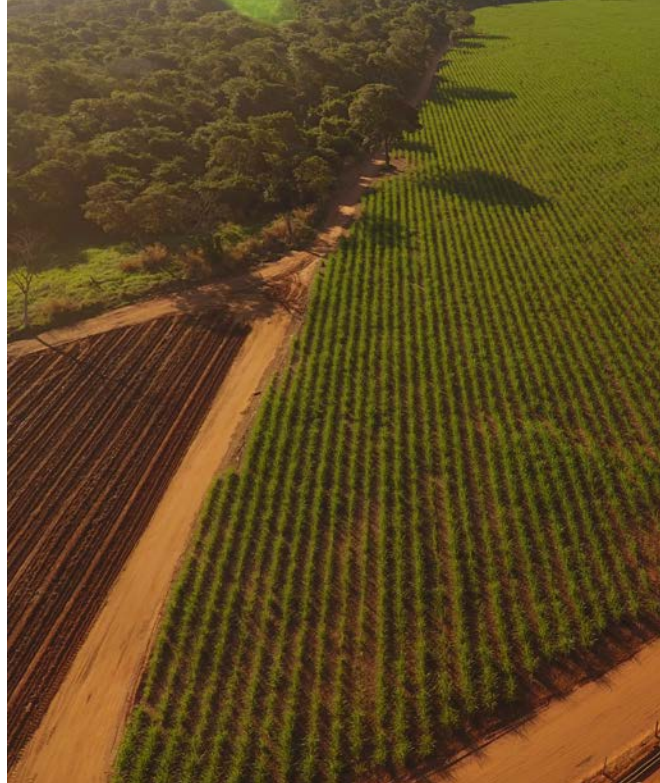
Because Internet service is largely unavailable in remote, rural areas, in 2015 São Martinho partnered with the Telecommunications Research & Development Center (CPqD) to develop communications systems that can be deployed in our operations.

In a program running to 2020, a total of R\$ 40 million will be invested in establishing a proprietary 4G environment at our operations. In crop year 2017/2018, further progress was made on deploying the telecommunications infrastructure at our São Martinho operation, the first to host the technology, and we expect to achieve full coverage of its 130,000 hectares of cropland within 2018/2019.

An integrated network transmitting data to our Agricultural Operations Center will support real-time monitoring of sugarcane haulage from Company and partner properties, and the progress of planting and harvesting operations, by monitoring the flows of farm machinery and vehicles. This will help to improve logistics efficiency and prevent operational issues, as well as allowing us to promptly respond to incidents.

Since 2010, São Martinho has also been engaged in an effort to integrate business management systems organization-wide in order to better align our operations with Brazilian and international standards on quality, safety and legal, social and environmental compliance.

São Martinho's management system is based on international requirements and standards



Integrated Management System

An important milestone in crop year 2017/2018 was the initial implementation of and Integrated Management System (IMS) that will harmonize the systems in place at our cane and mill operations as well as administrative processes.

The IMS program, a joint effort involving a large number of staff, has also implemented a function responsible for implementing the IMS Company-wide. The IMS system is designed to:

- Connect and create synergies across quality, safety and the environment in our operations;
- Integrate the implementation of and/or changes in Health, Safety, Environment and Quality systems across business units, in line with certification requirements under ISO standards;
- Improve social-impact assessments to better inform our management processes and ensure they are auditable in accordance with international standards such as ISO 26.000;
- Enhance our relations with stakeholders, and especially customers, by creating multiple channels to provide service (*read more in Relations - Customers*).



11

certifications attest to the
quality, sustainability and safety
of our operations

The IMS will provide a platform to organize, monitor and improve our practices in accordance with standards such as ISO 14.001 (environmental management), ISO 22.000 (food safety), ISO 55.000 (asset management), ISO/IEC 27.001 (information security), ISO 9.001 (quality management), Bonsucro (international sustainability certification for sugar supply chains), and ISO 45.000 (occupational health and safety management systems)

Our Certifications

BONSUCRO

GMP + B2

Kosher

Halal

**ISO
9000**

**ISO
14000**

**ISO
17025**

RFS2
Renewable Fuel
Standard (EPA)

LCFS
Low Carbon Fuel
Standard (CARB)

***Etanol
Verde***

***Energia
Verde***



RESULTS

Our historical results and the current industry outlook predict strong performance in line with our strategy

**OUR BEST FINANCIAL
PERFORMANCE ON RECORD:**



16%

net revenue growth compared with
crop year 2016/2017

R\$ 491.7 mn

in net income, up 73.2% compared
with the previous crop year



1.26×

Ratio of net debt to EBITDA in the
crop year, a near-all-time low

SDGs

Contents in this chapter are related to the following goals:



IN THIS CHAPTER

Operating and financial performance 32

Industry overview and outlook 36

Operating and financial performance

GRI 103-1, 103-2, 103-3 | 201

Crop year-end 2017/2018 closed a cycle of positive performance. São Martinho recorded significant growth in both financial and operating results in the crop year, due in great measure to our investments to improve productivity in field and mill operations, and the final consolidation of Boa Vista mill assets.

Total crush volume was 22.2 million metric tons of sugarcane in crop year 2017/2018, a 15.2% improvement from the previous crop year driven by higher cane-field yields, a 7.3% improvement in average TRS* and the full consolidation of Boa Vista.

Total TRS volume produced rose by 23.5% as a result. Sugar production was 1,407 thousand metric tons, 8.2% higher than in the previous crop year; ethanol production was 953,000 cubic meters, up 42.9%; and electric power exports were 913,000 MWh, rising 26.8%.

In terms of financial performance, net revenue grew by 16% in the crop year to a total of R\$ 3.6 billion, reflecting higher sugar sales (5.1%) combined with higher average selling prices (3%). Increased sales of hydrous eth-

**Total Recoverable Sugar.*

OPERATIONAL HEADLINES

	2016/2017	2017/2018	Change (%)
Sugarcane Processed (thousand metric tons)	19,281	22,206	15.2%
Company land	13,398	15,191	13.4%
Third party-sourced	5,883	7,015	19.2%
Mechanized Harvest	98.9%	99.8%	0.87 p.p.
Yields in the Period - (metric ton/ha)	78.7	79.1	1.1%
Average TRS (kg/mt)	1,303	1,398	7.3%
Production			
Sugar ('000 mt)	1,301	1,407	8.2%
Anhydrous Ethanol ('000 m ³)	398	487	22.4%
Hydrous Ethanol ('000 m ³)	269	466	72.9%
Electricity Exports ('000 MWh)	720	913	26.8%
TRS Produced	2,513	3,104	23.5%
Sugar-Ethanol Mix	54% - 46%	47% - 53%	
Anhydrous-Hydrous Mix	61% - 39%	52% - 48%	

anol (64.6%) and higher average electricity rates (35.4%) were additional factors in the positive performance in the crop year.

Net revenue from sugar sales was R\$ 1.78 billion in crop year 2017/2018, up 8.3% compared with the previous crop year. Hydrous ethanol sales were R\$ 763.5 million, climbing 60.6% from 2016/2017, largely driven by the consolidation of the Boa Vista mill.

Cumulative anhydrous ethanol revenues in the crop year were R\$ 808.5 million, up 5.9% reflecting a 7.4% increase in sales volumes in the crop year.

Net revenue from electricity sales was R\$ 207.3 million in the crop year, rising 36.3%. The improvement reflects a significant hike in electricity prices due to higher spot prices.

Net income in the crop year was R\$ 491.7 million, an increase of 73.2% over the previous crop year.

36.3%

increase in net revenue from
electricity sales

FINANCIAL HEADLINES (R\$ THOUSAND)

	2016/2017	2017/2018	Change (%)
Net Revenue ¹	3,122,347	3,621,987	16.0%
EBITDA (Adjusted)	1,445,083	1,949,994	34.9%
EBITDA Margin (Adjusted)	46.3%	53.8%	7.6 p.p.
EBIT (Adjusted)	707,172	1,054,412	49.1%
EBIT Margin (Adjusted)	22.6%	29.1%	6.5 p.p.
Consolidated Balance-Sheet Figures			
Total Assets	8,691,525	9,114,712	4.9%
Equity	3,403,320	3,289,775	-3.3%
EBITDA (last twelve months) ²	1,666,784	1,949,994	17.0%
Net Debt	2,584,549	2,462,768	-4.7%
Net Debt / EBITDA (last twelve months) ²	1.55 x	1.26 x	
Net Debt / Equity	76%	75%	

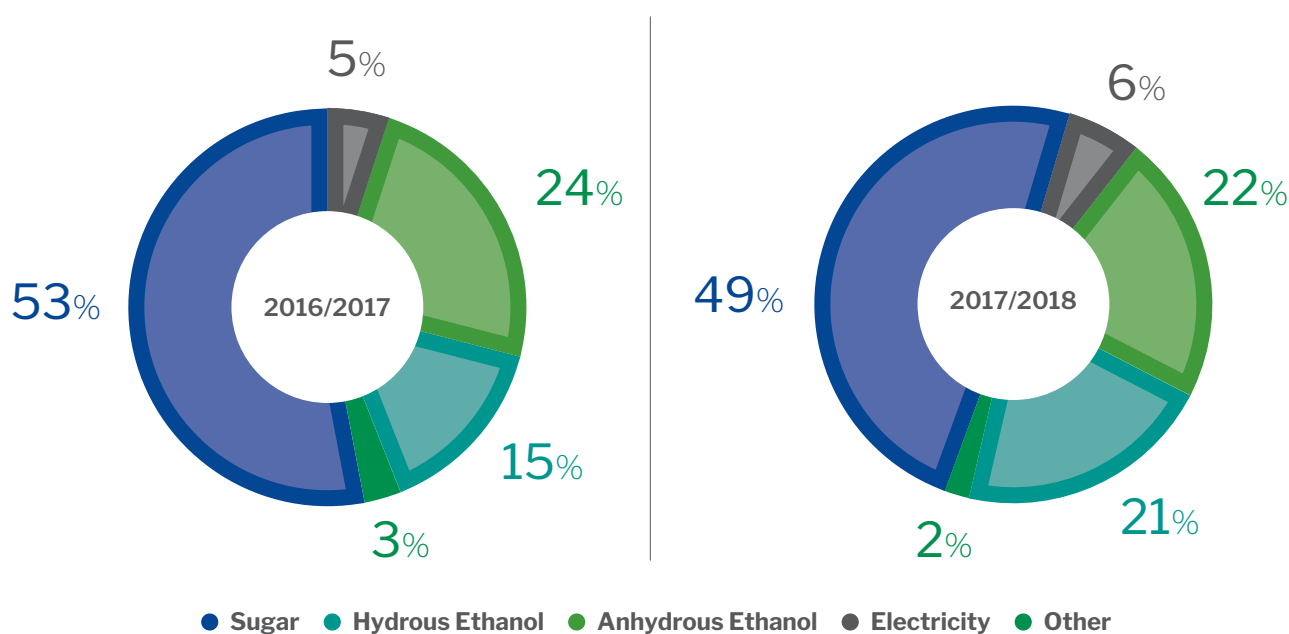
1 - Excluding hedging accounting for foreign-denominated debt and USC PPA.

2 - Including 100% of BV operation in EBITDA as of 4Q18.

CASH INCOME AND SHARES (R\$ THOUSAND)	2016/2017	2017/2018	Change (%)
Net Income	283,867	491,706	73.2%
Gain on BV Acquisition	(142,582)	–	n.m.
Book Income Tax	161,685	130,840	-19.1%
Income Tax Paid	(7,513)	(25,535)	239.9%
Biological Assets	24,207	63,064	160.5%
Debt/PPA Hedge	119,467	186,287	55.9%
Cash Income	439,130	846,362	92.7%
Ex-treasury shares (in thousands)	358,580	350,803	
Earnings per share	1.22	2.41	

TOTAL NET REVENUE (R\$ THOUSAND) GRI 201-1	2015/2016	2016/2017	2017/2018
Sugar	1,258,727	1,644,630	1,781,545
Hydrous ethanol	501,887	475,445	763,554
Anhydrous ethanol	799,775	763,431	808,455
Electricity	185,573	152,089	207,293
Real estate	23,210	21,289	8,419
Other	61,952	65,463	52,721
Net Revenue	2,831,124	3,122,348	3,621,987

NET REVENUE BY PRODUCT

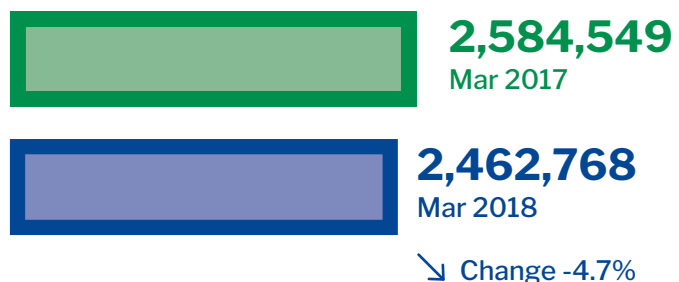


Controlling leverage was a key focus during the crop year with successful results, demonstrating resilience

Indebtedness

Despite the overall increase in leverage levels in the sugar and ethanol industry, we have successfully improved our debt profile year after year, mitigating exposure to risk and liquidity. Net debt was R\$ 2.46 billion as of March 2018, down 4.7% from March 2017, with a year-end indebtedness ratio of 1.26x. The reduction primarily reflects higher cash generation.

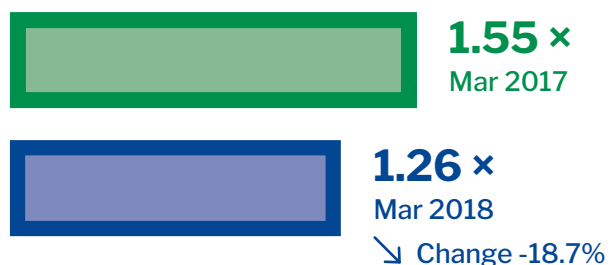
CONSOLIDATED NET DEBT (IN THOUSANDS OF R\$)



19.5%

CAPEX growth in 2017/2018
compared with crop year
2016/2017

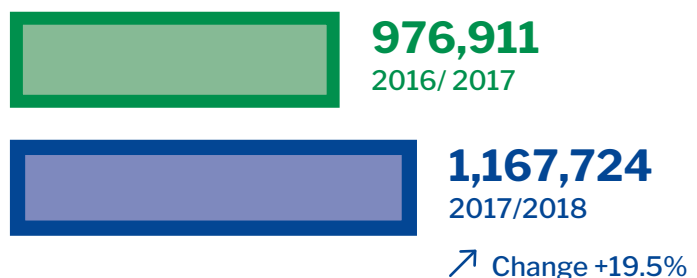
NET DEBT TO EBITDA



Capital Expenditure (CAPEX)

Capital expenditure rose significantly in 2017/2018 across maintenance—planting, intercrop maintenance (field and mill) and crop management—operational improvement, and modernization and expansion.

CAPEX (IN THOUSANDS OF R\$)



OTHER INDICATORS (IN THOUSANDS OF R\$)

COST OF GOODS SOLD (CASH COGS) – TOTAL



↘ Change -2.4%

OPERATING CASH GENERATION (ADJUSTED EBITDA)



↗ Change 49.1%

ADJUSTED EBITDA



↗ Change 34.9%

EBITDA MARGIN



↗ Change 7.5 p.p.

Industry overview and outlook

PRODUCTION GUIDANCE FOR 2018/2019

Operational projections for crop year 2018/2019 predict estimated crush volumes of approximately 20.6 million metric tons of sugarcane, decreasing 7.4% from the previous crop year, partly offset by an average TRS 2.0% higher than in crop year 2017/2018. Total TRS volume is projected to decline by approximately 5.5% as a result.

The lower crush volume estimate reflects the dry conditions since 2018, with only 41% of historical-average rainfall between January and June, and the larger field renewal area in the crop year as part of efforts at our São Martinho operation to achieve full utilization of installed capacity—24 million metric tons—over the following years.

In terms of the production mix, 65% of mill output will be ethanol (1.1 billion liters) versus 35% sugar (approximately 1 million metric tons).

According to data from the Brazilian Sugarcane Industry Association (UNICA), Brazil's Mid-South sugar and ethanol industry hub recorded total crush volumes of 596.3 million metric tons of sugarcane in the crop year, down 1.78% from the previous crop year, with an average TRS of 136.6 kg, up 2.68% from crop year 2016/2017. Out of total crush volumes, 46.46% went to sugar production and 53.54% to ethanol production.

PRODUCTION GUIDANCE

	Actual Crop Year 17/18	Guidance Crop Year 18/19	Change (%)
Crush volume ('000 metric tons)	22,206	20,570	-7.4%
Sugar ('000 mt)	1,407	980	-30.4%
Anhydrous ('000 m ³)	487	456	-6.5%
Hydrous ('000 m ³)	466	663	42.4%
Cogeneration ('000 MWh)	913	850	-6.9%
Average TRS (kg/mt)	139.8	142.6	2.0%
Total TRS produced	3,104	2,933	-5.5%
Sugar-Ethanol Mix	47% - 53%	35% - 65%	

30.4%

expected reduction in sugar
production in 2018/2019

42.4%

projected increase in total
(anhydrous + hydrous)
ethanol production at São
Martinho

RenovaBio

Launched in December 2016, and regulated by a presidential decree in 2018, the National Biofuels Plan (RenovaBio) is a Ministry of Mining and Energy program aimed at strengthening biofuel production in Brazil by building the capacity, efficiency, sustainability and competitiveness of biofuels producers in Brazil, including São Martinho.

The program applies to all low-carbon fuels including biogas, biodiesel and ethanol. The purpose of the program is to support international decarbonization goals in Brazil by putting a premium on energy efficiency and impact mitigation in order to provide a stimulus for private investment. The pillars of the program are: increasing the share of biofuels in Brazil's energy mix; setting rules for biofuels marketing; promoting biofuel innovation; and achieving economic, financial, social and environmental balance.

Implementing the RenovaBio program is strategic for São Martinho, and we actively participate in related industry advocacy forums. With an increasingly ethanol-weighted portfolio since the previous crop year, our goal is to capture opportunities in the market using a planned and sustainable approach to capitalizing on the more competitive market conditions provided by a clear industry stimulus policy.

CROP-YEAR HEADLINES



4.3 mn

seedlings planted within our *Viva a Natureza* program, versus an original target of 1 million seedlings



GHG Inventories

São Martinho uses greenhouse gas inventories to track emissions

SDGs

Contents in this chapter are related to the following goals:



ENVIRONMENTAL MANAGEMENT

IN THIS CHAPTER

Water resources 41
Waste 43
Emissions 44
Soil 45

Our approach to managing impacts encompasses resource efficiency and waste and emissions management



Environmental investments cover all cane-field and mill operations



Achieving eco-efficiency

At São Martinho the entire production cycle—from sugarcane planting and harvesting to mill and logistics operations—is taken into account in assessing impacts and opportunities for improvement. Our environmental management approach is based on the following drivers to achieve business sustainability:

- Water stewardship;
- Efficient waste management;
- Mitigating and adapting to climate change;
- Preserving soil and water quality;
- Protecting fauna and flora;

- Raising environmental awareness;
- Compliance with laws, regulations and other requirements and commitments.

These aspects can also affect our ability to create value and, ultimately, our profitability.

The environmental topics prioritized in our communications and management are in line with those identified in our materiality exercise, which identified the financial and non-financial topics that are most material to the business from stakeholders' point of view (*read more in Relations*).

Water

GRI 103-1, 103-2, 103-3 | 303, 306 303-2

Water stewardship, an essential requirement in our operations, is achieved through a management process that includes continuous metering of withdrawals from surface and groundwater for mill operations or human consumption. São Martinho has also invested in improving water efficiency as a way of minimizing total water withdrawals, and in testing the quality of effluents discharged into the environment to protect the water cycle and minimize impacts on natural ecosystems.

Different water sources are used for water supply depending on the operation. The Iracema operation withdraws water from two water bodies: Paramirim Creek and Iracema Creek. The São Martinho operation uses water

from three sources: Mogi Guaçu River, Triste Creek and the Guarani Aquifer (three wells).

Santa Cruz derives its water supply from four water bodies: Paulino Creek, João Mendes Creek, Anhumas Creek and the Guarani Aquifer (two wells). The Boa Vista operation sources water from two water bodies: Preto River and the Guarani Aquifer (one well).

A FOCUS ON RECYCLING

São Martinho has invested in water recycling in our operations to reduce water withdrawals. The total volume of water recycled and reused is based on the amount of water derived from sugarcane divided by water withdrawn from groundwater and surface water sources.

TOTAL WATER WITHDRAWAL BY SOURCE (IN M³) GRI 303-1

	2015/2016	2016/2017	2017/2018
Iracema	2,958,917	1,611,412	855,697
Surface water (wetlands, rivers, lakes, and oceans)	2,958,917	1,611,412	855,697
São Martinho	25,688,940	15,229,495	17,557,619
Surface water (wetlands, rivers, lakes, and oceans)	25,283,790	14,941,145	17,210,869
Groundwater	405,150	288,350	346,750
Boa Vista	4,908,564	5,144,546	5,609,925
Surface water (wetlands, rivers, lakes, and oceans)	4,068,590	4,210,183	4,588,633
Groundwater	839,974	934,363	1,021,292
Santa Cruz	3,551,633	3,839,793	3,562,939
Surface water (wetlands, rivers, lakes, and oceans)	2,978,065	2,686,010	2,680,003
Groundwater	573,568	1,153,783	882,936

The high rates of water recycling at our Iracema operation reflect the efficient use of water extracted from sugarcane in the evaporation process and water derived from the vinasse concentration process.

The higher water recycling rates at our Santa Cruz operation are thanks to improved recycling of condensate water.

At the Boa Vista operation, two different recycling methods are used depending on the withdrawal source. For well water, condensate water is recycled to the boiler, and monitoring

processes and other actions help to improve water recycling rates. For river water, residual water is used in fertigation.

In relation to water discharge, at the São Martinho mill water is treated in stabilization ponds before being discharged into the Mogi Guaçu River. At our Iracema, Santa Cruz and Boa Vista operations, water is discharged to sugarcane fields through fertigation. Waste-water may or may not be incorporated into vinasse and used in fertigation depending on cane-field requirements.

99.4%+

water recycling rate
at Santa Cruz

WATER RECYCLED AND REUSED GRI 303-3

	2015/2016	2016/2017	2017/2018
Iracema			
Total volume of water recycled or reused (m ³)	2,034,787	2,045,826	1,890,585
Recycling rate (%)	68.8	127.0	220.9
São Martinho			
Total volume of water recycled or reused (m ³)	7,198,965	6,945,298	7,009,635
Recycling rate (%)	28.4	45.6	39.9
Boa Vista			
Total volume of water recycled or reused (m ³)	3,050,982	2,097,979	2,532,225
Recycling rate (%)	62.2	40.8	45.1
Santa Cruz			
Total volume of water recycled or reused (m ³)	2,349,648	3,166,686	3,542,079
Recycling rate (%)	66.2	86.4	99.4

Waste

GRI 103-1 103-2 103-3 | 306

The effluents generated in our operations are monitored in terms of quantity and quality in accordance with applicable regulations.

GRI 306-1

The Waste Management Plan in place at São Martinho uses the 3 Rs concept of: reducing consumption of inputs and raw materials; re-utilizing materials and byproducts; and recycling materials to the extent possible.

The overarching goal of the program is to ensure that waste from field and mill operations is managed in a way that prevents harmful impacts on the environment and ensures that waste materials are adequately disposed of.

Our operations use weighing and recording systems to track outgoing waste streams. São Martinho, Santa Cruz and Boa Vista have waste sorting plants that help to improve waste segregation.

DISPOSAL OF HAZARDOUS WASTE (T) GRI 306-2 ALL OPERATIONS

	2015/2016	2016/2017	2017/2018
Reutilization	44	45	57
Co-processing	347	329	626
Reverse Logistics	134	231	157
Re-refining	247	313	397
Other	0	0	2
Total¹	771	917	1,238

DISPOSAL OF NON-HAZARDOUS WASTE (T) GRI 306-2 ALL OPERATIONS

	2015/2016	2016/2017	2017/2018
Mixing Yard	1,028,729	1,001,847	1,159,028
Reutilization	5,017,003	4,947,114	6,316,190
Recycling	3,189	5,147	4,418
Recovery (including energy recovery)	3,157	46	2
Landfill	860	1,064	1,013
Reverse logistics	875	879	1,175
Total²	6,053,814	5,956,891	7,841,826

¹ Types of waste disposed of: reutilization = drums/carboys/bags/bins; co-processing = materials contaminated with hydrocarbons (PPE, rags, plastic, paper, cardboard, cloth, air filters, hoses, timber, rubber and water)/glass wool/glass/oil sludge/grease; reverse logistics = batteries/packaging; re-refining = burnt oil.

² Types of waste disposed of: mixing yard = soot, ash and filter cake; reutilization = bagasse; recycling = metal/glass/paper/plastic; recovery = timber; landfilling = non-recyclable waste; reverse logistics = tires.

Emissions

GRI 103-1 103-2 103-3| 305-1,
305-2, 305-3

As part of our approach to managing greenhouse gas emissions, São Martinho prepares GHG emissions inventories to quantify emissions at each of our operations. We have also engaged in efforts toward climate change mitigation and adaptation, which include green harvesting, preventing and responding to fire outbreaks, using pesticides efficiently, expanding the use of biological control, and using byproducts for fertilization. In addition, our operations use appropriate equipment to manage fixed-point and mobile source emissions in accordance with applicable environmental regulations.

EMISSIONS FROM PRODUCTION¹ (tCO₂e)

Scopes ²	2015/2016	2016/2017	2017/2018
Scope 1	385,538.2	452,474	658,725
Scope 2	1,806.6	896	1,351
Scope 3	373,964.5	351,016	522,030
Total	761,309.3	804,386	1,182,106

1 The higher emissions in the crop year reflect the consolidation of the Boa Vista operation and reformulation of emissions calculations.

2 Scope 1 - Direct greenhouse gas emissions; scope 2 - Indirect emissions from purchased electricity; scope 3 - Other indirect greenhouse gas emissions

Annual greenhouse gas inventories are used to manage and monitor emissions at our operations

EMISSIONS INTENSITY (KG OF CO₂e PER METRIC TON OF SUGARCANE) CROP YEAR 2017/2018

	Iracema	São Martinho	Santa Cruz	Boa Vista	Total
Scope 1	30.7	23.9	37.3	32.6	29.7
Scope 2	0.1	0	0.1	0.1	0.1
Scope 3	28.2	21.5	26	22.5	23.5
Total	58.9	45.4	63.3	55.2	53.2

Soil

A soil conservation plan is in place that outlines soil management practices designed to ensure the soil is kept in a condition to be sustainably used for sugarcane cultivation and protected from degradation.

The soil management methods used at São Martinho include:

- Fertilization at each cycle to improve physical, chemical and biological properties;
- Replenishing organic matter using by-products;
- Using contour bunds and terraces to reduce slope lengths and the velocity of surface runoff, and increase water infiltration into the soil;
- Maintaining sugarcane trash on the soil to minimize the impinging impact of raindrops on the soil (increasing infiltration and reducing surface runoff). This also provides a source of organic matter and helps to retain moisture, improving the stability of soil aggregates;
- A soil cultivation system known as “minimal cultivation” helps to minimize soil disturbance on sugarcane plantations.

Biodiversity

Preserving and maintaining native vegetation—including protected areas and legal reserves—helps to protect biodiversity within and around our sugarcane fields. Our native reforestation programs are supported by Company-operated seedling nurseries producing native, fruit and exotic tree species. In addition to providing seedlings for reforestation initiatives on our own properties, portions of the seedlings we produce are donated to municipal governments, schools, NGOs, partners, employees and charities in neighboring cities.

In 2000, São Martinho S/A implemented an environmental preservation program called *Viva a Natureza*, with a mission of rehabilitating and protecting riparian vegetation, protecting springs, minimizing siltation in water bodies and preserving native species. The program has also helped to raise awareness among employees, students and surrounding communities about the importance of nature conservation. To date the program has planted a total of 4.3 million saplings.

COMPLIANCE

With respect for the environment as one of our values, São Martinho uses a balanced approach to preservation and compliance with applicable regulations, ensuring that we grow the business responsibly.

We monitor regulatory developments using a special software system, as well as our compliance with technical requirements under environmental licenses.

But we also go beyond compulsory legal compliance, and seek to anticipate potential, significant environmental impacts from our field and mill operations.

ENVIRONMENTAL EDUCATION

São Martinho operates an Environmental Education Center with a primary goal of raising awareness among employees, students and the broader community about the importance of preserving and respecting the environment and about sustainable sugarcane operations (*read more in Relations – Communities*).



RELATIONS

GRI 102-40, 102-42, 102-43, 102-44, 102-46, 102-47

How we work to generate positive impact on the value chain and strengthen our reputation

IN THIS CHAPTER

Employees 50
Customers 61
Government and industry 62
Market and investors 63
Communities 64
Supply chain 68



SDGs

Contents in this chapter are related to the following goals:



CROP-YEAR HEADLINES



2.5 TO 2.1

injury frequency rate (injuries per 1 million hours worked)



HR Awards

São Martinho received the following recognition in the crop year:

Best Companies for Career Beginnings



Best Place to Work for People with Disabilities



150 Best Places to Work
(the Best in the Agribusiness Industry)

Our network of relationships

Companies are dependent, for their existence and long-term sustainability, on building relations with stakeholders. São Martinho's largely rural operations generate geographically extensive impacts on a broad range of stakeholders—from employees and business partners to customers, government agencies, institutions, shareholders and investors.

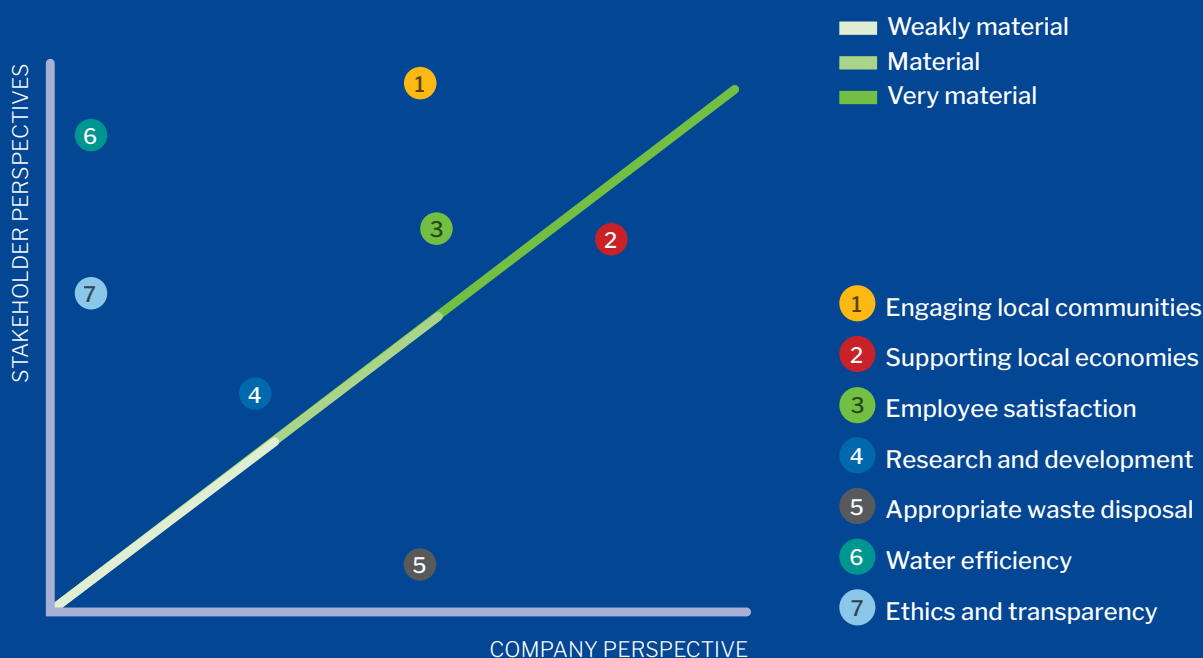
We recognize the need to understand our stakeholders' perceptions of our operations, and therefore we regularly conduct surveys to identify the most critical social, environmental, economic and financial issues from our stakeholders' perspective, in a materiality exercise conducted in accordance with Global Reporting Initiative (GRI) guidelines. The most recent materiality exercise, which informs the contents of this report, was conducted in 2015.

In 2018, a new edition of our materiality exercise was conducted based on: a review of documents, internal policies, industry research and interviews with executives (three executives interviewed) and sugar and ethanol industry experts; an online survey with more than 180 respondents (including representatives from the media, suppliers, employees, communities and sugarcane suppliers); and a workshop with employees from different functions.

This assessment will be used to update our materiality matrix—a list of the most material sustainability issues as rated by our internal and external stakeholders.

In the following reporting cycle, the revised materiality matrix will inform the disclosures and reporting indicators reported in our Annual & Sustainability Report. The disclosures contained in this report, while consistent with the new matrix, are still linked to the materiality matrix from the previous cycle (*see below*).

MATERIALITY



MATERIALITY

KEY



Employees (management and operation)



São Martinho



Iracema



Santa Cruz

Material aspect	Material topic	Boundary	
		Within the Organization	Outside the Organization
Economic performance	• Ethics and transparency	C SM IR SC	Local communities, Customers, Capital markets, Shareholders, Suppliers
Market presence	• Supporting local economies	C SM IR SC	Local communities, Suppliers
Indirect economic impacts	• Engaging local communities • Supporting local economies	SM IR SC	Local communities, Industry associations, Suppliers, NGOs, Public healthcare policies
Procurement practices	• Supporting local economies	SM IR SC	Local communities, Suppliers
Water	• Water efficiency	SM IR SC	Local communities, Municipal services
Effluents and waste	• Appropriate waste disposal • Water efficiency	C SM IR SC	Local communities
Employment	• Employee satisfaction	C SM IR SC	Local communities
Investments	• Ethics and transparency	C SM IR SC	Local communities, Customers, Shareholders, Government, Media, Suppliers, Capital markets
Non-discrimination	• Ethics and transparency	C SM IR SC	Customers, Local communities, Shareholders, Media, Suppliers
Local communities	• Engaging local communities	SM IR SC	Local communities
Anti-corruption	• Ethics and transparency	C SM IR SC	Customers, Capital markets, Shareholders, Local communities, Government, Media, Suppliers
Public policy	• Ethics and transparency	C SM IR SC	Industry associations, Capital markets, Shareholders, Local communities, Government, Media, Suppliers
Anti-competitive behavior	• Ethics and transparency	C SM IR SC	Suppliers, Customers, Capital markets, Shareholders
Grievance and complaints mechanisms related to impacts on society	• Engaging local communities • Employee satisfaction	C SM IR SC	Local communities, Class associations, NGOs

Note: information for our recently consolidated Boa Vista operation will be included in the disclosures for Annual Reports from crop year 2017/2018.



Employees

GRI 101-1, 103-2, 103-3| 401, 406, 412

Respect for life, safety, camaraderie and collaboration are core values underpinning interpersonal relations at São Martinho. From cane-field through administrative to mill operations, each member of our workforce is encouraged to develop new skills and competencies, adhere to our organizational culture, and champion our business success.

In recent years, São Martinho's human resources practices have gained market recognition through a number of high-profile awards in Brazil, including the following:

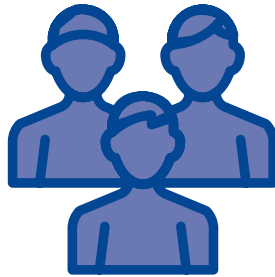
- **Best Place to Work**, a ranking list prepared by Você S/A, with São Martinho ranking first in the Agribusiness industry in 2017. We have been nominated to the list since 2012.
- **Best Companies for Career Beginnings**, compiled by Você S/A, with São Martinho ranking on the list since 2015.
- **Best Companies for People with Disabilities in São Paulo State**, a ranking prepared by the São Paulo State Office for People with Disabilities. São Martinho was among the 15 finalists in 2016 and 2017.

These results have been supported by investments including employee benefits, training and capacity building, as well as occupational health and safety improvements.

Our human capital consisted of 12,312 direct employees at crop year-end 2017/2018. São Martinho's workforce—predominantly male employees—is largely employed in operational areas. All personnel are employed

12,300

direct employees form our
workforce



under employment agreements conforming to Brazilian Consolidated Labor Regulations (CLT). In addition to direct employees, we also employ 745 third-party employees in our operations as well as 520 seasonal workers in accordance with applicable labor regulations. [GRI 102-8](#)

All employees are covered by collective bargaining agreements. At São Martinho we believe that building positive relations with unions is essential in sustaining well-balanced dialog between employers and employees. In periodic collective bargaining processes, all demands put forward by employee committees and unions are discussed and considered to reach a consensus on options that are practicable and reasonable for both parties. All collective bargaining agreements contain clauses on consultation and negotiations. [GRI 102-41](#)

Protecting human rights is a highly material issue in our industry. At São Martinho, human-rights issues are addressed through people development programs, our Code of Ethics and Business Conduct, and events such as Occupational Injury Prevention Week. During induction training, all employees receive copies of our Code of Ethics and Business Conduct; employees are required to sign and confirm receipt of this information, and that they understand and agree to comply with the Code.

In crop year 2017/2018 São Martinho organized a wide range of training programs on human rights, including a Behavioral Awareness Program, a Leadership Summit, Occupational Injury Prevention Week, the “Second Half” program and trainee induction training. All employees attended at least one training session on human rights. [GRI 412-2](#)

As part of our efforts to combat discrimination, an Ethics Hotline managed by an independent, specialist firm is available for anonymously and confidentially reporting concerns.

Discrimination issues are monitored based on Ethics Hotline reports or labor complaints alleging discrimination. [GRI 412-3](#)

Our recruiting, development and compensation policies are designed to attract, retain and train top talent in line with industry best practice. We also actively disseminate our values of ethics, integrity and respect for people.

Termination processes are monitored by Company management. São Martinho’s Employee Relations Management Cell works to prevent turnover and ensure that any terminations which cannot be prevented are effected in accordance with the organization’s ethics principles. We provide terminated employees with guidance through a New Horizons handbook with advice on financial management and seeking new employment opportunities.

Workforce snapshot GRI 102-8,

401-1, 202-2

EMPLOYEES BY EMPLOYMENT CONTRACT AND GENDER

Contract type	2015/2016		2016/2017		2017/2018	
	Men	Women	Men	Women	Men	Women
Definite term	543	40	508	53	1007	27
Indefinite term	8819	764	8805	719	10440	838
Total by gender	9362	804	9313	772	11447	865
Total	10,166		10,085		12,312	

WORKFORCE BY EMPLOYMENT TYPE

Employment type	2015/2016		2016/2017		2017/2018	
	Men	Women	Men	Women	Men	Women
Full time	9236	784	9158	737	11437	864
Part time	126	20	155	35	10	1
Total by gender	9362	804	9313	772	11447	865
Total	10,166		10,085		12,312	

WORKFORCE BY EMPLOYMENT CONTRACT AND REGION

Region	2015/2016		2016/2017		2017/2018	
	Definite term	Indefinite term	Definite term	Indefinite term	Definite term	Indefinite term
Midwest	0	0	0	0	207	2139
Southeast	583	9583	561	9524	827	9139

WORKFORCE BY CATEGORY

Employee category	2015/2016		2016/2017		2017/2018	
	Men	Women	Men	Women	Men	Women
Board (Board of Directors + Audit Board)	10	0	10	0	10	0
Senior Management	8	1	8	1	10	1
Middle Management	27	2	29	2	27	2
Leader/coordinator	43	3	44	3	50	2
Technical/supervisor	286	9	282	8	389	10
Administrative	370	170	355	179	421	217
Operational	8,435	583	8,373	534	10,476	628
Trainees	16	11	19	9	23	10
Support	51	2	64	2	84	6
Third-party	1,122	77	2,436	118	632	113
Apprentices	134	23	147	35	138	55
Interns	23	23	16	16	19	25
Total	10,358	904	11,783	907	12,280	1069

*Governance bodies = boards

**Interns and apprentices are employed under a special legal framework and are therefore not considered employees.

***Information for our Boa Vista operation was incorporated in the previous crop year.

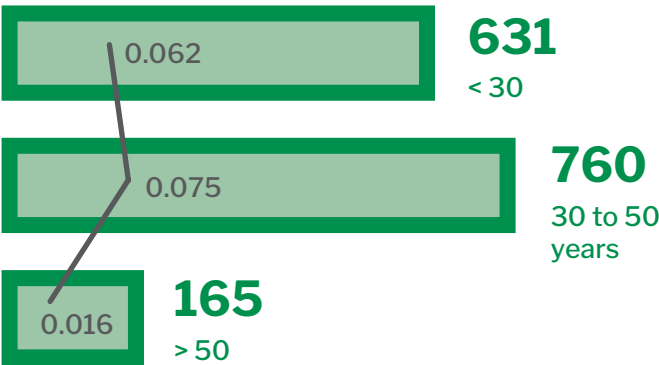
**** Information was compiled from a monthly employee database report (March/18).

Most of our workforce is made up of male, full-time employees, in the Southeast

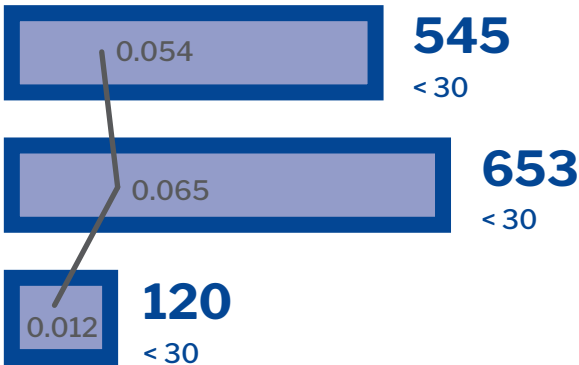
RATE OF NEW EMPLOYEE HIRES BY AGE GROUP

■ Total number
— Rate

2015/2016



2016/2017



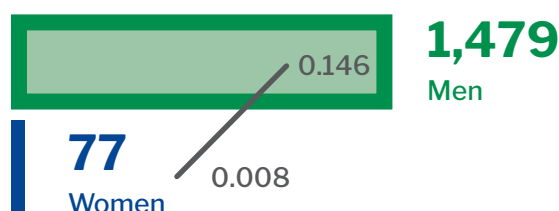
2017/2018



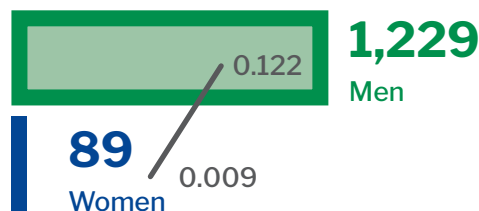
Hiring levels at São Martinho reflect demand and sugarcane processing volumes, and rose substantially in 2018

TOTAL HIRING RATE, BY GENDER

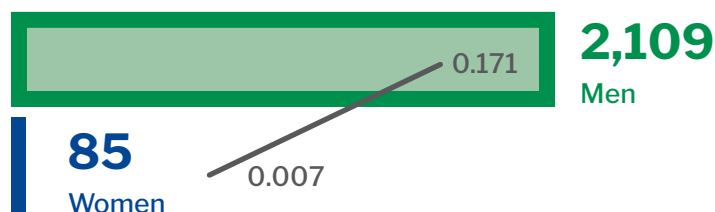
2015/2016



2016/2017



2017/2018



■ Total number
— Rate

TOTAL HIRING RATE, BY REGION

Region	2015/2016		2016/2017		2017/2018	
	Total number	Rate	Total number	Rate	Total number	Rate
Southeast	1556	0.153	1318	0.131	1419	0.115
Midwest					775	0.063

***Information for our Boa Vista operation was incorporated in the previous crop year.

TOTAL RATE OF EMPLOYEE TURNOVER BY AGE GROUP

Age group	2015/2016		2016/2017		2017/2018	
	Total number	Rate	Total number	Rate	Total number	Rate
Under 30	460	0.045	443	0.044	342	0.028
30 to 50	824	0.081	753	0.075	929	0.075
Over 50	296	0.029	241	0.024	431	0.035

***Including Board Members, Senior Management, Interns, Trainees, Apprentices and Third-Party Employees.*

TOTAL RATE OF EMPLOYEE TURNOVER BY GENDER

Gender	2015/2016		2016/2017		2017/2018	
	Total number	Rate	Total number	Rate	Total number	Rate
Men	1,452	0.143	1,305	0.129	1576	0.128
Women	128	0.013	132	0.013	126	0.010

TOTAL RATE OF EMPLOYEE TURNOVER BY REGION

Region	2015/2016		2016/2017		2017/2018	
	Total number	Rate	Total number	Rate	Total number	Rate
Southeast	1580	0.155	1437	0.142	1348	0.109
Midwest					354	0.029

****Information for our Boa Vista operation was incorporated in the previous crop year.*

EMPLOYEES SOURCED FROM LOCAL COMMUNITIES

	2015/2016	2016/2017	2017/2018
Total members of senior management	10	9	11
Members of senior management hired from the local community	6	6	10
Proportion of senior management hired from the local community	60%	60%	91%



Benefits provided

GRI 401-2

- health and dental insurance
- on-site cafeterias
- grocery vouchers
- meal vouchers (São Paulo)
- collective life insurance
- supplementary health benefits (reimbursement for classes, contact lenses, braces and prosthesis)
- shopping cards/advances
- PBM (drugstore cards or discounts)
- Christmas hampers
- credit cooperatives
- workplace exercise
- extended parental leave in accordance with “Corporate Citizenship” regulations
- shuttle buses for operations and transportation tickets for our São Paulo office
- pension plans
- flu vaccination



EMPLOYEE RETENTION

The benefits we offer to employees are in line with our business strategy and extend beyond compulsory legal requirements to include attractive perks and fringe benefits. These benefits are offered to all eligible employees within the relevant business unit.

15

benefits offered to employees

Communications and culture

GRI 103-1, 103-2, 103-3 | 401, 412

A Communications & Culture Assessment conducted in crop year 2016/2017 has continued to inform our investment and initiatives at São Martinho. The assessment identified the key attributes of our organizational culture, elicited the views of employees, and designed the required attributes and functionality of, and opportunities for, our communication channels.

The process included discussions with employees in all operations, functions and shifts through focal groups, individual deep-dive interviews, and quantitative questionnaires. The findings from the assessment have underlined the importance of conducting business the São Martinho Way and have been translated into Our Beliefs (read more on page 12).

COMMUNICATIONS CHANNELS

Internal stakeholder communications channels are managed by our Corporate Communications function and provide a platform for publishing daily news, communicating strategies and mobilizing employees around key campaigns. Our main communications channels are the following:

- Our People – a quarterly newsletter enclosed with employees' paychecks that is

geared especially for employees who are unable to regularly access the Intranet. The newsletter features articles about day-to-day activities, training, prizes and current events;

- Our News – a six-monthly newsletter, with a circulation of 5,000 copies, geared to external stakeholders including investors, opinion makers, community members, suppliers as well as administrative employees;
- Our Weekly News – a two-weekly newsletter delivered to employees with e-mail access, and also available on the Intranet and our institutional website;
- Bulletin boards - bulletin boards provide timely information at strategic locations such as offices, industrial facilities and buses used to transport workers in our cane-field operations;
- Internal campaigns – internal campaigns are used to disseminate and inform our employees about strategic initiatives within the Company;
- Manager's Agenda – a tool designed to equip managers with the information they need to work with their teams.
- Intranet – an internal webpage with daily news about developments and events within the Company.
- Social media – São Martinho has a presence on Facebook (22,000 likes) and LinkedIn (over 37,000 followers).

We maintain continuous communications with employees through both online and off-line channels

Career development

Initiatives supporting the technical, behavioral and educational development of our employees

Operational behavioral awareness

Implemented nearly 20 years ago, this program provides employees with an immersion in our values, mission and vision, the São Martinho Way, and our strategies;

Succession planning We monitor key positions and work to develop, retain and engage the right talent to fill those positions. Each unit has committees responsible for identifying talent;

Career Pathways and Leadership/Field & Mill Operations Meetings

Delegates meet at these events to identify the right profiles to fill positions in our field and mill operations and design talent demand plans aligned with career management goals.

Trainee Program A human resources development program designed to attract and retain potential talents and prepare them for future challenges and strategic positions within the Company.

Values in Practice Program: A human resources development program designed to empower and accelerate the professional and career development of employees at São Martinho.

Leadership Training Program This program is designed to prepare talents for leadership positions and management activities.

651

people trained within our Leadership Development Program

86%

Engagement score as measured by our recent Climate Survey, 14 percentage points above the market average



Gaging climate

GRI 102-43, 102-44

São Martinho uses a number of tools as thermometers to assess opportunities to improve the work environment: Organizational Climate Surveys conducted by Aon, and Employee Satisfaction Surveys run by *Exame* and *Você S/A*. Both surveys provide an opportunity to develop action plans based on survey findings.

Our engagement score as measured by the previous Organizational Climate survey was above the market average (72%) at 86%. And our climate score, as measured by *Você S/A* (within the 150 Best Places to Work survey), was 92.7%, 6% above the average for companies in the ranking.

Health & safety

Our commitment to employee health and safety is reflected in our numbers: more than 15 health and safety initiatives are in place to ensure the well-being of our field, mill and office employees.

São Martinho's Health & Safety Policy, and a management system designed to international standards, provide a framework for communicating health and safety requirements, raising awareness among employees about the importance of safe work, and ensuring that we promptly respond to risks, accidents and incidents in a way that is consistent with the needs of each operation.

Our health and safety principles are as follows:

- Leaders are ultimately responsible for managing health and safety;
- Identifying, controlling and eliminating and/or mitigating hazards and risks is a shared responsibility;
- Health and safety are among our values at São Martinho and are crucial for our business success;
- Striving for excellence in occupational health and safety is an integral part of our day-to-day activities;
- No job is so important and no service is so urgent that we cannot take time to plan and perform our work safely.

As a result of our health and safety efforts, our injury frequency rate—or the number of injuries per million hours worked—declined from 2.5 in 2016 to 2.1 in 2017.

Programs and initiatives

- Action on Smoking
- Hypertension Management and Prevention
- Workplace Exercise and Health Checkup Program
- Balanced Nutrition
- *Sempre Saúde*
- Vaccination Campaign
- Temporary Re-Adaptation Program
- Occupational Health Management Program
- Water, Food and Waste Management Program
- Hearing Protection Program.
- Environmental Risk Prevention Program
- Regulatory Standard Implementation Program
- Internal Occupational Accident Prevention Week (SIPAT)
- Internal Rural Accident Prevention Week (SIPATR)
- Cross Inspections



Customers

Our business is linked to important industries in Brazil and internationally: São Martinho's product portfolio serves customers in industries such as food and beverages, animal nutrition, fuels, coatings and consumer products.

We take a win-win approach to doing business with customers. A structured Commercial and Logistics function is responsible for managing interactions and business with—typically medium- and large-size—companies. A range of institutional documents, policies and communication channels—including our company website and institutional publications—support the develop-

ment of commercial accounts, in addition to commercial roadshows and meetings on demand.

Due to the nature of our business, commercial agreements are typically concluded with mature and well-structured corporations that require their suppliers to meet stringent requirements on quality, safety and compliance. To ensure that we uphold those standards, São Martinho has a formally documented Food Quality & Safety Policy that underpins our practices. Our field and mill operations are certified to international standards such as ISO and Bonsucro (read more in Integrated Management System) and are periodically audited.

In crop year 2017/2018, São Martinho's customer base comprised companies operating in Brazil as well as in Africa, Europe, Asia and the Americas.

Customer snapshot

116

companies do business
with São Martinho

49

medium and large
companies

57%

of revenue derived from
three largest ethanol
buyers

19

countries served on
4 continents

52%

of revenue derived from
three largest sugar buyers

67%

of cogen power output sold
to other companies

Our membership of industry associations and organizations is a way to exercise thought leadership in important discussions in our industry

Government and industry

GRI 103-1, 103-2, 103-3 | 415, 102-12, 102-13

São Martinho also works to build positive relations with organizations representing the municipal, state and federal levels of government, competitors in our industry, and institutional partners in general.

Our interaction with these stakeholders is governed by ethics, integrity and compliance policies, and is for the purpose of advocating our interests to government and society, and supporting the development of the sugar and ethanol industry in accordance with industry best practice in sustainability.

São Martinho is an active member of the Brazilian Sugarcane Industry Association (UNICA), which provides an opportunity to establish relations with government representatives. In Brazil, policy advocacy within the sugar and ethanol industry can only be mediated through industry and employer associations and organizations.

With representatives on the UNICA Board Of Directors, at the Center for Company-School Integration (CIEE), and on the Board of Directors of Centro de Tecnologia Canavieira S.A., São Martinho has the opportunity to discuss, develop and promote good practices in agriculture, exercise thought leadership in our industry, and develop ways to maximize value while supporting sustainable development.

Other organizations of which we are members include the São Paulo State Industry Federation (FIESP) and its Department of Infrastructure, and the São Paulo State Sugar Industry Union (SIAESP).

Our representatives' participation in these forums and organizations is governed by our Code of Ethics and Business Conduct as well as risk management and anti-corruption requirements, as in our routine activities.

It is not our policy at São Martinho to make donations to political parties, and we have internal policies requiring that our social investments be within the limits stipulated by applicable regulations and our internal rules, and meet established investment criteria. São Martinho made no donations to political parties in crop year 2017/2018. [GRI 415-1](#)

Market and investors

As a listed company, we recognize that building professional relations with the capital market is strategic to ensuring the availability of financing for our activities, cultivating a positive reputation, and building trust with investors and shareholders.

Our Investor Relations (IR) Department is responsible for overseeing these activities, including disclosures to the market—financial statements, earnings releases, and company notices—as well as regulatory filings through structured channels. Disclosures are

published in two languages (Portuguese and English) and at a frequency that is consistent with generally accepted market practices.

As part of our commitment to keeping the market informed about our financial position and results of operations, São Martinho's IR and Financial departments communicate regularly with experts, opinion makers and financial institutions by attending national and international forums, meetings and roadshows.

These outreach efforts, combined with consistent financial reporting, earned the Company a sustained BB+ (global scale) and BrAAA (national scale) risk rating from global rating agency Standard & Poor's. São Martinho's assigned rating is better than Brazil's sovereign rating and reflects our solid financial position, strong liquidity, and our capacity to adequately leverage assets to drive results.

OWNERSHIP STRUCTURE

Shareholders	Common Shares	%
LJN Participações S.A.	190,242,864	52.26
Indirect Controlling Shareholders	12,789,105	3.51
Executives	2,333,734	0.65
Treasury	13,074,163	3.59
Outstanding	145,571,463	39.99
Total	364,011,329	100.00

Our relations with the capital market are underpinned by transparent communications and clearly demonstrate a commitment to translate strategy into results

Communities

GRI 103-1, 103-2, 103-3 | 203, 413, 203-2,
203-3, 413-1, 413-2

With its far-reaching presence in rural communities and its ability to create job opportunities and sustain entire value chains, the sugar and ethanol industry is an important agent of local development in Brazil. Economic activation, direct and indirect job creation, skills building and supplier development are some of the direct benefits linked to companies such as ours—and this demonstrates the strategic importance of these aspects for the business.

São Martinho’s Social Responsibility Policy outlines guiding principles for our business activities, including respect for people, building positive relations with communities, ethics and transparency. Although we have not adopted a specific policy addressing local communities, we use our best efforts

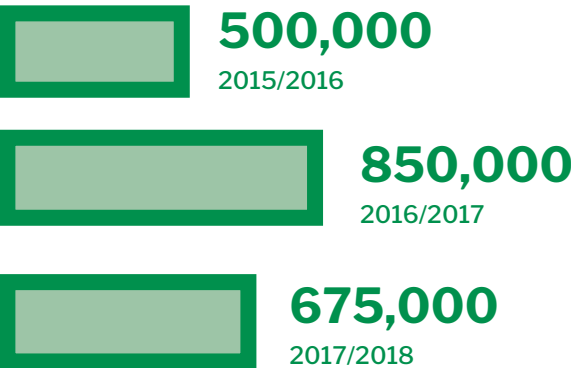
to deliver positive impacts through community engagement and social investment connected with the needs of surrounding communities.

Our operations provide voluntary financial support out of company funds to selected social responsibility programs, projects and initiatives. Focus areas include basic and professional education, sports and culture—and generally projects with the potential to promote social values, build our reputation and mobilize social actors. Communities are engaged with initiatives through meetings organized by the Company with education and culture departments and municipal government agencies.

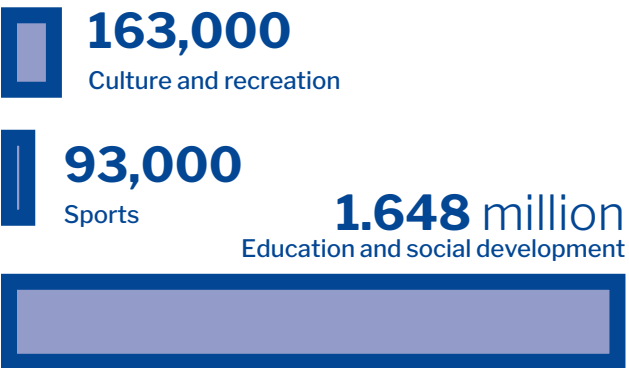
Our relations with communities currently revolve around the human resources functions at each business unit. A significant investment in crop year 2017/2018 was a social assessment to more effectively target our social investment. The practical initiatives planned, and the results of the program, will be reported in the following reporting period.

Results

COMMUNITY SUPPORT (R\$)



INVESTMENTS BY CATEGORY IN CROP YEAR 2017/2018 (R\$)





Volunteerism

The social initiatives we organize at São Martinho are disseminated to all employees through our internal communications channels. Some of our most important initiatives include:

Future Entrepreneurs

Developed at our Iracema operation, this program provides secondary education students with insight into how our company works. The initiative includes an introduction to concepts such as marketing, finance, human resources and production. Over a period of 15 weeks, participants have the opportunity to develop and market a product using their own market research. The program is supported voluntarily by employees at our Iracema operation, who participate in the initiative as mentors. Students also participate voluntarily, with classes given after hours. The program is a partnership with NGOs Junior Achievement and Instituto de Desenvolvimento de Limeira (IDELI).

Hunger-Free Christmas

This campaign is organized at all our operations to encourage giving and volunteerism among internal stakeholders. Employees do-

nate nonperishable food for charities in the municipalities of Pradópolis, Iracemápolis, Américo Brasiliense and Quirinópolis (GO).

Winter Clothing Campaign

This program is also organized company-wide, with employees donating winter clothing and blankets for impoverished members of the community. The program is sponsored by the social funds of some municipalities near our São Martinho operation, with support from the Company.

Blood and bone marrow donation

This campaign is organized annually to mark World Blood Donor Day. Our São Martinho operation, in partnership with the Blood Center, collected blood samples to identify potential donors of bone marrow. A total of 28 employees also donated blood at the on-site clinic, and 39 employees donated blood at the Blood Center in crop year 2017/2018. Our Santa Cruz operation hosted a lecture to discuss the importance of blood donation and registering as a bone-marrow donor, with a total of 55 employees signing up as donors. Our Iracema and Boa Vista operations created a database of employee blood types.

Key programs

Education and social development



APPRENTICE PROGRAM

Where: all business units

In 2017: 195 apprentices aged 16 to 24 received training

The program provides professional training for positions such as sheet-metal worker, industrial maintenance mechanic, administrative assistant, store-keeper, machining mechanic, and farm machinery and heavy vehicle mechanic. After receiving certification, students are enrolled in a selection process for positions within the company. As part of the program, our São Martinho operation sets up a training room for people with disabilities at the Ribeirão Preto Association of People with Visual Disabilities (ADERVIP), in partnership with the Industry-Led Education Service (SENAI).

TELE-EDUCATION

Where: Iracema

In 2017: 80 students

This program is run by our Iracema operation in partnership with Fundação Bradesco and the Municipal Government of Iracemápolis. It offers youth and adults the opportunity to complete secondary education at a facility with tele-education rooms, equipment, education materials and monitors, with all costs defrayed by the Company.



PRIMEIRO EMPREGO PROJOVEM E PATRULHEIROS

Where: Iracema and São Martinho

In 2017: 51 students received training

Run in partnership with organizations in Iracemápolis and Pradópolis, this program has for two decades provided public students aged 16 to 18 with training and job opportunities. At the end of the program, students are given the opportunity to either remain with the Company or participate in recruiting programs within a year of completing the program.

PROGRAMA BOM ANO ESCOLAR

Where: Iracema and Santa Cruz

In 2017: More than 1,500 kits donated

This program raises awareness about the importance of education and helps employees keep their children at school by providing free school-supply kits. Employees are given the opportunity to apply for the benefit each year.

ENVIRONMENTAL EDUCATION

Where: São Martinho, Santa Cruz and Boa Vista

In 2017: 4,312 visitors

At São Martinho we disseminate our culture of environmental stewardship to the stakeholders affected by our operations through Environmental Education Centers (CEA). These centers support environmental education by raising awareness among employees, students and the broader community about the importance of preserving and respecting the environment. Environmental Education Centers have been set up at three of our operations: São Martinho, in Pradópolis; Usina Santa Cruz, in Américo Brasiliense; and Usina Boa Vista, in Quirinópolis. Combined, these centers have received a total of 115,000 participants.

Culture and recreation



TEATRO PREFEITO VIRGÍNIO OMETTO

Where: Iracema

In 2017: dance, music and drama performances for the community.

This program is a partnership with Associação Movimento Arte e Cultura de Iracemápolis (AMACI). Our Iracema operation refurbished an old movie theater in the city and transformed it into a regular theater with a seating capacity for 324 people and a stage approximately 12 meters wide. The association receives monthly support from our Iracema operation to keep the theater open.

TEATRO NA CIDADE

Where: all business units

In 2017: 12,000 people reached

This initiative brings cultural attractions for children and adults to the municipalities of Pradópolis, Iracemápolis, Américo Brasiliense and Quirinópolis. In 2017, the program featured free plays, circus performances, movie sessions, educational workshops and storytelling events for communities

BOOK FAIR

Where: São Martinho

In 2017: 100 employees benefited

On an annual basis, our São Martinho operation provides employees with the opportunity to visit the National Book Fair in Ribeirão Preto. The Company also encourages reading by donating books to all participants in the program.

Sports

SÃO MARTINHO CROSS-COUNTRY MARATHON

Where: São Martinho

In 2017: 1,900 people signed up for the marathon, including 500 employees

On an annual basis, a cross-country marathon organized by São Martinho takes runners along trails through forest areas, protected areas and the operation's cane fields. In 2017, professional and amateur runners competed in 5 and 10 kilometer events, and children aged 8 to 14 competed in shorter-distance events. Participants were presented with medals along with native tree saplings.

SESI GAMES

Where: Iracema

In 2017: 82 people signed up for the games

Our Iracema operation was the winner of the 70th edition of the Sesi Industry Games. Employees won first place in 13 competition events and second place in 3 events. This is Iracema's third consecutive championship win. Individual winners will also have the opportunity to compete in the Sesi Regional Games. The event helps to build camaraderie among employees and the community.

The Sesi Industry Games comprise a total of 24 events, of which Iracema won 13: Men's Athletics, Women's Athletics; Men's Beach Volleyball; Women's Beach Volleyball; Men's Volleyball; Women's Volleyball; 3-a-Side Basketball; Arm Wrestling; Men's Tug of War; Women's Tug of War; Snooker; Men's Swimming; and Women's Swimming. We also came second place in the Snooker; Men's Beach Volleyball and Checkers events.

IRACEMA INTERNAL SOCCER TOURNAMENT

Where: Iracema

In 2017: 150 participants

The Iracema Internal Soccer Tournament (TIFUI) is organized each year during the inter-crop season. All materials and gear for the tournament, which is hosted on Company premises, are supplied by São Martinho.

Diversity and inclusion initiatives

Empresa Cidadã

Implemented at all business units, this program extends maternal leave from 120 days to 180 days, and paternal leave from 5 to 15 days, as permitted by federal regulations. All women employees are eligible to spend six months of home following childbirth before returning to work.

Economically active social inclusion

This program was implemented at all operations in 2013. It provides professional training courses to people with disabilities in partnership with the Ministry of Employment, the Industry-Led Training Service (SENAI) and the municipal governments of Guariba, Pradópolis, Barrinha, Araraquara, Américo Brasiliense, Iracemápolis and Quirinópolis (GO). The primary goal of the program is to provide people with disabilities with the skills needed to more effectively engage in the employment market. Approximately 250 people have received professional training to date.

Hiring People with Disabilities

São Martinho recruits people with disabilities based on a an assessment of job descriptions and available positions at each operation. Initiatives are organized to raise awareness and help new employees feel welcome within the teams they will be joining, and their progress is monitored on a quarterly basis or as otherwise necessary, and they also receive monthly training. Other initiatives for people with disabilities include monthly donations by our Iracema operation to the Limeira Child Rehabilitation Association and the Limeira Association of Parents and Friends of People with Special Needs (APAE). In 2017, São Martinho became a sponsor of the Association for Assistance to Disabled Children (AACD) and, through the Quirinópolis (GO) Municipal Council for the Rights of Children and Adolescents (GO), has supported the Dr. Alfredo Mariz da Costa Center for Specialist Education, which provides daily support to approximately 150 people with disabilities in the municipality.

Supply chain

GRI 102-9, 102-11, 103-1, 103-2, 103-3 | 202, 204, 202-2, 204-1

Our sphere of influence also includes an extensive network of small, medium and large companies supplying raw materials, products, inputs, equipment and services to our operations. We require companies doing business with us to adhere to principles that include mutual development, ethics and a commitment to quality, competitiveness and safety.

By doing business with and supporting technological development and capacity building in our supply chain, São Martinho delivers one of the primary impacts inherent to companies in our industry: social and economic development.

We have a wide range of active, onboarded suppliers across 60 categories, including raw materials, inputs, equipment, services, logistics and sugarcane. These partners are selected on the basis of criteria that include quality, price, leadtimes, and tax and financial-reporting compliance.

Partners are onboarded in accordance with regulatory and Company requirements, and are required to provide assurance that they will fully comply with Brazilian laws and regulations, especially labor and human-rights regulations.

Combating child labor, slave or degrading labor, and discrimination, and observing international labor conventions, are compulsory conditions for doing business with São Martinho.

60

supplier categories are used
in our vendor database

851

sugarcane growers form part
of our supply chain

PROPORTION OF SPENDING ON LOCALLY-BASED SUPPLIERS* GRI 204-1

	2015/2016	2016/2017	2017/2018
Iracema	46.6%	53.5%	58.3%
São Martinho	37.3%	38.0%	40.7%
Boa Vista	-	-	17.7%
Santa Cruz	40.4%	48.1%	39.3%

** São Martinho defines locally-based suppliers as companies within approximately 150 km of our operations.*

SUGARCANE GROWERS

GRI 102-43, 102-44

Sugarcane growers are a crucial part of São Martinho’s supply chain and are critical for our routine operations. Some 851 sugarcane growers produce approximately 6.8 million metric tons of sugarcane under contract with the Company. These, combined with our 918 agricultural partners and lessors, supply sugarcane from a total area of cropland of approximately 199,734 hectares. Unlike in the previous report, this figure includes our 100% interest in the Boa Vista operation.

Sugarcane suppliers have an exclusive, restricted-access section on our website, with a wide range of functionality, where they can track their financial, technical and production data. We also organize meetings with sugarcane growers where we present our business results and share experience and insight about projects, strategies and innovation.

As part of our strategy to improve cane yields and quality, a team of eight field technicians from São Martinho visits sugarcane growers’ properties to identify potential areas for improvement and monitor the quality of field operations.

ABOUT THIS REPORT

GRI 102-45, 102-48, 102-49, 102-50, 102-51, 102-52, 102-54

Reporting to our stakeholders on our social,
environmental and economic impacts



This *Annual & Sustainability Report 2017/2018* has been prepared in accordance with the Global Reporting Initiative (GRI) Standards, under the Core option, and includes disclosures related to the most material social, economic and environmental issues from our stakeholders' perspective.

The scope of social and environmental disclosures covers the previous crop year, from April 1, 2017 to March 31, 2018. Disclosures about our management approach and qualitative information extend to previous and subsequent periods where necessary to provide the context surrounding disclosures.

The information in this report covers our four operations in Brazil: Iracema, São Martinho, Boa Vista and Santa Cruz. The full consolidation of the Boa Vista operation following our acquisition of full ownership has been reflected in the disclosures in this report, and the relevant differences are described throughout.

GRI CONTENT INDEX [GRI 102-55](#)

General disclosures

GRI Standard	Disclosure	Page/URL	Omission	SDG
Organizational profile				
GRI 102: General disclosures 2016	102-1 Name of the organization	Pages 4 and 8		
	102-2 Activities, brands, products, and services	Pages 8 and 11		
	102-3 Location of headquarters	Pradópolis - SP		
	102-4 Location of operations	Pages 8, 10 and 12		
	102-5 Ownership and legal form	Page 8		
	102-6 Markets served	Page 11		
	102-7 Scale of the organization	Pages 10 and 12		
	102-8 Information on employees and other workers	Pages 51 and 52		8
	102-9 Supply chain	Page 68		
	102-10 Significant changes to the organization and its supply chain	Page 8		
	102-11 Precautionary principle or approach	Page 68		
GRI 102: General disclosures 2016	102-12 External initiatives	Page 62		
	102-13 Membership of associations	Page 62		

GRI Standard	Disclosure	Page/URL	Omission	SDG
Strategy				
GRI 102: General disclosures 2016	102-14 Statement from senior decision-maker	Page 4		
Ethics and integrity				
GRI 102: General disclosures 2016	102-16 Values, principles, standards, and norms of behavior	Page 16		16
Governance				
GRI 102: General disclosures 2016	102-18 Governance structure	Page 13		
Stakeholder engagement				
GRI 102: General disclosures 2016	102-40 List of stakeholder groups	Page 46		
	102-41 Collective bargaining agreements	Page 51		8
	102-42 Identifying and selecting stakeholders	Page 46		
	102-43 Approach to stakeholder engagement	Pages 46, 49 and 59		
	102-44 Key topics and concerns raised	Pages 46, 49 and 59		
Reporting practices				
GRI 102: General disclosures 2016	102-45 Entities included in the consolidated financial statements	Page 70		
	102-46 Defining report content and topic Boundaries	Page 46		
	102-47 List of material topics	Page 46		
	102-48 Restatements of information	Page 70		
	102-49 Changes in reporting	Page 70		
	102-50 Reporting period	Page 70		
	102-51 Date of most recent report	Page 70		
GRI 102: General disclosures 2016	102-52 Reporting cycle	Page 70		
	102-53 Contact point for questions regarding the report	Page 2 and 78		
	102-54 Claims of reporting in accordance with the GRI Standards	Page 70		
GRI 102: General disclosures 2016	102-55 GRI content index	Page 71		
	102-56 External assurance	No external assurance was carried out		

Material topics

GRI Standard	Disclosure	Page/URL	Omission	SDG
Economic performance				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 32		
	103-2 The management approach and its components	Page 32		1, 5, 8, 16
	103-3 Evaluation of the management approach	Page 32		
GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	Page 34		2, 5, 7, 8, 9
Market presence				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 68		
	103-2 The management approach and its components	Page 68		
	103-3 Evaluation of the management approach	Page 68		
GRI 202: Market Presence 2016	202-2 Proportion of senior management hired from the local community	Pages 52 and 68		8
Indirect economic impacts				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 64		
	103-2 The management approach and its components	Page 64		
GRI 103: Management Approach 2016	103-3 Evaluation of the management approach	Page 64		
GRI 203: Indirect economic impacts 2016	203-1 Development and impact of infrastructure investments and services supported			2, 5, 7, 9, 11
	203-2 Significant indirect economic impacts	Page 64		1, 2, 3, 8, 10, 17

GRI Standard	Disclosure	Page/URL	Omission	SDG
Procurement practices				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 68		
	103-2 The management approach and its components	Page 68		
	103-3 Evaluation of the management approach	Page 68		
GRI 204: Procurement practices 2016	204-1 Proportion of spending on locally-based suppliers at significant locations of operation	Page 68		12
Anti-corruption				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 16		
	103-2 The management approach and its components	Page 16		
	103-3 Evaluation of the management approach	Page 16		
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	Page 17		16
	205-2 Communication and training on anti-corruption policies and procedures	Page 17		16
	205-3 Confirmed incidents of corruption and actions taken	No incidents were identified during the crop year.		16
Anti-competitive behavior				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 74		
	103-2 The management approach and its components			
	103-3 Evaluation of the management approach	Page 74		
GRI 206: Anti-competitive behavior 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	São Martinho has no actions pending of this nature. Our products are commodities for which prices are fixed by stock exchanges, which prevents price fixing among agents.		16

GRI Standard	Disclosure	Page/URL	Omission	SDG
Water				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 41		
	103-2 The management approach and its components	Page 41		
	103-3 Evaluation of the management approach	Page 41		
GRI 303: Water 2016	303-1 Water withdrawal by source	Page 41		6, 7
	303-2 Water sources significantly affected by withdrawal of water	Page 41		6
	303-3 Percentage and total volume of water recycled and reused	Page 42		6, 8, 12
Emissions				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 44		
	103-2 The management approach and its components	Page 44		
	103-3 Evaluation of the management approach	Page 44		
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	Page 44		3, 12, 13, 14, 15
	305-2 Indirect (Scope 2) GHG emissions	Page 44		3, 12, 13, 14, 15
	305-3 Other indirect (Scope 3) GHG emissions	Page 44		3, 12, 13, 14, 15
Effluents and waste				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 41 and 46		
	103-2 The management approach and its components	Page 41 and 46		
	103-3 Evaluation of the management approach	Page 41 and 46		
GRI 306: Effluents and waste 2016	306-1 Water discharge by quality and destination	Page 42		3, 6, 12, 14
	306-2 Waste by type and disposal method	Page 43		3, 6, 12

GRI Standard	Disclosure	Page/URL	Omission	SDG
Employment				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 50		
	103-2 The management approach and its components	Page 50		
	103-3 Evaluation of the management approach	Page 50		
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	Page 52		5, 8
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Page 57		8
Non-discrimination				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 50		
	103-2 The management approach and its components	Page 50		
	103-3 Evaluation of the management approach	Page 50		
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	During crop year 2017/2018 an incident of discrimination was reported involving an employee and their leader. An investigation was initiated and the offending employee was terminated for cause.		5, 8, 16
Human rights assessment				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Pages 50 and 58		
	103-2 The management approach and its components	Pages 50 and 58		
	103-3 Evaluation of the management approach	Pages 50 and 58		
GRI 412: Human rights assessment 2016	412-2 Employee training on human rights policies or procedures	Page 51		

GRI Standard	Disclosure	Page/URL	Omission	SDG
Local communities				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 64		
	103-2 The management approach and its components	Page 64		
	103-3 Evaluation of the management approach	Page 64		
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	Page 64		
	413-2 Operations with significant actual and potential negative impacts on local communities	Page 64		1, 2
	412-3 Incidents of discrimination and corrective actions taken	Page 51		
Public policy				
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Page 62		
	103-2 The management approach and its components	Page 62		
	103-3 Evaluation of the management approach	Page 62		
GRI 415: Public policy 2016	415-1 Political contributions	Page 62		16

Report Production

Project management

Integrated Management System, Corporate Social Responsibility and Corporate Communications

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