



2011

Annual and Sustainability Report



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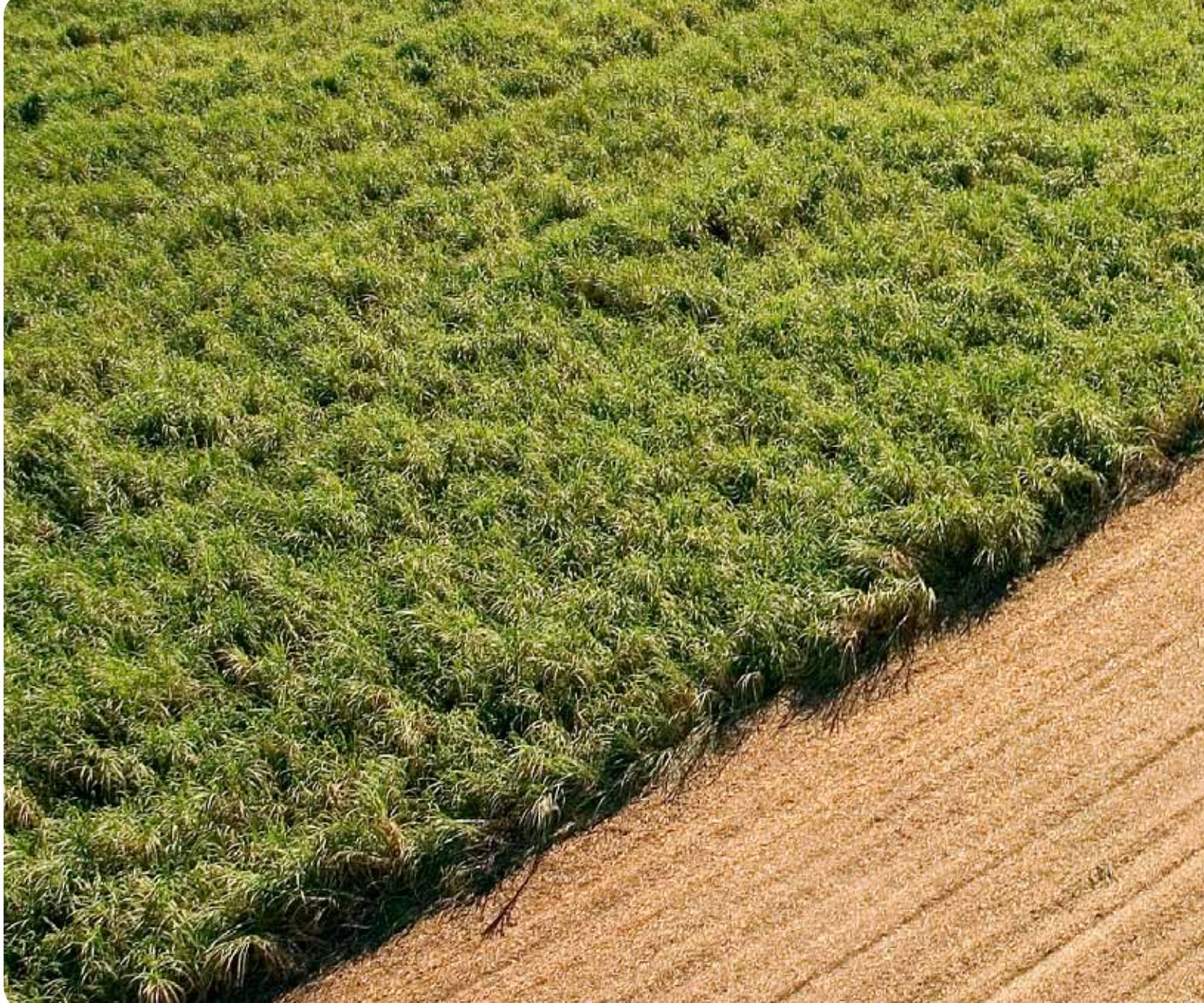


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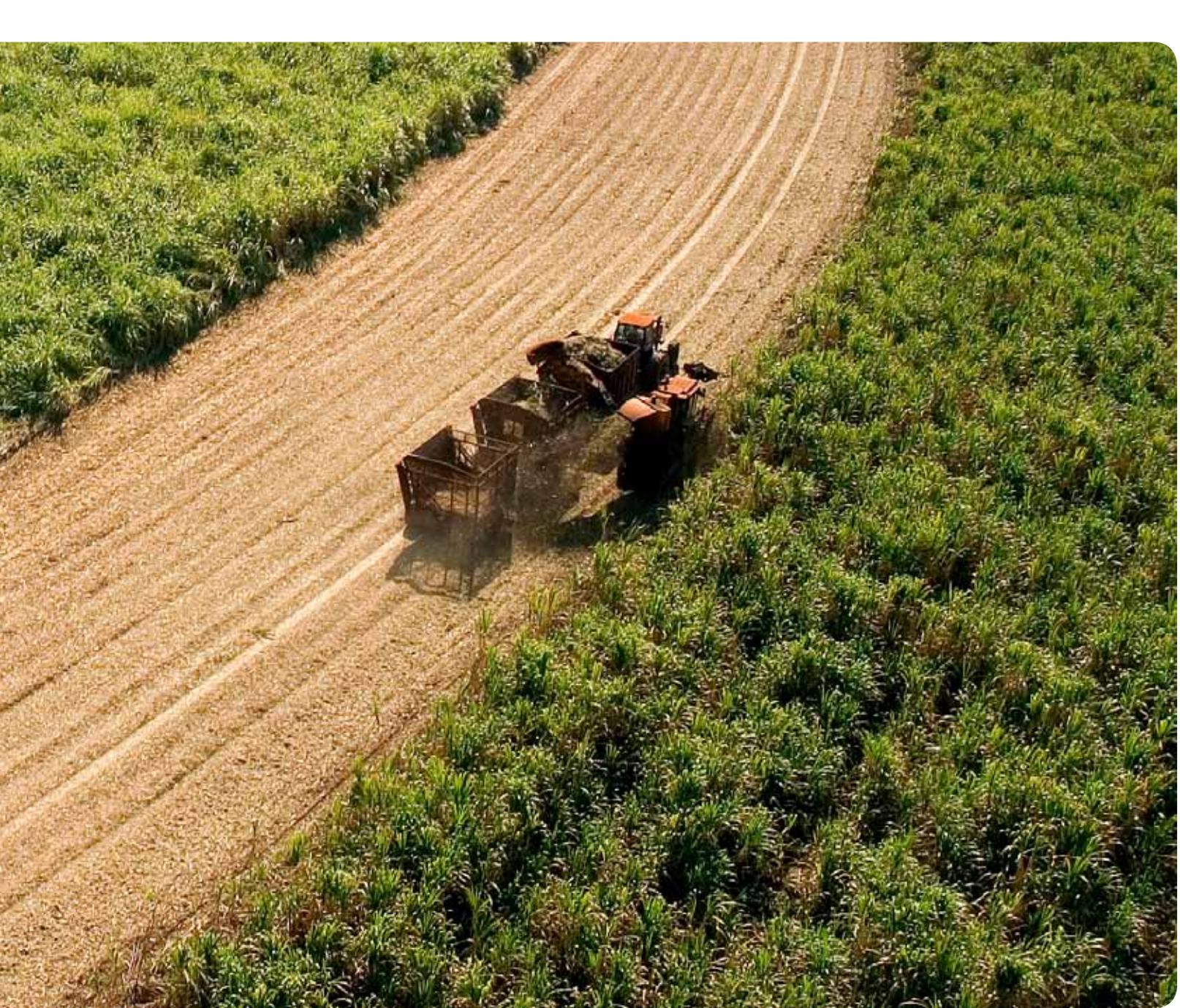
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Introduction to the report



OÍ



MESSAGE FROM THE CEO

[GRI 1.1]

Sustainability has always been a strategic pillar for the São Martinho Group, even before the concept gained the widespread usage and relevance seen over the last decade. We therefore believe that the Company's Sustainability Report, produced in accordance with the Global Reporting Initiative (GRI) guidelines, provides an accurate portrait of the daily conduct of our business. In fact, it reflects the values that we believe are fundamental for the sustainability of any business, including ethics, respect, strength, partnership with a wide range of audiences and commitment to the environment.

This had a direct impact on production, which decreased the volumes of sugar and ethanol being produced and, as a result, affected sales and profitability. The good news is that through our consistent commercial, operational and financial strategy, we were able to ensure a maximum return to shareholders that significantly outperformed the industry average.

This is yet another example of the strategic operational excellence of our committed, motivated and synchronized teams. It shows our ability to quickly and efficiently adapt, achieving satisfactory results for the Company in increasingly challenging scenarios.



São Martinho has also taken steps recently to strengthen the Company in a variety of ways and improve its position with respect to future goals. We're completing R\$173 million in investments in the new thermoelectric unit at the São Martinho mill, due to come online for the next harvest. We're going to cogenerate larger amounts of clean and renewable energy, which will put the Company at the technological and operational forefront of bioelectricity production.

In the area of logistics, in 2012 the Group inaugurated its road/rail terminal at the São Martinho mill, an example of rational and efficient transshipment and transportation, by train, of more than 2 million tons of owned and third-party sugar, from the Ribeirão Preto region to the Port of Santos. In addition to providing financial savings, the investment removes more than 50,000 truck trips per year from the highways that pass through São Paulo, providing obvious benefits for the community in terms of a decrease in gas emissions and a reduction in traffic and traffic-related accidents.



First, I would like to begin by emphasizing an extremely important point, particularly for the sugarcane energy industry. Our operations involving the planting of sugarcane and the production of sugar, ethanol and bioenergy largely depend on the weather, which was not very kind to the sugarcane industry last year. We witnessed cycles of rain, drought, frost and flowering that had never been seen before.

Sustainability is increasingly a part of our everyday decisions



In 2011, we made significant progress towards our goal of milling 25 million tons of sugarcane by 2020. We acquired the Santa Cruz mill, located in Américo Brasiliense (SP), which adds 1.3 million tons to our processing capacity.

It's important to note that sustainability isn't just a part of our Mission, Vision and Values, but it's also increasingly a part of our everyday decisions. Each project and initiative contained in this report reflects the importance of sustainability for our Company.

I invite you to learn a little more about the sugarcane industry and the São Martinho Group. Enjoy!

Fábio Venturelli
CEO of the São Martinho Group

ABOUT THE REPORT

[GRI 3.1/ 3.2/ 3.3/ 3.5/ 3.6/ 3.7/ 3.8/ 3.10/ 3.11]

For the publication of its first Annual Sustainability Report, for the 2010/2011 harvest year, the São Martinho Group has adopted Global Reporting Initiative (GRI) guidelines, an international standard for reporting economic, social and environmental performance.

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

The information contained in this report encompasses the Group's operations in the 2010/2011 and 2011/2012 harvest years, i.e. from April 1, 2010 to March 31, 2012, and was collected internally by the Investor Relations and Corporate Communications departments with the help of representatives from all the Company's areas. The scope of the report covers the Iracema and São Martinho mills, which are owned by the Group, but not the Boa Vista mill, which now belongs to Nova Fronteira S.A., a joint venture between the São Martinho Group and Petrobras Biocombustível.

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

Given its scope, the publication falls into level C of the GRI framework, whose levels A, B and C refer to the number of indicators reported and other factors. Its level was determined by a third party, BRIC Comunicação Corporativa Integrada. This report is biannual, reflects the 2010/2011 and 2011/2012 harvest years and is available at www.saomartinho.ind.br/ri in Portuguese and English.

REPORT LEVEL	C	C+	B	B+	A	A+	
G3 profile	RESULT	Responds to items: 1.1; 2.1 to 2.10; 3.1 to 3.8, 3.10 to 3.12; 4.1 to 4.4, 4.14 to 4.15;	With External Monitoring	Responds to all of the criteria outlined for level C, plus: 1.2; 3.9, 3.13; 4.5 to 4.13; 4.16 to 4.17;	With External Monitoring	The same required for Level B	With External Monitoring
Information about G3 management	RESULT	Not Required		Information about the Form of Management for Each Indicator Category	Form of Management disclosed For each Indicator Category		
G3 Performance Indicators & Sector Supplement Performance Indicators	RESULT	Responds to a minimum of 10 Performance Indicators, including at least one of each of the following performance areas: Social, Economic and Environmental.	With External Monitoring	Responds to a minimum of at least 20 Performance Indicators, including at least one of each of the following performance areas: Economic, Environmental, Human Rights, Labor Practices, Society, Product Responsibility	With External Monitoring	Responds to each essential G3 and Sector Supplement indicator with due regard to the Materiality Principle of one of the following forms: (a) responding to the indicator or (b) explaining the reason for the omission	With External Monitoring

* Sector Supplement in its final version.

2011 SÃO MARTINHO GROUP SUSTAINABILITY REPORT

BRIC Comunicação Corporativa Integrada analyzed the application level of the Global Reporting Initiative's (GRI) G3 Guidelines for Sustainability Reports for this edition of the 2011 Biannual and Sustainability Report of the São Martinho Group. In its report, the Organization declared compliance with application level 3. Based on an analysis of the material provided, we can confirm that the GRI-G3 application level C was successfully achieved by the reporting organization. BRIC was not tasked with verifying the content and accuracy of the information and responses provided for the indicators contained in this report.

São Paulo, October 10, 2012

BRIC Comunicação Corporativa Integrada

Verifier and Manager: Olívia Andreolli and Fabiana Trebilcock



HIGHLIGHTS FROM THE MOST RECENT HARVESTS*

[GRI 2.8]

- **Acquisition** of 32.18% of the Santa Cruz mill, which increased the Group's milling capacity by 1.3 million tons.
- **Expansion of the road/rail terminal** in partnership with Rumo Logística, which will ensure a rail transshipment capacity of up to two million tons of sugar per harvest, as well as the construction of a warehouse with storage capacity for 60,000 tons of sugar.
- **Investments** in cogeneration at the São Martinho mill, which will have excess electricity that can be put on the market by 2013/2014.
- **Announcement of the** new round of investments **Nova Frontera**, a joint venture with Petrobras to produce ethanol. The company will have its crushing capacity increased by 3.4 million tons for the 2012/2013 harvest year. That figure will increase to 5.0 million by 2014/2015.

FINANCIAL AND OPERATING HIGHLIGHTS ('000 REAIS)	2011/2012 Harvest	2010/2011 Harvest	11/12- 10/11 Change
Processed sugarcane ('000 metric tons)	11,412	13,067	-12.7%
Sugar production ('000 metric tons)	774	873	-11.3%
Anhydrous ethanol production ('000 cubic meters)	222	258	-13.9%
Hydrated ethanol production ('000 cubic meters)	226	307	-26.5%
Gross revenue	1,447,266	1,384,387	4.5%
Net revenue	1,366,990	1,295,046	5.6%
Net income	126,611	142,288	-11.0%
Adjusted EBITDA	529,993	612,585	-13.5%
EBITDA Margin	38.8%	47.3%	-8.5 p.p.
Net worth	2,024,678	1,953,486	3.6%
Net debt	935,277	489,474	91.1%

*Harvest 2010/2011: from April 1, 2010 to March 31, 2011 (12 months)

*Harvest 2011/2012: from April 1, 2011 to March 31, 2012 (12 months)



Organizational profile



O2

THE SÃO MARTINHO GROUP

[GRI 2.1/ 2.5/ 2.6/ 2.7]

The São Martinho Group (São Martinho S.A.) is a publicly-held company and one of the largest sugar and ethanol groups in Brazil, according to the Brazilian Sugarcane Industry Association (UNICA).

Currently, the Group has four mills in operation. It owns São Martinho, located in Pradópolis, in the Ribeirão Preto region of São Paulo state, and Iracema, located in Iracemápolis, in the Limeira region of São Paulo state. It also has a 51.00% stake in the Boa Vista mill, located in Quirinópolis, 300 km from Goiânia, in Goiás state, in partnership with Petrobras Biocombustível. During the 2011/2012 harvest year, the Group acquired a 32.18% stake in Agropecuária Boa Vista S.A.'s Santa Cruz mill (land that includes the mill and part of the Santa Cruz sugarcane plantations), located approximately 45 kilometers from the São Martinho mill. The Group also has a facility that produces ribonucleic acid (Omtek), which is also located in Iracemápolis. The Group's average harvest mechanization ratio is 85.70%, an industry benchmark, and the Boa Vista mill's ratio is 100%.

The São Martinho and Iracema mills produce both sugar and ethanol, while the Boa Vista facility produces ethanol only. All three are energy self-sufficient, generate electricity from sugarcane bagasse and selling any surplus on the market. Omtek produces yeast byproducts using advanced biotechnological processes, mostly for the food and animal feed markets.

Hydrous ethanol* and anhydrous ethanol** are primarily routed to the domestic market to meet demand from major fuel distributors. In the sugar area, São Martinho produces crystal and gross VHP (very high polarization) sugar, which accounts for 10% of its total sugar output and is sold to the domestic food industry, and VVHP (very high polarization) sugar which is exported, primarily to Europe and the Middle East.

The Group processed 13.1 million metric tons of sugarcane in 2010/2011, which in turn produced 873,400 metric tons of sugar and 565,400 m³ of ethanol. The São Martinho mill crushed 8.4 million metric tons, a new record for a single mill, retaining its title as the world's leading mill in terms of crushed volume.

In 2011/2012, the decline in production in the center-south region of the country caused a reduction in the volume of production and drop in the Company's indices of operations. The Group processed 11.4 million tons of sugarcane, down 12.7%. As a result, the volumes of sugar and ethanol that were produced also fell, totaling, respectively 774,000 tons (-11.3%) and 448,000 cubic meters (-20.8%). Regardless, São Martinho took important steps towards ensuring the growth of its business during the coming harvests. Among these initiatives are the acquisition of part of the Santa Cruz mill, the signing of an agreement with the majority shareholder of the company, allowing for participation in its management and indicating preference for the purchase of a controlling stake; the inauguration of the road/rail terminal, which was expended, and the investments in the cogeneration plant to be installed at the São Martinho mill (*more information is available on pages 24, 25, 35 and 36*).

* Used in the tanks of cars that run on ethanol.

** Mixed into gasoline as an additive to fuel the tanks of vehicles that run on gasoline.

Control Room located at the São Martinho mill





MISSION, VISION AND VALUES

[GRI 4.8]

MISSION

To offer food, energy and other sugarcane by products that Generate value for humanity in an Innovative and sustainable manner.

VALUES

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

VISION

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

SÃO MARTINHO'S PILLARS

- Technology
- Partners and suppliers
- Shareholders
- Employees
- Clients
- Community
- Responsible soil use
- Growth with security



HISTORY

The history of São Martinho dates back to the end of the 19th century, when members of the Ometto family emigrated from Italy to Brazil in search of better living and working conditions and the hope of constructing a new story.

In 1914, they built their first sugarcane mill at the Olaria farm, located in the Limeira region of São Paulo state. In 1932, the family produced sugar for the first time at the Boa Vista farm in the same region.

In 1937, they acquired the Iracema mill, in Iracemápolis (SP), 160 km from the state capital, and converted it into an ethanol distillery, adding a sugar mill in 1946.

Three years later, in 1949, the Omettos acquired the São Martinho mill, located in Pradópolis, 330 km from São Paulo city, which later became one of the world's largest sugarcane crushing mills.

Over the decades, the two mills grew and became increasingly up-to-date. In 2000, a unified structure was created to ensure more professional management and enable new investment opportunities. Today the São Martinho Group is one of Brazil's leading sugar and ethanol companies and a global benchmark for sugar and ethanol production.

The Group currently operates four mills. It owns São Martinho, located in Pradópolis, in the Ribeirão Preto region of São Paulo state, and Iracema, located in Iracemápolis, in the Limeira region of São Paulo state. It also has a 51.00% stake in the Boa Vista mill, located in Quirinópolis, 300 km from Goiânia, in Goiás state, in partnership with Petrobras Biocombustível. The Group also has a biotechnology unit, OmteK, and in 2011 it acquired 32.18% of the Santa Cruz mill and 17.97% of Agropecuária Boa Vista S.A. This business concept was consolidated and helped strengthen the Group's performance and increase its competitiveness, especially following the IPO in 2007.

São Martinho also maintains an office in São Paulo city, where its investor relations, financial management and economic planning departments are established. Since 2000, it has also maintained a Shared Service Center in Pradópolis, which houses the administrative, financial, legal, human resources, procurement, IT and controllership departments.

SUSTAINABILITY AS A STRATEGY

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

Sustainability is therefore deeply entwined with São Martinho's activities. One of the best examples of this is generating clean energy from the burning of sugarcane bagasse, most of which is used to fuel boilers and provide power for the mills throughout the entire harvest. The remainder is sold.

Sustainability permeates the Group's entire production chain, ranging from the responsible use of soil, the mechanized planting and harvesting of sugarcane, the re-use of waste products in the production process, respect for and conservation of the environment, ethics and corporate governance, and its relations with the community and other stakeholders. Historically, the Group has invested in improving its processes, technologies and initiatives, reflecting its concern over sustainability while at the same time increasing operational efficiency.

CORPORATE ETHICS

[GRI 4.8]

São Martinho believes that the ethical principles that guide its business and organizational culture are essential to its sustainability. In 2010, therefore, the Group formalized these precepts in a Code of Ethics and Professional Conduct, which establishes the rules and principles to be complied with by all Group employees, including interns, apprentices, managers, advisors, executive officers, and members of the Board of Directors and Fiscal Council, as well as the employees of outsourced service providers.

Release of the Code of Ethics and Professional Conduct at the São Martinho mill



The Code is a result of the Group's awareness that its relations with all stakeholders must be governed by the highest ethical standards. For São Martinho, ethics is not merely a commitment assumed in its Values, but a set of virtues practiced by its employees on a daily basis that includes justice, honesty, impartiality, humility, loyalty, trust, respect, transparency, discretion, and common sense.

In order to ensure its broadest possible dissemination, all employees were presented with a printed copy of the Code, which is also available on the intranet and on São Martinho's website (www.saomartinho.ind.br). Incoming employees are given information about the Code and are instructed to follow it.

RESTRUCTURING OF SUSTAINABILITY MANAGEMENT

In 2010, thanks to the definition of sustainability management, the concept of sustainable development began to permeate São Martinho's activities, relationships and business in an even more structured manner. The Group is pursuing a new attitude and way of thinking which will be incorporated into day-to-day activities and will play an important role in the decision-making process, thereby influencing all levels and departments.

The restructuring of sustainable management is designed to establish a sustainability strategy that is aligned with and an integral part of the Group's business strategy. The project focused on the evaluation of existing social and environmental responsibility initiatives, systems, policies and indicators, as well as the identification of risks, opportunities, and new strategic sustainability issues. As a preliminary result, the Company established three fronts for attention in 2011 and 2012:

- **Sustainability governance:** In 2010, the Group created the Executive Sustainability Committee to support the already-established Sustainability Committee, in addition to working groups in the units, which enabled sustainability management to be represented by several departments and units of the Group.
- **Certifications:** Represents the pursuit of high standards of sustainability management resulting in certifications that meet the requirements of specific clients and markets, e.g. the ethanol export authorization obtained by the São Martinho mill in 2010 and 2011 from the Environmental Protection Agency (EPA) certifying the authenticity of the product based on a series of requirements.
- **Sustainability Report:** São Martinho regards the preparation of its first annual sustainability report as a means of mobilizing all areas of the organization to structure their indicators and report on their activities, allowing it to identify opportunities for implementing corrective measures and best practices, as well as general improvements. This goal was achieved during the second half of 2012, with the publication of this report.



The concept of sustainability for the São Martinho Group

Sustainability is the ability to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. This includes not only environmental, but also social, economic and cultural aspects.

Thus a sustainable company must be socially just, culturally accepted, economically viable and ecologically correct.

For the São Martinho Group, to be sustainable is to:

- Preserve the environment
- Avoid waste and correctly dispose of garbage
- Consume in a conscientious manner
- Choose products from companies that are committed to the future of the planet
- Promote well-being and citizenship
- Help the economic development of the most underprivileged
- Propagate the principles of sustainability among our social and family circles, replicating good practices
- Respect people's cultural differences and special needs
- Continuously seek to improve everything we do
- Act in an ethical and transparent manner
- Think differently, today and always

BEHAVIORAL TRAINING ON SUSTAINABILITY

To make sustainability management truly effective within the organization, São Martinho believes it is essential that the culture is disseminated to and internalized by all its employees, so that each worker understands their own specific role in the Group's processes. In this context, one of the highlights was the inclusion of the issue in one of the behavioral training cycles provided to employees at all of the Group's units.

The idea was to introduce the concept of sustainability to the entire workforce through a training program designed to transform attitudes into practices, thereby incorporating the sustainability management culture. Activities were conducted inside and outside the classroom, creating experiences and promoting self-knowledge in the social, economic and environmental spheres, while increasing understanding of the importance of each individual in the Group's sustainable processes.

Behavioral Training Activity 2011

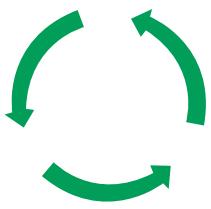




Our business



03



PRODUCTS

[GRI 2.2]

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

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



= Ethanol: The Group also produces hydrous ethanol, used as a fuel by exclusively ethanol-driven vehicles; anhydrous ethanol, which is added to the gasoline used by gasoline-driven vehicles; and industrial ethanol, which is mainly used in the production of paint, cosmetics and alcoholic beverages.





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



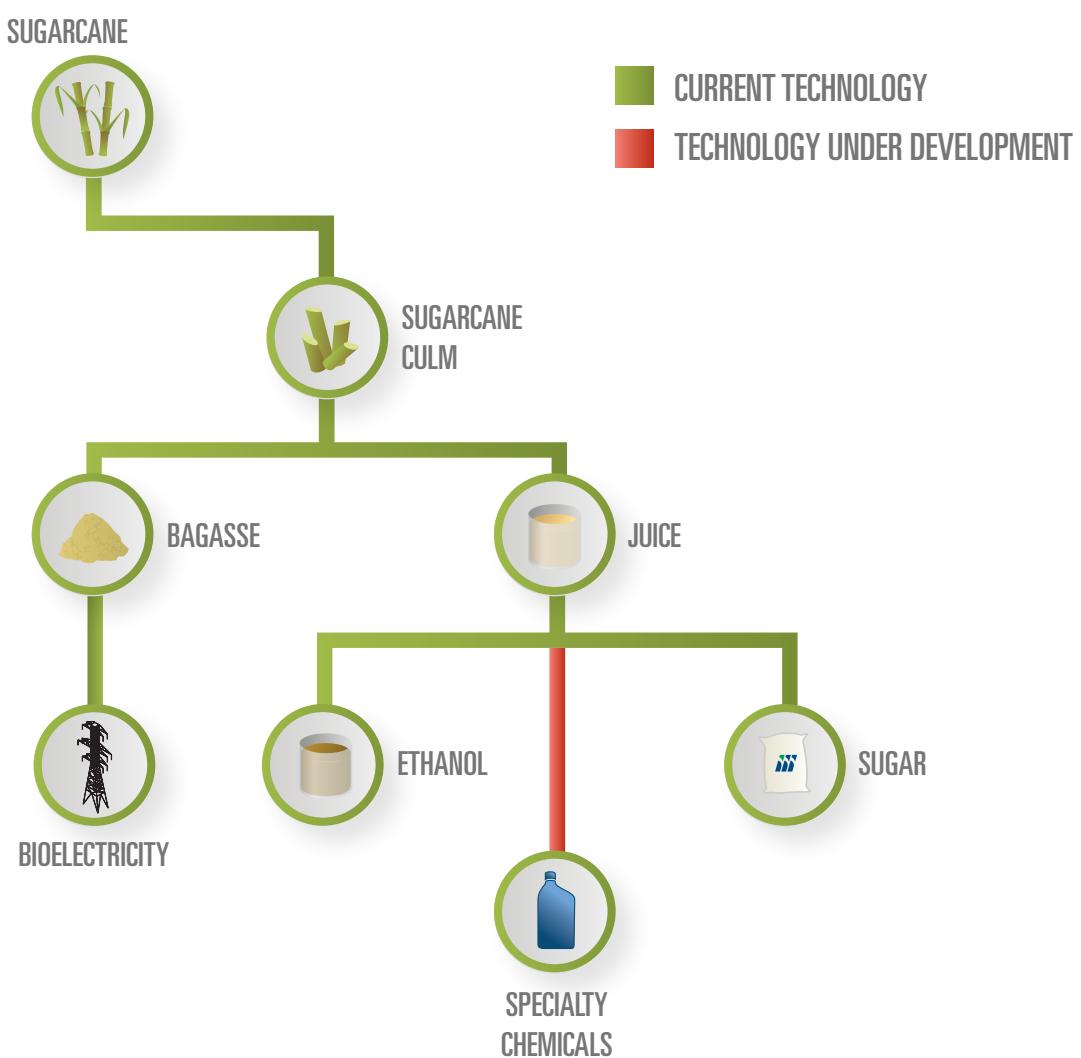
= RNA: Through its subsidiary Omtek, located in Iracemápolis, the Group produces ribonucleic acid (RNA) sodium salt, which is used in the pharmaceutical and food industries as a raw material and flavor enhancer.



= Byproducts: Sugar and ethanol production byproducts include yeast, which is used in animal feed; fuel oil, used as a solvent and in the manufacture of explosives; and pure amyl alcohol.

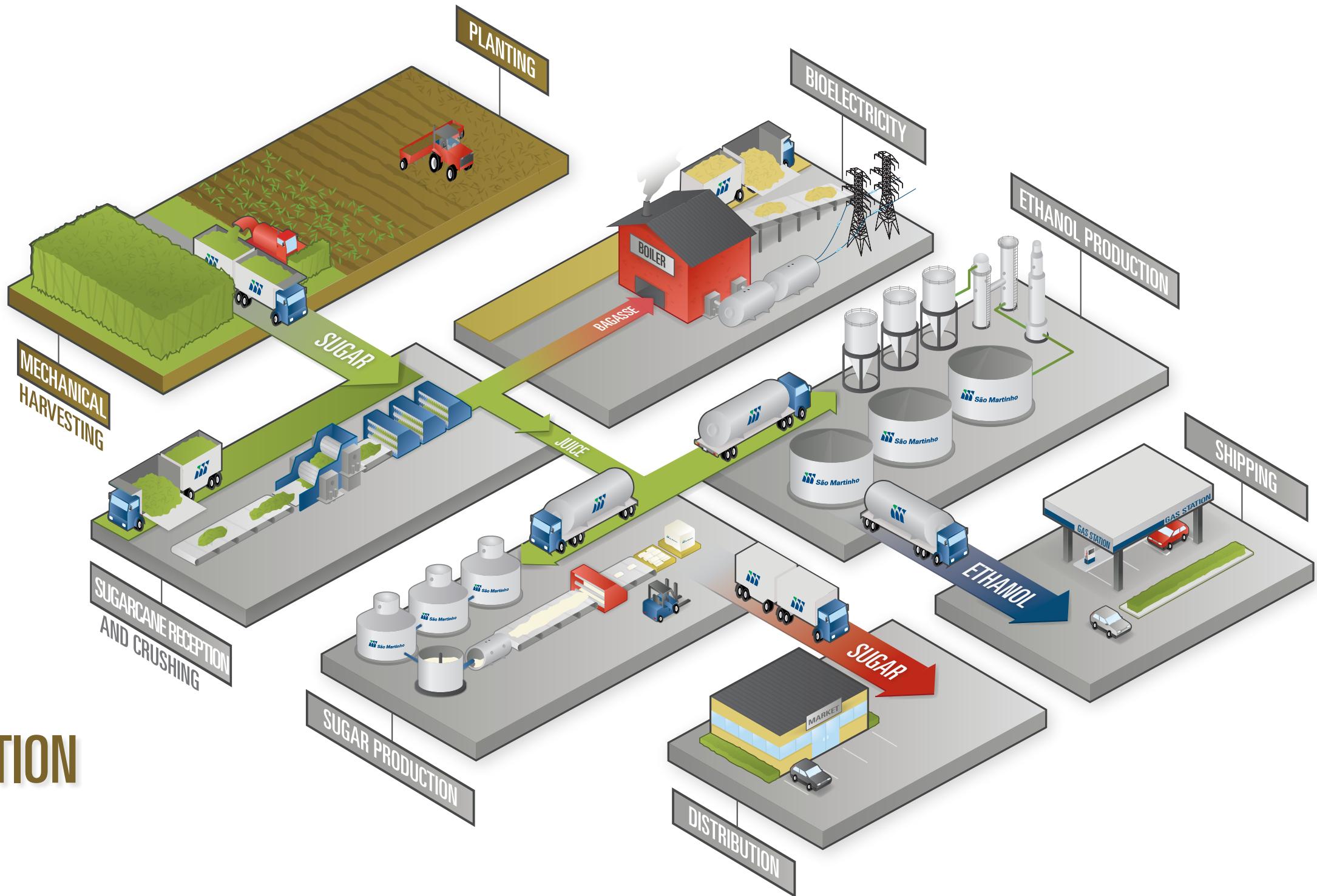
THE SUGAR AND ETHANOL CYCLE

MAIN SUGARCANE PRODUCTS



Source Brazilian Sugarcane Industry Association (Unica) - adapted

PRODUCTION STAGES



Source Brazilian Sugarcane Industry Association (Unica) - adapted

UNITS AND INFRASTRUCTURE

[GRI 2.3/ 2.5]

IRACEMA MILL



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

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

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

It also promotes various social initiatives, mainly in Iracemápolis and Limeira, and conducts a continuous environmental management program, involving the preservation and restoration of riparian vegetation, as well as the recycling of production process waste.

SÃO MARTINHO MILL



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

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

Another of the plant's key differentials is its logistics area, including an internal railway, which allows it to transport sugar and ethanol output to the port of Santos much cheaper than by road-based transportation. Its facilities also offer several competitive advantages, such as bulk sugar storage. An expansion of the plant was inaugurated in 2012, which increased owned and third-party transshipment capacity by 2 million tons directly to the Port of Santos. In addition, a new sugar warehouse, with a 60,000 ton capacity, was also built.

Also in 2012, the Company announced investments in the cogeneration plant at the São Martinho mill, which will produce an estimated 244,000 MWh of excess electricity during the 2013/2014 harvest year that can then be sold. It also inaugurated the expansion of its laboratory used to produce fungi that combat pests such as weevils and cicadellas, which affect sugarcane. The new space allows for the rice-based production of approximately ten tons of fungus substrate per month that can be applied, using planes or tractors, on more than 13,000 hectares of crops located at the mill itself and at the unit in Iracemápolis, São Paulo. These applications are always carried out between October and February, in order to control the growing infestations of pests, particularly the weevil, which can reduce sugarcane crop productivity by up to 30%.

BOA VISTA MILL



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

Boa Vista is installed on a 1.7 million m² site, with 23,000 m² of built-up area, and its layout was specially designed to facilitate future crushing capacity expansions.

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

Nova Fronteira

In 2010, 49% of the Boa Vista mill was acquired by Nova Fronteira S.A., a company resulting from the partnership between the São Martinho Group and Petrobras Biocombustível to produce ethanol in Brazil's Midwest. In addition to the Boa Vista Mill, the transaction also includes the SMBJ S.A. greenfield project, located in Goiás.

Petrobras Biocombustível invested R\$420 million in Boa Vista to accelerate the growth of its operations in the coming years.

OMTEK



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

USINA SANTA CRUZ



Santa Cruz is located in the municipality of Américo Brasiliense, in the central region of São Paulo state, located 280 kilometers from São Paulo city and 350 kilometers from the Port of Santos. The mill is able to meet its own raw material needs, supplying over 90% of the sugarcane used for production. In 1946, one year after the Acquisition of Fazenda Santa Cruz by the Ometto family, the company carried out its first harvest. It currently has the capacity to produce and process more than 4 million tons of sugarcane, with harvest rates above 90% for raw sugarcane and 100% mechanized planting, making it one of the largest companies in the sugar and energy sector in Brazil. The portfolio of products includes VHP sugar, hydrous ethanol, anhydrous ethanol, electricity and sugarcane yeast. It is one of the pioneers in the implementation of a Sustainability Policy, with ISO 9001, ISO 14001 and Greenergy certifications for its processes, which ensures a healthy work environment for its employees and the community, with a focus on results and sustained growth.

COMPETITIVE DIFFERENTIALS

STRATEGIES

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

- **Organic growth and growth through strategic acquisitions, partnerships or new projects:** São Martinho plans to expand its businesses through projects such as the Boa Vista mill. It also keeps a close eye on other sugar and ethanol companies in Brazil in order to identify merger and acquisition opportunities that generate economies of scale, operational synergies and productivity gains.
- **Continue reducing operating costs and increasing operational efficiency:** São Martinho will continue to concentrate its efforts on improving operational efficiency through investments in technology in the agricultural, industrial, logistics and IT areas.
- **Expand its share of the international sugar and ethanol markets:** São Martinho plans to expand its operations in the international market, drawing on its production flexibility and logistics potential to explore any new export opportunities that may emerge in the medium-to-long term.

COMPETITIVE ADVANTAGES

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

- **Technological innovation and a highly mechanized agroindustrial complex:** São Martinho is constantly seeking to implement technological innovations in its planting, harvesting and manufacturing processes. Such innovations have greatly improved its yields and extraction capacity, as well as reducing its operating costs. In addition, because São Martinho is aware that well-preserved land is essential for ensuring high yields and is directly linked to the Group's business sustainability, it has adopted modern practices to monitor and protect the physical, chemical and biological conditions of the soil. São Martinho is Brazil's most mechanized sugar and ethanol company and was the first major producer to develop and use mechanized planting equipment.

Strategically-located land holdings and mills: São Martinho's own or leased land has the advantage of being located in Brazil's Center-South region, which is naturally suited to sugarcane cultivation. In addition, its land is strategically located within an average of 25 kilometers from its plants. This close proximity, coupled with the Group's high level of mechanization, reduces transportation costs and increases yield. The units are also close to the Santos port terminals and warehouses and the São Martinho unit also possesses its own railway, which reduces delivery times and logistics costs and increases operating efficiency. In order to extend its competitive advantage in terms of logistics, São Martinho signed an agreement with Rumo Logística, a subsidiary of the Cosan Group specializing in the sugar and grain sectors.

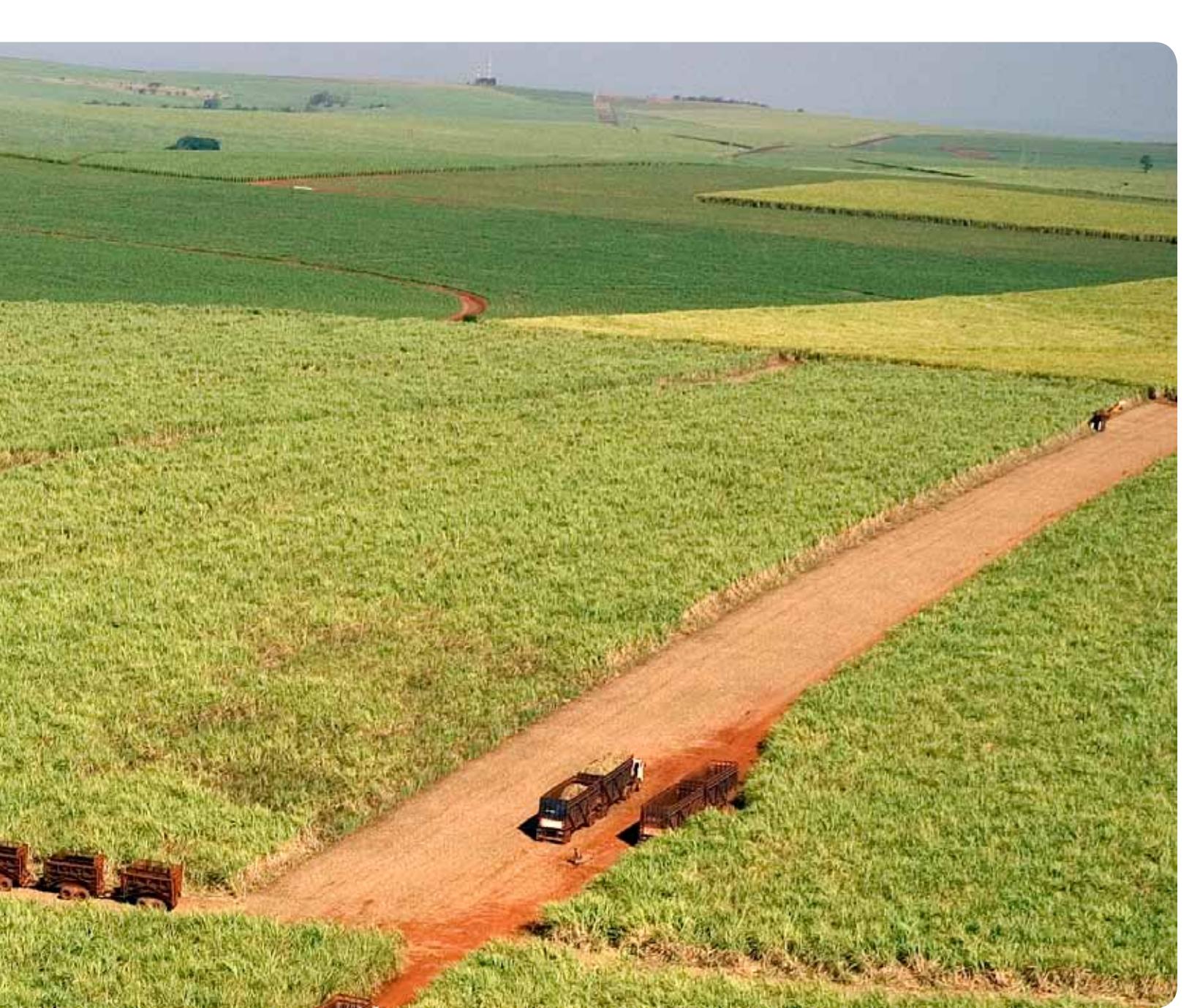
Experienced and professional management team: São Martinho's management has more than ten years of experience in production and operational processes, as well as an extensive knowledge of the sugar and ethanol industry, while its controlling shareholders have more than 40 years of experience in the industry.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

São Martinho Group Employees





Management and
performance



OZ4



SCENARIO OVERVIEW

SUGAR AND ETHANOL INDUSTRY

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

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

During the 2010/2011 harvest year, Brazil crushed a record 620 million metric tons of sugarcane and produced 38.0 million metric tons of sugar and 27.4 million m³ of ethanol. However, the 2011/2012 harvest year was unable to repeat this performance due to the major impact of climatic factors, which triggered a decline in the fall harvest in the Center-South region of Brazil. For an idea of how these factors affected production, UNICA estimates had predicted that the region would crush approximately 568.0 tons of sugarcane, but by the end of the harvest, only 493.3 tons had been harvested, which was 13.2% lower than the forecast amount. As a result, expansion of the supply was fairly limited. The total amount milled yielded 31.3 million tons of sugar and 20.5 billion liters of ethanol, which were 6.6% and 19.6% lower than the amounts produced during the previous harvest, respectively.

SUGAR

Sugar is a staple consumer product and an essential commodity which is produced in various parts of the world. Sugar made from cane accounts for more than 70% of total sugar production, with sugar beet accounting for the rest.

Global output and consumption totaled approximately 156.2 and 159.3 million metric tons, respectively, in the 2011/2011 harvest year, according to the USDA. At the time, Brazilian production registered strong growth over the previous year. For the 2011/2012 harvest year, the major producing countries from the Northern Hemisphere, such as India, Thailand and Russia, registered production gains due to improved climatic conditions in these regions and an increase in the overall planted area, while in Brazil, the weather led to a decline in the harvest in the Center-South region and, as a result, less crushing.

This decline in Brazil – the world's major producer, responsible for nearly 50% of the sugar traded across the world – combined with low global stocks to keep sugar prices high throughout the season, over US\$0.20/pound.

Unlike what happened during the 2011/2012 harvest year, the expectations for the coming year are for a stable sugar production in the Center-South region of Brazil, as well as in Europe, Thailand and Russia. This, together with the continual increase in global demand and a possible reduction in India, should reduce the surplus production from the current level of 8.0 million tons to approximately 5.0 million tons.

ETHANOL

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

Currently, the U.S. and Brazil are the leading ethanol producers and consumers. Most ethanol produced in the U.S. is made from corn, whereas in Brazil it is made from sugarcane.

During the 2010/2011 harvest year, Brazil produced 27.4 million cubic meters, up 7% from the previous harvest year. During the 2011/2012 harvest year, however, there was a 17.4% drop in total ethanol production, with a 28.0% reduction in hydrous ethanol production and a 10.0% increase in anhydrous ethanol production. This decline in total production impacted product prices throughout the entire period, keeping them elevated during the first nine months.

During the last quarter of the harvest year, however, this scenario was negatively impacted by the increase in biofuel supply resulting from Brazilian ethanol imports made during the previous quarter to cover the drop in production. In addition, during the period the Brazilian government decreased the mixture of anhydrous ethanol in gasoline from 25% to 20%, also due to the lower processing levels, which reduced the potential demand.

CLIMATE CHANGE

The increasingly heavy rainfall in the Center-South region had a series of negative impacts on sugarcane production. The heavy rains left a lot of sugarcane standing from 2009 to 2010, unable to be harvested, and affected the quality of the material that was crushed in the mills during the harvest year.

The main impacts of the heavy rains in the Center-South included longer harvests, shorter crushing periods, a record decline in total recoverable sugar (TRS) per ton of cane (approximately 10 kg), and lower-than-estimated crushed volume.

The Center-South was also affected by bad weather in 2011, which included a period of drought that made it impossible to increase agricultural productivity, coupled with cases of sugarcane flowering and major frost in São Paulo and Paraná. These factors, together with a low level of renewal from the previous years, contributed to a decline in production during the 2011/12 harvest year.

However, thanks to its careful planning and the measures adopted for the different stages of the production process, such as adequate soil preparation, São Martinho was able to minimize the impact of the adverse weather conditions and recorded positive operating results, which are presented in the following section.





DEVELOPMENT PILLARS

São Martinho's excellent performance during recent harvest years was mainly due to its development strategy, which is built on four pillars: 1) financial solidity, 2) value-added partnerships for the ethanol platform, 3) a diversified portfolio of sugar-based products, and 4) logistics.

Financial solidity is evident from the results and information presented herein, which demonstrate that despite the weather-induced decline in the main operating indices, the Company was able to continue its strategic investments in the business. A healthy financial position creates a virtuous circle, in turn making the Group an attractive investment option.

The second pillar is exemplified by the partnership with Petrobras Biocombustível S.A. (PBio), a subsidiary of Petróleo Brasileiro S.A. (Petrobrás), which was designed to expand ethanol production in Brazil's Midwest region through the incorporation of a new company called Nova Frontera Bioenergia S.A., the new controller of the Boa Vista mill.

The focus on product diversification is apparent through the joint venture with Amyris Biotechnologies Inc. and its Brazilian subsidiary Amyris Brasil S.A., whose aim is to construct a plant for the production of chemical products from sugarcane, thus broadening the Group's portfolio. Another important project in this area is the cogeneration plant at the São Martinho mill, which is fueled with sugarcane bagasse and will produce excess electricity that can be sold during the 2013/2014 harvest year.

Both the second and the third pillars have been strengthened with the acquisition of part of the Santa Cruz mill and the signing of shareholder agreement with the company's controlling shareholder that will allow for shared management, which is needed to increase the synergies with the São Martinho mill. The Santa Cruz mill increased the Group's crushing capacity by 1.3 million tons.

To increase its logistics competitiveness, the Group has established an agreement with Rumo Logística that includes the investment of R\$30 million for the construction of a warehouse with a capacity for 60,000 metric tons of sugar, the renovation of the railway stretch that provides access to the São Martinho mill. The new railway stretch, which was inaugurated in 2012, has a transshipment capacity of 2 million tons of sugar per year.

The Company has intensified its efforts for each of these pillars in recent years, in order to maximize short, medium and long-term results. Its performance is therefore directly related to the success with which it implements its economic and financial, operational and administrative planning, in order to make the most of market opportunities.

NEW FRONTEIRS FOR ETHANOL

[GRI 2.9]

In 2010, São Martinho established an important partnership with Petrobras Biocombustível S.A. (PBio) in order to expand ethanol production in Brazil's Midwest region. The agreement involved the constitution of Nova Frontera Bioenergia S.A., the new controller of the Boa Vista mill, and a project called SMBJ Agroindustrial S.A., both of which located in Goiás. By investing R\$420.8 million, Petrobras Biocombustível will control 49% of the new company.

A new investment plan was announced in 2011 for the expansion of Boa Vista, this time in the amount of R\$520.7 million, to be directed towards expanding crushing capacity to 8.0 million tons of sugarcane in the coming years.



It is estimated that the expansion of Boa Vista will lead to the creation of 3,000 new direct and indirect jobs in the Quirinópolis region. The mill will have an annual production of 700,000 liters of ethanol and will cogenerate 600,000 MWh of electricity, which will make it the largest unit dedicated exclusively to the production of sugarcane ethanol in the world. Part of the biofuel production may be exported, since, in August 2011, the mill completed the United States Environmental Protection Agency (EPA) certification process which validates the authenticity of the raw material and authorizes its sale to these countries. The United States represents a significant business opportunity, given that it plans to consume 36 billion gallons of renewable fuel by 2022, in addition to allocating a minimum amount of renewable fuel for use in the transportation sector.

Expertise in biofuel production, together with research and technological innovations that generate cleaner and more efficient products, have made Nova Frontera Bioenergia a leading Brazilian company in its industry. The company updated visual identity in 2011 in order to better represent these characteristics, with an easily understood logo that is connected to its area of expertise. The logo's letters appear in the traditional navy blue of the São Martinho group. There are also two flames that form the F in the word Frontera, stylized in green, which is also associated with the Group, and yellow, associated with Petrobras.

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

JOINT VENTURE ENABLES DIVERSIFICATION

[GRI 2.9]

In line with its strategy of diversifying its sugarcane product portfolio, in April 2010 São Martinho S.A. announced the signature of a definitive agreement with the U.S.-based Amyris Biotechnologies Inc. and its Brazilian subsidiary Amyris Brasil S.A., establishing a joint venture controlled equally by both parties.

The agreement envisages the construction of a plant in the São Martinho unit, in Pradópolis (SP), to produce specialty chemicals from sugarcane juice as of 2012. The new plant will have an initial processing capacity of one million metric tons of sugarcane per harvest.

The partnership will enable the production of renewable chemicals for an array of consumer goods and industrial applications that currently depend on petrochemical components, including lubricants, polymers, surfactants, preservatives and cosmetics. It will also be possible to produce renewable diesel and aviation fuel. The São Martinho Group will supply the joint venture with sugarcane syrup and the Amyris Group will be in charge of selling the output.

Multipurpose raw materials

Uses of ethanol and sugar

Ethanol:

- auto fuel
- aviation fuel
- generator fuel
- plastics
- perfumes
- cosmetics
- drugs
- food
- beverages
- chemical products
- industrial solvents
- cleaning products

Sugar:

- bioelectricity (bagasse and straw)
- biohydrocarbons
- diesel
- jet fuel
- gasoline
- fine chemicals

Source: Ethanol Summit 2011

COGENERATION PROJECT AT THE SÃO MARTINHO PLANT

[GRI 2.9]

In August 2010, the São Martinho Group announced the first phase of the sugarcane bagasse-based electricity cogeneration plant at the São Martinho mill, with an initial investment of R\$173 million, to be invested in fractions until 2013. The investment will be used to purchase a high pressure boiler and a turbo condensing generator, as well as finance plant upgrades to enable the project's implementation. The forecast is that there will be an excess of 244,000 MWh of electricity for sale during the 2013/2014 harvest year.

Construction of the São Martinho mill's electricity cogeneration plant.



ACQUISITION OF THE SANTA CRUZ MILL

[GRI 2.9]

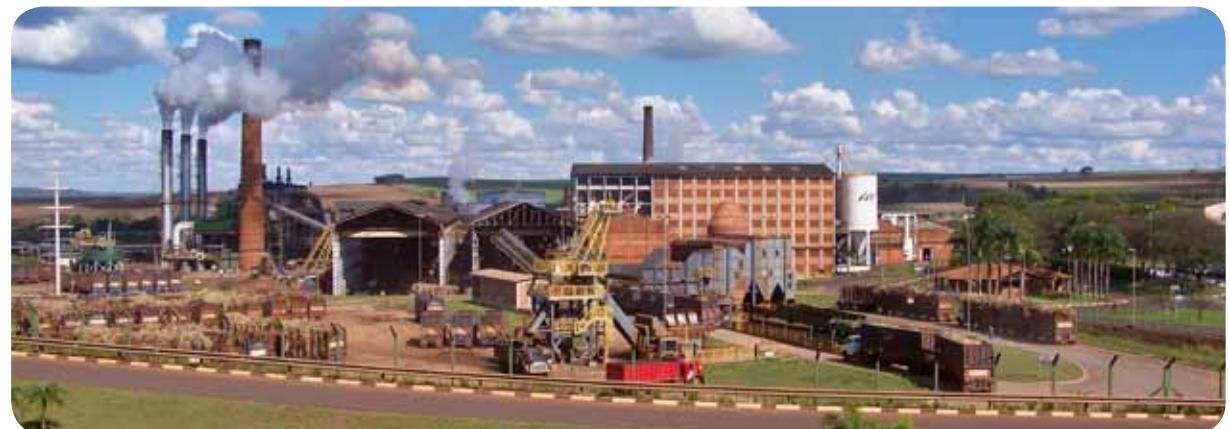
The São Martinho Group announced to the market, in November 2011, the acquisition of 32.18% of Santa Cruz – Açúcar e Álcool (Santa Cruz mill) and 17.97% of Agropecuária Boa Vista S.A. (the land where the mill and the company's sugarcane crops are located) for R\$187.4 million.

The two companies have important points of synergy, such as geographic proximity – Santa Cruz is located approximately 45 kilometers from the São Martinho mill - high rates of mechanized planting and harvesting, as well as similar models of agricultural and industrial operations. The Santa Cruz mill has the capacity to process 4 million tons of sugarcane and in ethanol and sugar production flexibility estimated to be between 40% and 60%.

One of the mill's major competitive advantages as a supply of sugarcane. currently, the unit uses 90% of its own sugarcane, with 42%, equivalent to 20,300 hectares, located on land belonging to Agropecuária Boa Vista S.A..

The purchase was carried out with minority shareholders of Santa Cruz. Next, the São Martinho Group entered into a shared management agreement with the controlling shareholder of the company. The aim is to seek out more operational synergies between the São Martinho and Santa Cruz mills in order to generate greater value for the Group's shareholders. The agreement included buying rights for control of the company.

The Santa Cruz Mill



STRATEGIC PARTNERSHIP IN LOGISTICS

[GRI 2.9]

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

With a total investment of R\$30 million, the new logistics complex, inaugurated in 2012, has a rail transshipment capacity of more than 2 million tons of owned and third-party sugar per year, to the port of Santos for export. São Martinho's investments in expanding the highway and rail terminal were focused exclusively on sugar and include the construction of the warehouse with 60,000 tons of installed capacity. The new warehouse, with together with the two existing warehouses, each with a capacity of 120,000 tons, will provide the logistics complex with a total capacity of approximately 300,000 tons.

In addition, São Martinho also modernized the tunnel and expanded an internal stretch of the rail line, increasing agility by enabling the trains to enter and leave the terminal through different access points. Meanwhile, Rumo Logística will be responsible for obtaining the product from the other mills, making the necessary adjustments to the rail line from the main branch and ensuring transportation to the Port of Santos by rail. São Martinho was responsible for managing the intake, storage and transshipment of the sugar.

A successful partnership

The terminal transferred 750,000 tons of sugar through these means in 2010. Last year, working together with Rumo Logística, it transported 1.1 million tons of sugar from São Martinho and other mills within a radius of 200 kilometers. With the expansion of the terminal, it is expected that 2,000,000 tons of sugar will be collected and transferred from a total of 20 mills in 2012, which will represent 57,000 less truck trips in the Santos region.

Logistics terminal



GREENERGY ATTESTS TO SUSTAINABILITY STANDARDS

Both in 2010 and 2011, o Martinho received an important recognition from the market for its commitment to the quality and sustainability of its production processes.

The anhydrous ethanol produced by the São Martinho mill received Greenergy Bioethanol Sustainability Programme certification from Greenergy International Ltd., a leading biofuel supplier in the United Kingdom. In addition to confirming the quality and commitment of the Group's sustainability management program, the certification gives it an entry to the UK market.

The creation of this certification resulted from the new standards laid down by the UK through the Renewable Transport Fuel Obligation (RTFO). In order to ensure compliance with the RTFO, Greenergy developed a set of criteria encompassing a wide range of social, environmental and community issues that are used to audit all its Brazilian suppliers. São Martinho now finds itself among a select group of ten Brazilian ethanol producers certified by Greenergy.

The mill also received certification from Shell confirming Greenergy's evaluation that the Group complies with all the requirements included in UK's ethanol import protocol. The audit, conducted by SGS at the behest of Shell, concluded that the mill complies with all the RTFO requirements. This second certification underlines the quality and sustainable origin of the Group's ethanol through an internationally recognized protocol while the world discusses the imposition of a global standard for biofuel certification.

HIGH MECHANIZATION RATIO

The São Martinho Group has one of the industry's highest sugarcane mechanization ratios: 85.7% of its 2011/2012 harvest was mechanized (i.e. without burning of the plantations), 0.4 p.p. up on the previous season. The magnitude of this figure can be gauged from the fact that the average mechanization ratio of the mills in the state of São Paulo is only 70%, according to estimate from the State Department of the Environment.

The advantages of mechanized harvesting are many, including a reduced environmental impact, as it eliminates burning, lower risk of injury than in manual harvesting, higher operational efficiency, and preservation of soil conditions. On the other hand, it brings a major challenge for the industry in terms of training and reallocating the workforce.

With this in mind, São Martinho has developed training programs, including the Training Program for Drivers and Operators, which teaches agricultural laborers how to operate tractors, machinery and cane harvesters, helping meet demand for workers specializing in automation and mechanization, in line with market's new reality.



CULTURE OF RESEARCH, DEVELOPMENT AND INNOVATION

The São Martinho Group has conducted numerous trials and research projects in conjunction with leading research centers, universities and companies. The results are brought together each year at the "Agroindustrial Technology Week" whose fifth edition, held in September 2011, included 21 presentations, standardizing an increasing expertise among the Group's employees.

The Research, Development and Innovation (RDI) area handles technology management, seeking out breakthrough and incremental technological opportunities, while systematically prioritizing the research projects to be carried out.

Within this context, the São Martinho Group signed a 2011 technical and intellectual agreement with Case IH focused on developing sugarcane cultivation technology. The initiative provides for the expanded use of Case IH's technology at the São Martinho mill claims to carry out tests and analyses that will allow further efficiency gains in sugarcane production.

Tractors, harvesters, sprayers, planters, transport and precision agricultural, telemetry and fleet control equipment are among the range of Case IH that will be used by the mill. Priority access to new technology and the exchange of information about improvements in the performance of the equipment will ensure that the partnership provides effective, lasting results.

The partnership reinforces São Martinho's innovation and further consolidates its leadership in the field of mechanization, which is essential to its operational efficiency.

OPERATING HIGHLIGHTS

São Martinho posted an excellent operating performance in the 2010/2011 harvest year, with crushed sugarcane volume of 13.1 million metric tons and respective annual increases of 24.4% and 14.1% in sugar and anhydrous ethanol production. The São Martinho mill, in Pradópolis (SP), maintained its position as the world's largest sugarcane processing facility, with crushed volume of 8.4 million metric tons.

It was difficult to repeat this excellent performance during the 2011/2012 harvest year, due to the crop declines resulting from adverse weather conditions, such as frost and flowering, that adversely affected sugar and ethanol production in Brazil. In 2011/2012 the company processed 11.4 million tons (10.6 million tons, taking into account the proportional participation of the Boa Vista mill), which represented a 12.7% decline from the same period last year.

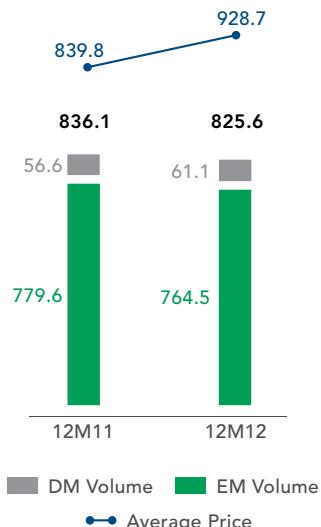
OPERATING HIGHLIGHTS	2011/2012 Harvest	11/12 - 10/11 Change	2010/2011 Harvest	10/11 - 09/10 Change	2009/2010 Harvest
São Martinho - Consolidated					
Processed sugarcane ('000 metric tons)	11,412	-12.7%	13,067	1.1%	12,923
Own ('000 metric tons)	7,461	-12.3%	8,511	12.2%	7,584
Third-party ('000 metric tons)	3,951	-13.3%	4,556	- 14.7%	5,339
Harvest mechanization (%)	85.7%	0.4 p.p.	85.3%	0.8 p.p.	84.4%
Production					
Sugar ('000 metric tons)	774	-11.3%	873	24.4%	702
Anhydrous ethanol ('000 m ³)	222	-13.9%	258	14.1%	226
Hydrous ethanol ('000 m ³)	226	-26.5%	307	- 16.4%	367
RNA – ribonucleic acid sodium salt (metric tons)	226	-14.6%	264	- 5.3%	279
Energy (MWh)	213	30.5%	163	2.7%	159

FINANCIAL RESULTS

[GRI 2.8]

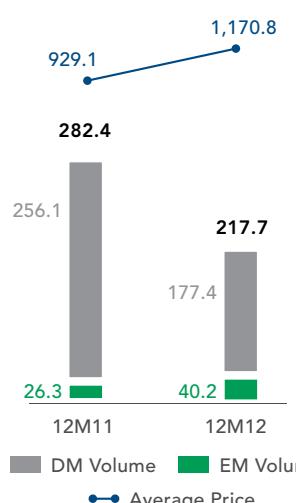
FINANCIAL HIGHLIGHTS ('000 REAIS)	2011/2012 Harvest	2010/2011 Harvest	11/12 - 10/11 Change
Net revenue	1,366,990	1,295,046	5.6%
Cost of goods sold - COGS (cash)	(990,438)	(895,702)	10.6%
Gross profit (cash)	376,552	399,344	-5.7%
Adjusted EBITDA	529,993	612,585	-13.5%
EBITDA Margin	38.8%	47.3%	-8.5 p.p.
Net income	126,611	142,288	-11.0%
Total assets	4,787,167	3,941,658	21.5%
Shareholders' equity	2,024,678	1,953,486	3.6%
Net debt	935,277	489,474	91.1%

Sugar
Volume ('000 metric)
and average price (R\$/ton)



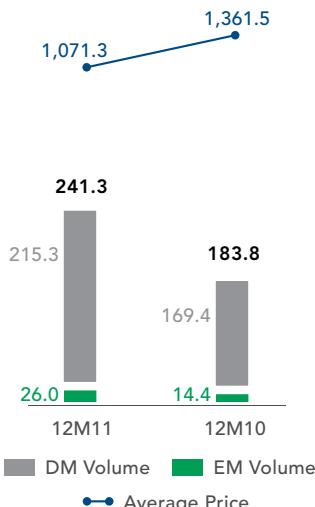
Hydrous ethanol

Volume (mil m³) and average price (R\$/m³)



Anhydrous ethanol

Volume (mil m³) and average price (R\$/m³)



NET REVENUE

In the 2011/2012 harvest year, the São Martinho Group recorded net revenue of R\$1.367 billion, 5.6% up on the previous year, mainly driven by the 10.6% and 26.5% increases in sugar and ethanol prices, respectively, despite the lower volume of product available for sale during the period.

BREAKDOWN OF NET REVENUE ('000 REAIS)	2011/2012 Harvest	2010/2011 Harvest	Change
Net revenue – Sugar	766,687	702,175	9.2%
Net revenue – Hydrous ethanol	254,847	262,400	-2.9%
Net revenue – Anhydrous ethanol	250,223	258,558	-3.2%
Net revenue – Electricity (domestic market)	27,593	23,946	15.2%
Net revenue – Other	67,640	47,965	41.0%

Net revenue from sugar sales climbed by 9.2% over the previous harvest, chiefly due to the 10.6% increase in the average sugar sales price. In the 2011/2012 harvest year, the average sugar sales price was US\$24.67 cents/pound, up 12.9% from the same period in the previous harvest.

Net revenue from hydrous ethanol sales for the 2011/2012 harvest dropped by 2.9%, mainly reflecting the 22.9% reduction in sales volume, partially offset by the 26.0% upturn in the average sales price. The lower sales volume for this product was the result of the weather-related crop loss.

Net revenue from anhydrous ethanol sales also decreased, by 3.2%, because, despite the 27.1% increase in the average price, sales volume dropped by 23.8%. This reduction was due to the lower available volume of this type of ethanol, also due to the crop loss cited above.

Net revenue from electricity sales occurs in those months when sugarcane is crushed (between April and December). In the 2011/2012 harvest year, revenue grew by 15.2% to R\$27.6 million. Despite the 14.8% reduction in the average sale price of electricity during the period, the revenue growth reflected a 35.2% increase in the sales volume. Net revenue from other products and services also increased during the 2011/2012 harvest year, reaching R\$67.6 million, due to the increase in Ribonucleic Acid (RNA) Sodium Salt sales volume.

EBITDA AND NET INCOME

The Group recorded adjusted EBITDA of R\$530.0 million* for the 2011/2012 harvest year, a 13.5% decrease from the same period last year, mainly due to the lower ethanol and sugar sales volumes caused by the sugarcane crop loss throughout the Center-South region of the country and, as a result, at the São Martinho Group's mills. It also shows the partial consolidation of the Boa Vista mill's results (51.0%) due to the sale of the stake to Petrobras Biocombustível.

* With the adoption of the new accounting practices, the expenses related to "Cultural Treatment" moves from being an EBITDA Expense to a CAPEX.

DEBT

The indebtedness of the São Martinho Group reached R\$935.30 million in March 2012, which represents a 91.10% increase over the same period in 2011, mainly due to the partial acquisition of 32.18% of Santa Cruz S.A. and Agropecuária Boa Vista. Approximately 85% of the debt increase was caused by the sum paid to the selling shareholders – R\$170.00 million – and the partial consolidation of Santa Cruz's net debt of R\$203.50 million.



CAPEX

The São Martinho Group invested R\$319.7 million in maintenance CAPEX during the 2011/2012 harvest year, an increase of 21.9% (R\$ 57.3 million) on the same period last year, due mainly to the 8,600 hectare increase in treated areas and the 9,000 hectare increase in sugarcane renewal.

Investments in expansion and modernization throughout the harvest year totaled R\$164.4 million. This amount was mainly due to the cogeneration project at the São Martinho mill (R\$70 million), the expansion of the sugar shipping capacity installed at the mill (R\$30.0 million) in the construction of a specialty chemical factory in SMA – a joint venture between São Martinho and Amyris – totaling R\$20.5 million, which is being exclusively financed by Amyris Inc. Once the plant is completed and operating at the contractually required productivity levels, São Martinho will begin making its contributions.

The Group believes that in the 2012/2013 harvest year, its maintenance investments will be similar to those made during the 2011/2012 harvest year, at approximately R\$300.0 million. Additionally, the Company will invest approximately R\$100.0 million in the Boa Vista mill, mainly in the sugarcane plantation. With these investments, the unit will crush 4.0 million tons during the 2013/2014 harvest year.





Environmental management



05



Environmental Education Center

Respect for the environment is intrinsic to the sustainability of São Martinho's business, in addition to being one of its values and expressed in its "responsible use of soil" pillar. In line with these commitments, the Group has an environmental policy through which it has assumed its role of producing renewable energy in a socially and environmentally responsible manner, aiming at sustainable development,



Students from the Pradópolis (SP) region visit the São Martinho mill's Environmental Education Center

while complying with the applicable legal requirements and making an ongoing contribution to preventing pollution by reducing adverse environmental impacts.

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

The São Martinho Group's Environmental Education Center (CEA), has received more than 50,000 visitors since its inauguration in 2000. Its main objective is to make students, employees and the community aware of the importance of maintaining and respecting the environment, as well increasing their knowledge regarding the conservation of natural resources. The program was first implemented at the São Martinho mill, in Pradópolis (SP), and was extended to the Boa Vista mill, in Quirinópolis (GO), in April 2010.

The center has a wide range of facilities, including models, maps, audio-visual rooms and other tools to promote environmental awareness. The topics addressed by the CEA include conscientious water use, care of the soil and the preservation of riverside forest. By means of themed visits, people can learn about the mills' agricultural and

Seedling Nursery



industrial processes, which include sugarcane planting and biological control and sugar and ethanol production, with a focus on the conscientious use of natural resources and inputs used by the Group.

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

VIVA A NATUREZA PROJECT

The Viva a Natureza project is a pioneering São Martinho initiative involving environmental preservation and the replanting of riverside forest, which began at the São Martinho mill, in Pradópolis (SP). When the project was implemented in 2000, the goal was to plant one million native species seedlings in reforestation and riparian areas within ten years. In fact, by the end of 2010, the project, which was subsequently also implemented at the Iracema and Boa Vista mills, more than 2 million had been planted.

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



The Viva a Natureza project in numbers:

- = Annual production of 380,000 seedlings of 210 native species.
- = Increase in annual planting from 70,000 to 230,000 seedlings.
- = Approximately 1.8 million trees have been planted in the state of São Paulo.
- = A total of 1,100 hectares in permanent preservation areas have been reforested.

SOIL CONSERVATION

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

By using the remains of crops and other preservation methods, the Group is able to maintain soil humidity and avoid leaching and loss of nutrients while improving fertility. With an exceptionally high harvest mechanization ratio of 85.7%, a sector benchmark, and without the use of burning, the Group is able to minimize the loss of topsoil and nutrients.

To enable proper soil conservation, São Martinho also maintains a Soil Laboratory certified as grade A by the Campinas Agricultural Institute (IAC), which helps determine the most appropriate fertilizer formulations in order to avoid waste during the various applications. It also makes systematic use of organisms bred in its bioplants to control pests. Replacing pesticides with laboratory-bred larvae and wasps protects the soil, keeps pests in check and guarantees the survival of microorganisms that benefit plantation fertility and the ecosystem as a whole.

The conservation and expansion of riparian forest on the Group's land is another fundamental aspect of its soil preservation policy. In these areas rain water infiltrates the region's water table, guarantees the supply of natural wells and maintains the flow of water in nearby brooks, streams and rivers. Riparian areas also provide natural protection against river silting, floods and erosion, while preserving biodiversity and sustaining agriculture. Crop rotation using leguminous plants such as soybean and peanut during the plantation renewal period is also essential, since it improves agricultural yields and helps conserve the soil.

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

RPPN TOCA DA PACA

One of the most forms of ecosystem protection are protected areas, environmentally significant territories established by decree in order to maintain their biodiversity and landscapes. These places contain elements that are indispensable to maintaining these aspects and the representative elements of natural environments and genetic variation.

Brazil has a relatively extensive system of more than 1,600 protected areas, including private federal and state reserves, which cover a total of approximately 115 million hectares. However, these areas are not distributed based on the presence of the different ecosystems, which raises serious problems with respect to conservation and hampers the efficiency of Brazil's biodiversity protection system.

Within this context, in 2011, São Martinho established a partnership with the Toca da Paca Private Natural Heritage Reserve, located in Fazenda Boa Vista, in the São Paulo state municipality of Guatapará. Toca da Paca covers a total area of 314.5872 hectares, of which 187.00 hectares are protected by law as an RPPN since 2008. The property includes an area of 48.85 hectares (15.53% of the property) dedicated to the production of sugarcane and is home to a vast area of approximately 136.02 hectares (43.23% of the property) occupied by native vegetation known as Hydrophilic Forest. It also includes 23.74 ha (7.54% of the property) of wetlands, located next to the headquarters building, between the Hydrophilic Forest in the margins of the Mogi Guaçu River.

Preliminary studies have shown a significant number of plant and animal species, which is expected to increase as further research is carried out. Approximately 90 species of trees belonging to 30 botanical families have already been identified. Among the fauna, bird were the most plentiful, with the identification of approximately 100 species. Twenty-two different species of mammal were also identified. The remaining vertebrate groups, particularly fish, must be studied further, given the significant variety of marine wildlife within the RPPN area, which borders the Mogi Guaçu River for approximately two kilometers. Studies also examined the arthropods, which were very helpful to the creation of the management plan. Among the more detailed orders of the arthropods are the Lepidoptera butterflies, which were registered in a variety of areas, totaling 60 species, without including the Hesperiidae, Lycaenidae and Riodinidae groups. Those groups include a series of species that require more detailed identification. Had they been sampled, they may have revealed a much higher total number of butterflies in the region, particularly the Hesperiidae.

Reuse of waste

Virtually nothing is lost and everything is transformed in the sugar and ethanol sector. See some examples below:

- = **Vinasse:** this is a liquid byproduct of distillation that is produced during the ethanol production process. It is rich in potassium, a necessary nutrient in sugarcane fertilizers. Through rigorously controlled procedures, the vinasse is applied through “fertigation”, a technique whereby fertilizer is mixed with the water used to irrigate the soil, normally through huge water jets which are discharged into the air fall like rain over large areas of the plantations.
- = **Filter cake:** generated during the clarification of sugarcane juice, filter cake is rich in phosphorus and organic matter. After treatment and the addition of nutrients, it is used in planting and in ratoons as a substitute for mineral fertilizers.

MOBILIZATION FOR FIRE PREVENTION

In May 2011, the São Martinho Group received an official letter of gratitude from the Secretary of the Environment for the State of São Paulo Bruno Covas, for the support provided by the São Martinho and Iracema mills to the Environmental Conservation Areas in forming brigades to combat fires and provide assistance. The honor was issued by the Forestry Foundation during a ceremony held for the launch of “Operação Corta Fogo - Campo sem fogo, Campo com vida 2012” in Ribeirão Preto (SP), which is focused on the implementation of a series of initiatives to prevent, monitor and combat fires in the countryside and in forests.

Due to its differentiated fire prevention structure, the São Martinho Group has entered into a technical cooperation agreement with the São Paulo State Department of the Environment, in association with other mills, to carry out fire prevention initiatives in the environmental conservation areas in the state of São Paulo. The agreement aims to develop preventive and contingency plans in the Aguapeí, Rio do Peixe and Morro do Diabo state parks, located in the Navarro de Andrade State Forest, in Rio Claro, and in the Ribeirão Preto (SP), Jataí (SP) and Paulo de Faria (SP) ecological stations.



Iracema mill fire response team

ENVIRONMENTAL INDICATORS

MATERIALS USED

[GRI EN1]

The table below shows the materials used by the São Martinho Group during the 2010/2011 and 2011/2012 harvest years, by weight or volume. The materials are classified as indirect, i.e. they are used in the production chain but not incorporated into the final product, except for "coloring material – anhydrous ethanol," which is used in the production chain and is directly incorporated into the final product (direct material).

MATERIALS	Unit	São Martinho Mill		Iracema Mill	
		2010/2011 Harvest	2011/2012 Harvest	2010/2011 Harvest	2011/2012 Harvest
INDUSTRIAL	Coloring material – Anhydrous Ethanol (direct material)	liter	1,217	1,158	655
	Hydrated Lime	metric ton	3,259	2,695	1,894
	Polymer	metric ton	30	22	37
	Sodium hydroxide	metric ton	440	418	318
	Sulfuric acid	metric ton	2,576	1,417	596
	Defoamer	metric ton	131	71	45
	Dispersant	metric ton	73	34	14
	Chlorine	metric ton	7	11	-
	Cyclohexane	liter	39,229	47,141	72,439
AGRICULTURAL	Polyaluminum chloride - PAC	metric ton	35	48	12
	Herbicides	liter	230,896	230,896	122,946
	Herbicides	metric ton	57	133	34
	Pesticide	liter	21,795	17,962	8,577
	Pesticide	metric ton	3	5	2
	Nitrogen	metric ton	3,334	3,716	2,074
	Limestone	metric ton	23,503	36,726	10,220
Additional Information: The final products are dispatched in bulk, which eliminates the need for packaging. None of the materials used are renewable.					

DIRECT AND INDIRECT ENERGY CONSUMPTION

[GRI EN3/ EN4]

The tables below show São Martinho's direct and indirect energy consumption in the 2010/2011 and 2011/2012 harvest years.

DIRECT ENERGY CONSUMPTION (GIGAJOULES - GJ)					
	DESCRIPTION	São Martinho Mill		Iracema Mill	
		2010/2011 Harvest	2011/2012 Harvest	2010/2011 Harvest	2011/2012 Harvest
Non-Renewable Sources	Diesel	952,339.00	890,903.2	359,471.30	388,076.2
	LPG	3,307.90	640.5	1,382.60	770.8
	Gasoline	844.8	860.5	267.3	344.5
Renewable Sources	Biomass	12,687,720.50	10,928,038.8	5,003,255.30	4,846,117.3
	Ethanol	24,527.80	24,260.3	11,086.50	12,001.7
	Methane	24,751.00	24,132.2	-	-

INDIRECT ENERGY CONSUMPTION (MEGAWATT-HOUR - MWh) Used in the agroindustrial operation				
	São Martinho Mill		Iracema Mill	
DESCRIPTION	2010/2011 Harvest	2011/2012 Harvest	2010/2011 Harvest	2011/2012 Harvest
Concessionaire/ distribution network (third party)	CPFL		Elektro	
Purchased and consumed energy volume	4,270	4,683	12,195	8,490

Additional Information:

- The São Martinho mill uses more materials from direct (renewable and non-renewable) sources due to the extent of its agricultural area. The unit generates methane from the biodigestion of vinasse and uses it as an energy source in the yeast drying process.
- The Group has no Small Hydroelectric Plants (SHPs).
- A large portion of purchased electricity consumed by the Iracema mill refers to Omtek, the industrial unit adjacent to the mill which produces ribonucleic acid sodium salt.

GREENHOUSE GAS (GHG) EMISSIONS

[GRI EN16/EN17]

The São Martinho Group prepared its first greenhouse gas emission inventory during the 2010/2011 harvest year, which quantifies the emissions of the São Martinho and Iracema mills between April 1, 2010 and March 31, 2011, based on the GHG Protocol guidelines. The measurement considered the calculation in metric tons of equivalent carbon dioxide ($t\text{CO}_2\text{e}$) resulting from the Group's operations and the intensity of ethanol for export in grams of equivalent carbon dioxide per megajoule ($\text{gCO}_2\text{e/MJ}$).

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

Scope 1 – Direct emissions

Sources: fossil fuels in the agricultural area; CH_4 and N_2O emissions from the burning of the sugarcane straw; the release of CO_2 and N_2O from the soil as a result of nitrogen fertilization; the application of lime in the plantations; the use of vinasse and filter cake on the crop; the decomposition of unburned sugarcane straw; and the emission of CH_4 and N_2O from the burning of bagasse.

Scope 2 – Indirect emissions

Source: energy balance of electricity imports and exports.

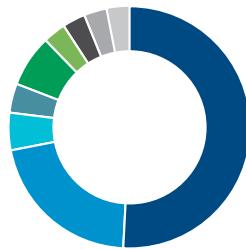
Scope 3 – Indirect emissions (other)

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

TOTAL EMISSIONS IN 2010 (INTCO ₂ E)			
	São Martinho Mill	Iracema Mill	São Martinho Group*
Scope 1	332,550.75	125,659.28	458,807.66
Scope 2	-1,222.04	624.41	-597.63
TOTAL			458,210.03
	São Martinho Mill	Iracema Mill	São Martinho Group*
Scope 3	36,436.85	20,261.04	56,697.89

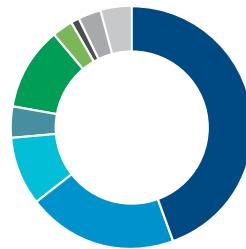
* Numbers related to the São Martinho Group do not include the Boa Vista mill.

São Martinho



- 51% Burning bagasse in boilers – release of CH₄ and N₂O
- 21% Use of fossil fuels
- 5% Production of agricultural inputs
- 4% Burning straw – release of CH₄ e N₂O
- 7% Nitrogen fertilization - release of N₂O and CO₂
- 3% Application of lime in the fields
- 3% Application of Vinasse and Filter Cake
- 3% Other emissions
- 3% Transport of exported ethanol

Iracema



- 44% burning bagasse in boilers – release of CH₄ and N₂O
- 20% Use of fossil fuels
- 9% Production of agricultural inputs
- 4% Burning straw – release of CH₄ and N₂O
- 11% Nitrogen fertilization - release of N₂O and CO₂
- 3% Application of lime in the fields
- 1% Application of Vinasse and Filter Cake
- 3% Other emissions
- 4% Transport of exported ethanol

As of the close of this report, the emissions inventory for the 2011/2012 harvest year, which covered the period from April 1, 2011 to March 31, 2012, had not been completed. That information will be made available in the next sustainability report published by the São Martinho Group.



WASTEWATER

[GRI EN21]

One of the key environmental indicators monitored by the São Martinho Group is the wastewater produced by its mills. The figures recorded in the 2010/2011 and 2011/2012 harvest years are shown below.

TOTAL WASTEWATER BY QUALITY AND DESTINATION							
UNIT	DESTINATION	Volume (m³)		BOD* (mg/L)		DOD** (mg/L)	
		2010/2011 Harvest	2011/2012 Harvest	2010/2011 Harvest	2011/2012 Harvest	2010/2011 Harvest	2011/2012 Harvest
São Martinho Mill	Treatment system	21,422,926	21,545,274	24	34	62	111
	Crop irrigation and the cleaning of equipment	2,182,099	2,378,800	675	619	1,961	1,400
Mill Iracema	Treatment system	N/A	N/A	N/A	N/A	N/A	N/A
	Crop irrigation and the cleaning of equipment	849,132	921,154	N/A	N/A	N/A	N/A

Additional Information:

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

* Biochemical Oxygen Demand (BOD) is widely used to monitor wastewater treatment systems and to characterize industrial effluents, indicating the degree of organic pollution; the BOD value corresponds to the amount of oxygen consumed by microorganisms living in sewage or polluted water as a result of the oxidizing of the sample's dissolved organic material.

** Chemical Oxygen Demand (COD) is the amount of oxygen needed to oxidize organic material through a chemical agent.



WASTE DISPOSAL

[GRI EN22]

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

WASTE	HAZARDOUS	UNIT	São Martinho Mill		Iracema Mill	
			Amount	Disposal	Amount	Disposal
Oil-contaminated rubber	Yes	Metric Ton	3	Incineration	23.7	Landfill
Automotive oil filters	Yes	Metric Ton	21	Incineration	3.8	Landfill
Residual oil	Yes	Metric Ton	252.3	Recovery*	51	Recovery
Oily sludge/Grease	Yes	Metric Ton	28.2	Recovery	-	-
Herbicide packaging** **	Yes	Unit	32,351	Recovery	38,065	Recovery
Light bulbs	Yes	Unit	8,195	Recovery	916	Recovery
Plastic	No	Metric Ton	13.1	Other***	44.2	Other
Tires	No	Metric Ton	2,634	Recovery	1,198	Recovery
Health service waste	Yes	Metric Ton	0.4	Incineration	0.4	Other
Auto and radio batteries	Yes	Metric Ton	23.4	Recovery	9.8	Recovery
Aluminum scrap	No	Metric Ton	4.4	Other	3.1	Other
Steel scrap	No	Metric Ton	818.4	Other	1,043.80	Other
Copper scrap	No	Metric Ton	3.9	Other	4	Other
Soot	No	Metric Ton	92,573	Other	47,527	Other
Filter cake	No	Metric Ton	306,423	Other	65,217	Other
Vinasse	No	Metric Ton	4,310,585	Other	901,055	Other
Paper	No	Metric Ton	44.6	Other	-	-
Glass	No	Metric Ton	1.7	Other	-	-
PPE	No	Metric Ton	5	Landfill	-	-
Milled material	No	Metric Ton	44.5	Other	-	-
Automotive glass	No	Metric Ton	1.9	Other	-	-

* Recovery: a process through which waste material is restored to its initial form/condition, without changing its origin.

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

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

TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL METHOD (2011/2012 HARVEST)*

WASTE	HAZARDOUS	UNIT	Iracema Mill		São Martinho Mill	
			Amount	Disposal	Amount	Disposal
Steel - Milled material	No	Metric Ton	-	-	127.2	Recycling
Carbon steel	No	Metric Ton	516.9	Recycling	4,089.1	Recycling / Reuse
Fiber	No	Metric Ton	0.100	Landfill	26.7	Recycling
Plastic/Paper	No	Metric Ton	43.7	Recycling	123.3	Recycling
Copper wire	No	Metric Ton	-	-	2.8	Recycling
Aluminum	No	Metric Ton	3.2	Recycling	13.3	Recycling
Stainless steel	No	Metric Ton	3.7	Recycling	41.7	Recycling
Metal drums	No	Piece	112	Recycling	70	Recycling
Tires	No	Unit	-	-	3,111	Reconditioning
Eletric materials	No	Metric Ton	-	-	3.0	Resale
Automotive electric materials	No	Metric Ton	-	-	1.5	Resale
Electric wire - various	No	Metric Ton	-	-	2.7	Resale
Brake drum	No	Piece	-	-	41,118	Recycling
Automotive batteries	No	Metric Ton	9.6	Decharacterization	41.2	Resale / Other
Automotive clutch disc	No	Piece	-	-	142	Reuse / Resale
Plato – Automotive Clutch	No	Piece	-	-	126	Reuse / Resale
Milling axis - steel	No	Piece	-	-	6	Recycling
Road shoe and implement	No	Metric Ton	-	-	8.1	Paving
Metal drum	No	Piece	219	Recovery**	70	Reuse
Hydraulic equipment	No	Metric Ton	-	-	15.6	Recycling
Automotive heels	No	Metric Ton	-	-	16.8	Resale
Light bulbs	No	Piece	1,565	Decontamination / Recycling	9,634	Decontamination / Recycling
CAT combustion engine 3.306	No	Piece	-	-	1	Resale
Rubber scrap rubber	Yes	Metric Ton	24,252.0	Landfill	215,710	Incineration
Scrap	No	Metric Ton	-	-	0.07	Reuse
Steel drum	No	Piece	-	-	3,653	Recycling
Plastic drums	No	Piece	1,345	Recovery	73	Recovery
Occupational health service waste	Yes	Metric Ton	1.2	Landfill	1.2	Decontamination
Herbicide packaging***	Yes	Piece	12,932	Decontamination /Recycling	53,871	Decontamination/ Recycling
Burned oil	Yes	Metric Ton	45.1	Recycling	-	-
Dirty rags	Yes	Metric Ton	3.0	Recycling	-	-
Assorted waste	Yes	Metric Ton	26,540.0	Recycling	-	-
Wood	No	Metric Ton	53.7	Incineration	-	-

* The figures for the two harvest years are presented in different tables due to the changes to the list of waste monitored by the Company.

In 2011/2012, 12 items were added to the list. In addition, some of them were grouped in ways that differed from the previous harvest year. These changes could compromise the comparability between the periods.

** Recovery: a process through which waste material is restored to its initial form/condition, without changing its origin.

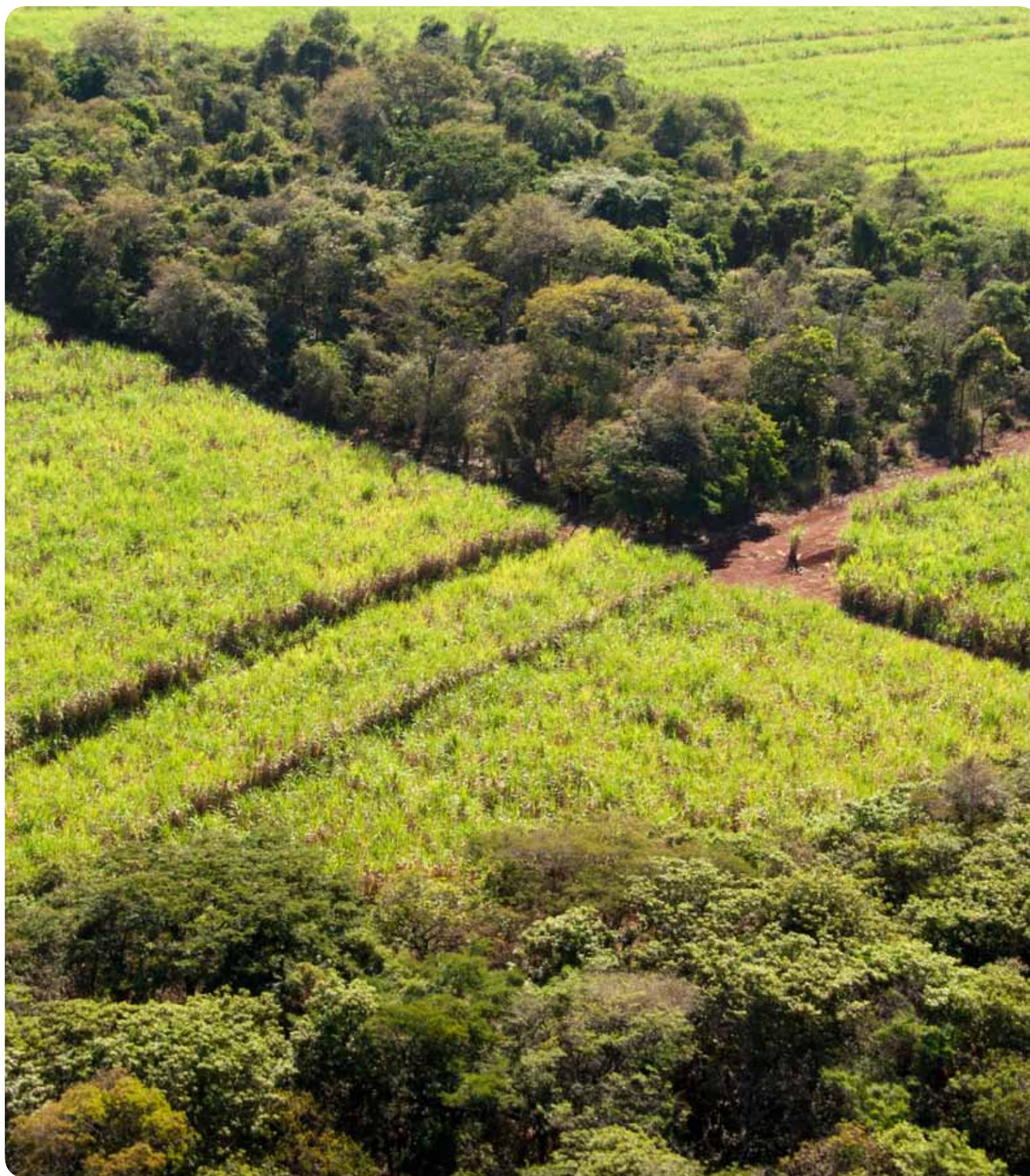
*** Herbicide packaging includes 1, 5, 10, and 20-liter drums, boxes, paper/plastic bags, and metal containers.

COMPLIANCE WITH ENVIRONMENTAL LAWS

[GRI EN28]

One of the challenges of São Martinho's environmental management is to fully comply with the environmental laws and regulations in effect. For transparency purposes, the Group discloses in this report the monetary value of significant fines and the total number of non-monetary sanctions for non-compliance with environmental laws and regulations. Two such fines were received during the 2010/2011 harvest year, one for the São Martinho Mill and another for the Iracema Mill. These were no significant fines during the 2011/2012 harvest year.

COMPLIANCE WITH ENVIRONMENTAL LAWS (fines and non-monetary sanctions)				
	2010/2011 Harvest	2011/2012 Harvest		
ADMINISTRATIVE OR LEGAL SANCTIONS	São Martinho Mill	Iracema Mill	São Martinho Mill	Iracema Mill
Voluntary environmental agreements with regulatory agencies that are considered mandatory between	A Term of Conduct Adjustment (TCA) to eliminate the use of fire in a property, signed by the São Martinho Mill. ATCA for approval of a Legal Reserve, signed by the São Martinho mill. ATCA for reforestation of the São Martinho Mill Permanent Preservation Area. An Environmental Commitment entered into between the São Martinho Mill and the Department of the Environment.	ATCA to eliminate burning at the Iracema Mill. An Environmental Commitment entered into between the Iracema mill and the Department of the Environment.	0	0
Type of suit filed against the Group	Administrative - 2 Legal - 2	Administrative - 1 Legal - 6	Administrative - 3 Legal - 0	Administrative - 0 Legal - 0
Monetary value of significant fines (R\$)	99,446.00	134,876.00	-	-
Proceedings conducted through arbitration mechanisms	0	0	0	0





Relationships

[GRI 4.14]



06

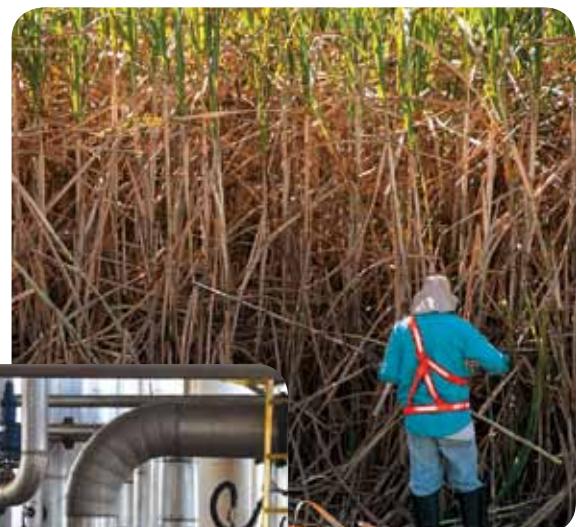
In this section, the São Martinho Group presents some of the key stakeholder groups in its relationship strategy, with a particular emphasis on their influence on the Group's business and vice-versa. The definition of stakeholders is in line with São Martinho's pillars, which include partners and suppliers,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

[GRI 4.15]

EMPLOYEES

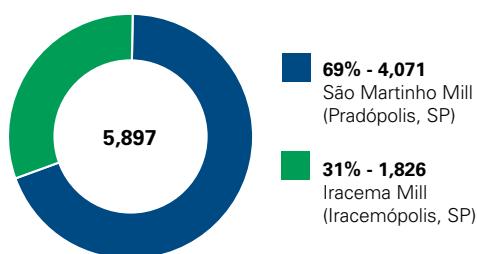
EMPLOYEE PROFILE

[GRI 2.8/ LA1]

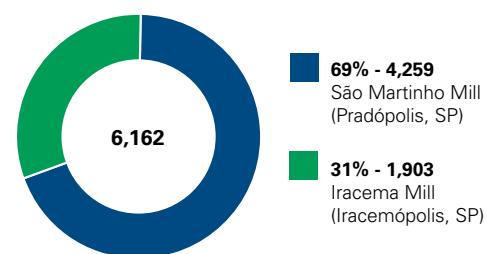


Workforce By Unit

2010/2011 Harvest



2011/2012 Harvest



WORKFORCE BY JOB CATEGORY					
EMPLOYMENT TYPE	São Martinho Mill		Iracema Mill		2011/2012 Harvest
	2010/2011 Harvest	2011/2012 Harvest	2010/2011 Harvest	2011/2012 Harvest	
Managerial	10	15	2	2	2
Coordination	24	25	9	9	9
Leadership	102	119	69	89	89
Technical Support	17	15	14	15	15
Operational	3,918	4,085	1,732	1,788	1,788
Total	4,071	4,259	1,826	1,903	1,903
Total São Martinho Group	5,897		6,162		

WORKFORCE BY EMPLOYMENT CONTRACT						
EMPLOYMENT TYPE	2010/2011 Harvest			2011/2012 Harvest		
	São Martinho Mill		Iracema Mill		São Martinho Mill	Iracema Mill
	Off-season	Harvest	Off-season	Harvest	Off-season	Harvest
Fixed-term employment contract	0	377	0	351	7	355
At-will employment contract	4,042	3,940	1,814	1,793	4,223	4,110
					1,887	1,790

Additional Information:

- The figures for the 2010/2011 harvest refer to the last day of the harvest year (March 31, 2011). The figures for the 2011/2012 harvest refer to the last day of the harvest year (March 31, 2012). It is important to bear in mind that there is a substantial variation in the number of workers when comparing harvest and off-season. During the off-season in March 2012, there were 6,162 workers at the Company, during the harvest (September), the amount increased to 6,716.
- For standardization purposes, this indicator does not include executive officers.
- This indicator does not include Omtek since it does not operate in the sugar and ethanol industry.
- The figures above for the 2010/2011 harvest do not include 47 apprentices and 29 interns, but they do include 51 trainees. The figures for the 2011/2012 harvest do not include 37 apprentices during the harvest and 42 during the off-season. However, 24 trainees were included.

EMPLOYEE ENGAGEMENT

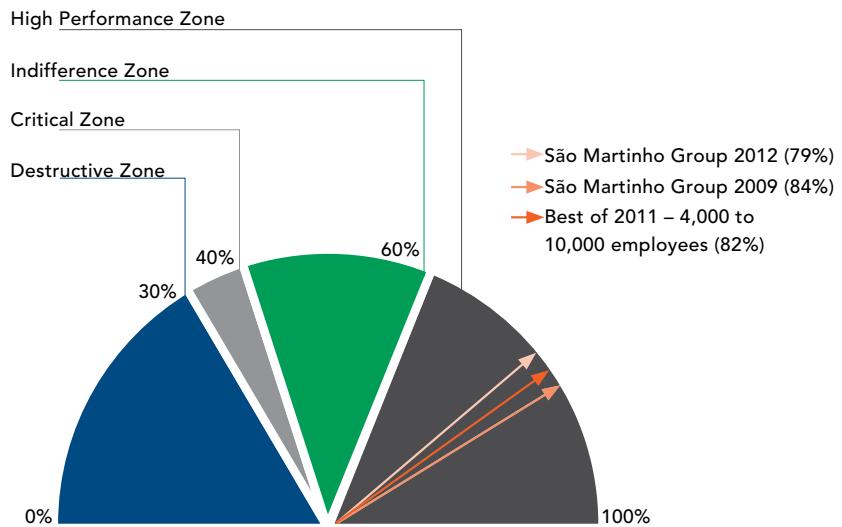
Once every two years, São Martinho conducts a survey to identify the job satisfaction level, employees intention (or not) to continue working for the Group and their level of commitment to its success.

Through this survey, the Group examines those factors influencing employee engagement, including: personal attitudes (vis-à-vis their immediate superior and/or co-workers), compensation, corporate practices, work (activity, resources), opportunities (career and professional development) and quality of life. The results are used to obtain an accurate picture of the Group's current situation, draw up an action plan, jointly with management, for those points that need improvement, and implement measures to ensure sustainability.

The second edition of the São Martinho employee engagement survey, completed in February 2012, showed an employee engagement ration of 79%, Indicating a high level of commitment to the Company and their work. Studies by Aon Hewitt, the consulting firm responsible for conducting the survey, showed that organizations with engagement levels above 65% have better business results. When this figure is less than 40%, their ability to achieve their goals may be diminished.



Results of the Engagement Survey



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

CAREERS

The São Martinho Group offers equal opportunity for professional development, in accordance with objective criteria based on skills, competencies, job profile and individual contribution. The Group invests in technical and behavioral training, as well as in scholarship programs that contribute to the acquisition of knowledge and encourage the continuous development of its employees.

The Group prioritizes internal recruitment and employees are encouraged to apply for and occupy new positions in accordance with their professional ambitions.

The requirements for each position are based on competencies and skills that serve as a reference in the selection and development processes.



MANAGEMENT BY COMPETENCIES AND SKILLS

The Evaluation of Competencies and Skills is a People Management tool used to map the behavior and abilities of employees serving in different positions. It aims to improve processes and relationships and promote personal and professional development. This tool includes the Individual Development Plan (PDI), through which the employee provides self-evaluation using questionnaires and receives feedback to improve their performance.

The current competencies are self-development, entrepreneurship, people management, results and sustainability-driven attitude, interpersonal skills and systemic vision.

SUCCESSION PLAN

In order to ensure opportunities for São Martinho professionals and in line with its growth strategy, the Group maps strategic positions in the Succession Plan. The Group evaluates and accompanies the performance of its employees using criteria such as abilities, skills, position profile and individual contributions.

Every year employees are evaluated by a committee charged with identifying their potential and performance and defining successors for executive, managerial, advisory and coordinating positions. The committee is composed of all those professionals who hold positions immediately above those for which the Group is seeking successors. For example, executives evaluate managers, and managers evaluate coordinators. Technical support, senior level and leadership positions will also be included in the evaluation as of the second half of 2011.

This evaluation not only reveals an employee's qualities, but it also identified possible gaps in development, providing feedback that can help improve their activities.

DEVELOPMENT

[GRI LA11]

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

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

[GRI LA10]

AVERAGE NO. OF TRAINING HOURS AT SÃO MARTINHO DURING THE 2011/2012 HARVEST: 21.85*

CATEGORY	São Martinho Mill		Iracema Mill	
	2010/2011 Harvest	2011/2012 Harvest	2010/2011 Harvest	2011/2012 Harvest
Managerial	19.41	49.67	9.62	55.67
Coordination	43.91	66.77	26.64	72.00
Leadership	36.95	62.78	28.92	50.68
Technical Support	31.48	58.84	40.27	68.75
Operational	17.66	20.68	23.3	18.64
	24.54	22.47	25.42	21.24

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

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

INTEGRATION

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



Agricultural maintenance program graduation

PROFESSIONAL TRAINING PROGRAMS

Due to technological advances and environmental issues, manual labor during planting and harvesting is gradually being replaced by mechanized procedures. Aiming to retrain those employees who carry out such activities, and in order to meet current and future demand, the Group constantly invests in employee capacity-building, despite its high mechanization ratio of 85.7%. Programs targeting the Group's employees and the community include:

- **Agricultural Maintenance Workers:** An 18-month program developed in association with the National Industrial Learning Service (SENAI) targeting agricultural laborers. There are 600 hours of classroom learning, which can take place either within the Company itself or at the local SENAI, as well as practical activities which take place in the maintenance workshop. At the end of the program employees may be promoted, depending on the number of vacancies available. It was implemented in the São Martinho mill in 2008, and 20 employees are currently taking part (2011/2012). At the end of the most recent program, 100% of participants were promoted.
- **Agricultural Machinery Operators and Drivers:** This program, which is run internally or in association with SENAI, is designed to train agricultural laborers to become drivers or agricultural machinery operators. The 2010/2011 program had 54 participants.
- **Renewal Program:** Coordinated by UNICA and the São Paulo State Federation for Paid Rural Workers (Feraesp), in association with other sector suppliers, this program aims to train 7,000 agricultural laborers to meet the demands of the sector and the communities in the state of São Paulo.

The São Martinho Group was a member of the project's organization committee and also hosted some of the training activities on its premises, receiving employees from various mills. Between 2010 and 2011, the project retrained 253 workers at the São Martinho and Iracema mills.

- **Increased professional training in partnership with SENAI:** As the sector evolved a few years ago towards mechanized planting and harvesting, there was also an increased demand for specialized technical assistance, mainly in agroindustrial operations and maintenance. In an effort to identify the necessary adjustments for this new profile, in October SENAI entered into a partnership with the São Martinho Group to outline an analytical profile of the professionals who work with agricultural machinery. The Group was chosen due to its high rate of mechanization (85.7%), which is a benchmark for the industry.

In addition to this analysis, the partnership involves the updating the training program content offered by SENAI, together with the possibility to implement new initiatives focused on the issue of strategic, ongoing training. The next step is to define and implement the new courses.

INTERNSHIP AND SENAI APPRENTICE PROGRAMS

The São Martinho Group's Internship Program targets university and technical college students and is designed to provide students with the opportunity to practice their theoretical knowledge and gain experience through real-life situations, while training for their future profession. The program also aims to discover new talent and form a base of qualified candidates who can be hired by the Group.

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

TRAINEE PROGRAM: THE LEADERS OF TOMORROW

Every two years, the Group holds internal and external selection processes for trainees who have recently graduated from university or who have completed courses related to the Group's business, with the aim of training them for strategic positions and to become future leaders. There are two different programs: Leaders of the Future, which involves external recruitment and Values in Action, with similar rules, which is conducted internally.

Each manager is responsible for defining the number and profile of the trainees. The selection process follows the Group's overall recruitment and selection policies and offers opportunities for both personal and professional development and the acquisition of knowledge related to the candidate's current position in the Group. At the end of two years, managers are responsible for advising 2012 trainee class the trainees under their responsibility in regard to the Group's career plan.

In 2010, the program selected 29 current and 24 new employees. In addition, 15 trainees who had participated in the 2009 program were promoted. As the program lasts for two years, the selection process was not carried out in 2011. Registration began on March 16, 2012, which this time included Nova Fronteira Bioenergia, with openings targeted for the Boa Vista mill. At the time, the program selected four current and ten new employees.



2012 trainee class

LEADERSHIP TRAINING

- Manager Development Program (PDG): provides training focused on the company's leadership levels, guided by the Group's strategies. Based on the gaps identified in the Skills Evaluation, the Engagement Survey and the other tools used as part of HR's strategic planning, the Manager Development Program was created, which is composed of development actions that include all of the company's leadership levels, including the trainees. More than 400 managers are currently participating.

- Leadership Development Module (MDL): Is composed of a variety of subjects, including self-knowledge, human motivation and behavior and the leadership pipeline, based on the level of the position. The Group relied on the support of a specialized management development consulting firm (LabSSJ) in order to provide this training.
- Advanced Management Program (APG): a five-day, offsite training program, with an emphasis on strategy. The Group relied on the support of a specialized management development consulting firm (Amana Key) in order to provide this training.
- Management Meeting: held annually, the purpose of the meeting is to reinforce organizational values and skills, integrate teams and share challenges and goals. The most recent meeting was held in March 2012, in Capitólio (MG), with the theme "Innovation – the differential for sustainable competitiveness."

There was also a Leader Meeting held in April 2012, which included of 260 leaders, with the theme: "Leadership in values, a sustainable commitment," held in Dourados (SP).



Management Meeting, Araxá, 2012

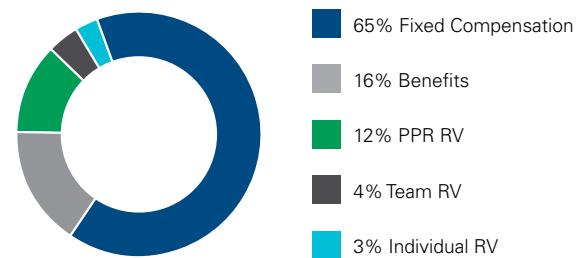
COMPENSATION

The São Martinho Group has adopted a compensation policy aligned with market practices and in keeping with the Organization's objectives, which, together with its organizational process framework, seeks ways to ensure effective internal and external fairness and ways to sustain its people management pillars.

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

When comparing the wage floor applied by the State Government for each profession and job category, São Martinho found that the lowest variation was in the São Martinho mill's agricultural area. The wage floor at this unit exceeded the local floor by 14%, 13% and 11%, respectively, during the 2010/2011, 2011/2012 e 2012/2013 harvest years. The highest applied to drivers/machinery operators at both mills, calculated, based on the most recent harvest years (2012/2013) to be 54% for São Martinho and 45% for Iracema. See the table below.

Compensation Breakdown



DIFFERENCE BETWEEN SÃO MARTINHO'S WAGE FLOOR AND THE OFFICIAL LOCAL MINIMUM

[GRI EC5]

		São Martinho Mill		Iracema Mill	
		2010/2011 Harvest	2011/2012 Harvest	2010/2011 Harvest	2011/2012 Harvest
Agricultural	Floor (collective bargaining agreement)	R\$ 635.80	R\$ 699.60	R\$ 662.20	R\$ 715.00
	Government* minimum	R\$ 560.00	R\$ 622.00	R\$ 560.00	R\$ 622.00
	Change (%)	14%	12%	18%	15%
Industrial	Floor (collective bargaining agreement)	R\$ 660.00	R\$ 726.00	R\$ 675.40	R\$ 728.20
	Government minimum*	R\$ 560.00	R\$ 622.00	R\$ 560.00	R\$ 622.00
	Change (%)	18%	17%	21%	18%
Driver / Machinery Operator	Floor (collective bargaining agreement)	R\$ 829.40	R\$ 990.00	R\$ 862.40	R\$ 932.80
	Government minimum*	R\$ 570.00	R\$ 622.00	R\$ 570.00	R\$ 622.00
	Change (%)	46%	54%	51%	45%

*All of the categories use the federal wage floor.

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

- Variable monthly compensation: based on team performance indicators and defined according to company strategies and process guidelines. This applies to industrial and agricultural employees, who are eligible to receive a significant increase in their monthly income.
- Profit Sharing Program (PPR): aims to distribute, in the form of compensation, the results obtained through the contribution of employees in reaching and/or outperforming goals. This applies to 100% of the São Martinho Group employees. Its implementation was agreed upon between the company and the unions in 1998 through collective bargaining agreements. In order to negotiate and monitor the Profit Sharing Program, commissions were created that are composed of representatives chosen by the workers from the different professional categories, representatives appointed by the company and a representative appointed by each of the unions in the respective categories. All of the group's employees are covered by collective bargaining agreements. [GRI LA4]
- Management Bonus: offered to the company's managers. The indicators are defined individually each year, are calculated quarterly and are in keeping with the Organization's strategy. The amount varies based upon the hierarchical level.

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

BENEFITS

[GRI LA3]

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

All employees are entitled to the benefits listed below, independently of the type of contract and labor regime. The eligibility to receive the benefits, however, depends on human resources policies that take into account the employees' professional activity and work location.

Below are the benefits offered by São Martinho:

- Medical and dental coverage
- Complementary coverage
- Funeral assistance
- Christmas basket
- Workplace accident coverage
- Pharmacy plan
- Credit cooperative
- Maternity leave extension
- Meal (food ticket/meal ticket)
- Group life insurance

HEALTH

The São Martinho Group adopts a preventive approach to occupational health by promoting the quality of life through programs that promote the health and well-being of its employees. It relies on highly qualified teams and the appropriate tools to enforce the Occupational Health and Safety Policy, which is based on the Group's values and is designed to contribute to the sustainable development of its business.



Occupational Health and Safety Policy

In order to maintain the sustainable development of its business and comply with all legal requirements, the Group considers occupational health and safety to be an integral part of its production process, being as important as agroindustrial output itself. It therefore implements all the necessary conditions and resources to ensure the well-being of its employees.

"DO THE RIGHT THING, CELEBRATE LIFE" CAMPAIGN

[GRI LA8]

Safety first – that is the central message of the “Do the Right Thing, Celebrate Life” campaign, which was implemented on July 27, 2010 (National Workplace Accident Prevention Day) to reinforce the importance of preserving life. Employees were encouraged to make smart choices that promote the well-being of the entire team.

A new stage of awareness also began on July 27, 2011, focused on the need to pay attention when carrying out all activities - at home or at work - and the importance of leaders providing incentives and setting strong examples. Accordingly, there was a series of internal communications to employees reinforcing the need to do the right thing to avoid accidents in a variety of everyday situations.

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

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

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

In addition to developing programs to improve the quality of life of its employees and the community, the Group also supports and participates in national and international campaigns through one-off initiatives, including World No Tobacco Day, International Day against Drug Abuse and Illicit Trafficking, World Diabetes Day, National Cholesterol Control Day, National No Tobacco Day, and World AIDS Day.

HEALTH, SAFETY AND QUALITY OF LIFE PROGRAMS

[GRI LA8]

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

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

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

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

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

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

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

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

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

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

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

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

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

- Integrity – Safety Training: Publication of information about the importance of Personal Protective Equipment (PPE), such as gloves, protective leggings and sleeves, etc;
- Survey of Aspects, Hazards, Impacts and Risks: Publication of information about the importance of using and maintaining Collective Protective Equipment, such as machinery bulkheads, soundproofing, etc.

- Safety audits and inspections: carried out monthly for the agricultural and industrial areas;
- “Do the Right Thing, Celebrate Life” Campaign: *find out more on page 70*;
- Zero Accident Program *find out more on page 70*;
- Internal Workplace Accident Prevention Week and Internal Rural Workplace Accident Prevention Week: Held annually, over the course of one week, the events include lectures, theatrical performances, shows, raffles and other activities related to the respective issues;
- Monthly meetings: Given that the São Martinho Group understands that health and safety are strategic issues, it carries out monthly videoconferences on these issues that include the participation of the CEO, the Agroindustrial Executive Officers, the Industrial Managers, the Agricultural Managers, the Managing Director, the HR Manager and the Safety Engineers from the units.

Study and Implementation of Regulatory Standards: Focused on the bringing the company's facilities into compliance with the legal requirements of Regulatory Standards such as NR10 (Safety in Electrical Installations and Services), NR13 (Boilers and Pressure Vessels), NR20 (Flammable and Combustible Workplace Health and Safety) and NR31 (Health and Safety in Agriculture).

National Commitment: : *find out more on page 74*

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



Exercise break at the Iracema Mill

Healthier Days

The São Martinho Group has implemented workplace exercise routines in its mills, whereby trainers and monitors encourage the practice of physical exercise on a daily basis. It also conducts satisfaction surveys to measure the results and identify opportunities for improvement.

In addition, every day São Martinho distributes oral rehydration solution to its agricultural workers, instructing and encouraging them on its use as a means of replacing water and minerals, which are essential to health.

HEALTH AND SAFETY INDICATORS

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

As a result of this work, during the 2011/2012 harvest year, the São Martinho Group was able to significantly improve all of its health and safety indicators with respect to the previous harvest year, as shown below.

[GRI LA7]

INDICATORS	São Martinho Mill		Iracema Mill	
	2010/2011 Harvest	2011/2012 Harvest	2010/2011 Harvest	2011/2012 Harvest
Frequency rate of accidents resulting in leave os absence ¹	5.3	2.8	9.1	5.3
Frequency rate of accidents not resulting in leave os absence ²	5.2	2.8	48.7	39.6
Frequency rate of accidents with and w/out leave of absence ³	10.5	5.5	57.8	44.9
Gravity ratio ⁴	816	94	766	366
Number of working days lost ⁵	1,083	845	2,483	1,239
Number of working days deducted ⁶	6,000	0	300	0
Number of deaths ⁷	1	0	0	0
Absenteeism rate ⁸	5.18	5.18	4.05	4.05
Occupational illnesses ⁹	0	0	0	0

Note: These figures do not include Omtek, since the industrial unit has very few employees and does not operate in the sugar and ethanol sector.

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

² Number of accidents without leave of absence x 1,000,000/man-hours worked.

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

⁴ (Number of working days lost + Number of working days deducted) x 1,000,000/man-hours worked.

⁵ Number of consecutive days of leave of absence due to personal injury, excluding the day when the accident happened and the day when the employee returned to work. For the São Martinho Group, "scheduled working days" are included.

⁶ Days deducted due to permanent, total or partial disability or death for the calculation of the gravity ratio.

⁷ Inability to work due to loss of life.

⁸ Percentage of the real number of working days lost in relation to the total of scheduled working days to be worked by employees.

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

NATIONAL COMMITMENT

In 2012, the São Martinho Group reiterated its interest in perfecting the actions related to sugarcane operations. The Company supported the extension of the National Commitment, which aims to encourage the adoption of best labor practices in the sugarcane industry. The text, established in 2009 through a roundtable that included business owners, workers and the federal government, covers a series of issues, including labor contracts, measurement of cut sugarcane, workplace health and safety, as well as the enhancement of trade union activity and collective bargaining.

Since the second half of 2011, duly accredited audit firms have been authorized to begin the process of verifying the actions adopted as part of the commitment, at the mills that have signed the agreement. The São Martinho Group's units have been a part of the commitment since its inception. Each year, these mills renew their participation and, in 2012, they once again underwent the verification process. The company Deloitte Touche Tohmatsu Consultores evaluated the involved activities at the three mills and stated that all of them are in accordance with the agreement.

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

The Boa Vista, Iracema and São Martinho mills went through four stages of the verification process, which included a prior evaluation of documents, such as labor contracts and collective agreements; field interviews with workers engaged in the manual cultivation of sugarcane; interviews with coordinators and safety engineers from the Human Resources and Workplace Safety areas, as well as the completion of the National Commitment Questionnaire.

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



PARTNERSHIP NETWORK

One of São Martinho's pillars consists of its relations with suppliers and partners, since it recognizes that these stakeholders play an essential role in the sustainability of its business. In fact, suppliers and partners jointly account for around two-thirds of total crushed sugarcane volume. The group called "suppliers" comprises land owners that produce sugarcane, while "partners" refers to owners of land used by the Group for agricultural production.

One of the Group's greatest challenges is to ensure long-lasting business relations with its suppliers and partners. In order to meet this challenge, it maintains open and transparent dialogue, provides excellent service together with the appropriate tools, invests in training, ensures access to information on new technologies, and is constantly alert to new demands and opportunities for improvement throughout the entire production chain.

Every year the Group holds two events for suppliers: one at the end of the season to present results and projections, and another at the close of January to provide technical information and discuss technologies that may be useful in the coming season. The Group also holds occasional meetings to address specific matters, for example preventing and combating crop pests. It also relies on a field team that pays periodic visits to the plantations to identify opportunities for improvement and monitor service quality.

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

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

2011 meeting with suppliers: discussing future perspectives



THE IMPORTANCE OF LOCAL SUPPLIES

[GRI EC6]

For strategic reasons, especially those related to logistics, management and relationships, the local supply of services, inputs and equipment used in the production processes (i.e. from the towns surrounding the mills) is of the utmost importance. For example, the region of Pradópolis (SP) where the São Martinho mill is located represents 34.39% of the extraction for supply/services rendered. If we look at each mill separately, local supply reaches 50%, as is the case of the Iracema mill. The tables below show the importance of local suppliers in numbers.

ORIGIN OF SÃO MARTINHO GROUP SUPPLY			
Origin of supply	Harvest	Amount spent on sugarcane purchases	Share of the total supply
Local suppliers	2010/2011	R\$ 262,468,552.76	34.39%
	2011/2012	R\$ 291,080,055.77	33.75%
Other suppliers	2010/2011	R\$ 500,844,565.83	65.61%
	2011/2012	R\$ 571,396,152.05	66.25%
Total supply	2010/2011	R\$ 763,313,118.59	100.00%
	2011/2012	R\$ 862,476,207.83	100.00%

SHARE OF LOCAL SUPPLY USED BY THE MILLS				
	São Martinho Mill		São Martinho Mill	
	2010/2011 Harvest	2011/2012 Harvest	2010/2011 Harvest	2011/2012 Harvest
Total amount spent on sugarcane purchases per mil	R\$ 352,874,632.17	R\$ 395,512,522.14	R\$ 174,373,533.79	R\$ 214,754,936.27
Percentage spent on local supply	45.2%	61.3%	50.0%	56.0%

Note: Sugarcane suppliers have not been taken into consideration in the figures above, which deal with the extraction for the São Martinho Group's supply.

Although the Group does not have a specific policy to prioritize the contracting of local suppliers, it does seek to maintain long-lasting relations with its partnership network, based on ethical conduct and attractive business conditions.

INVESTORS AND SHAREHOLDERS

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

In recent years, the IR area has made a great effort to ensure coverage by key investment banks. As a result, the Company is now covered on a permanent basis by 18 analysts from the main investment banks and asset management firms.

The efforts to provide better service to stakeholders was recognized in 2011, when São Martinho's IR Department was ranked first by Institutional Investor – one of the most respected rankings in the world – among agribusiness companies in Latin America.



BM&FBovespa Release regarding the start of trading of shares of the São Martinho Group

COMMUNITY

Respect for people is one of the Group's values, and the community constitutes one of its pillars. As a result, the São Martinho Group considers its relationship with society to be an integral part of its business. It therefore seeks to promote the social and economic development of its neighboring communities, especially in regard to education and culture.

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

The Group's initiatives are described below.

Participants in the São Martinho Race

INCENTIVIZING SPORTS

Each year, the company promotes the São Martinho Race, with distances of five and ten kilometers, along trails located on the sugar mill plantations at the São Martinho mill, in Pradópolis (SP). The top five overall finishers and the top 20 employees receive prizes. In addition to being an opportunity for the teams from different units to become better integrated, the race has drawn the participation of local residents and professional athletes.

The third edition, held in 2011, brought together approximately 800 runners.



PROFESSIONAL TRAINING AND DEVELOPMENT

The São Martinho Group is deeply concerned with professional training and development, especially in regard to supplying growing demand for skilled labor and generating professional opportunities for local community members.

With this in mind, it donated a 17,610 m² site on land owned by the Iracema mill to the city of Iracemápolis (SP) in order to build a SENAI school to train youngsters in industrial processes. The courses on offer will include machining, electricity, auto mechanics and IT, as well as the mechanics of agriculture machinery.

There is also the "Projov" First Job program, which the Company provides in partnership with institutions from Iracemápolis and Pradópolis, to provide access to the job market and the possibility of lasting employment with the Company to youngsters between 16 and 18 years of age attending public high schools in the mills' neighboring communities.

Another program is Tele-classrooms, a Group initiative in association with the Bradesco Foundation that provides classrooms, equipment, teaching materials and monitors to youngsters and adults who are completing their primary and secondary education. In 2011, the project helped 480 adults resume their studies. Since its implementation in 2001, roughly 2,000 students have benefited from this program.



CULTURAL INCENTIVES

Aware of the importance of entertainment and culture to the quality of life, the São Martinho Group uses theater to provide its surrounding communities with both leisure and knowledge.

Taking advantage of tax incentives for cultural projects, the Group offered several children's plays in 2011 through its Theater in the City Project, carried out in association with the TPC Theater Group, reaching audiences in the São Paulo municipalities of Dumont, Pradópolis, Guariba, Barrinha, and Iracemápolis. Approximately 7,500 children attended the 20 shows staged in 2011.

BOOK FAIR

Also within the context of providing support for culture, each year the São Martinho group provides its employees with a visit to the Ribeirão Preto Book Fair. It also encourages reading through the donation of books. In 2011, 19 adolescents from the Projov Program, as well as 86 employees, benefited from the program.



Projects supported by the São Martinho Group also benefited adolescents

Also in 2011, the Iracema mill, in partnership with the Iracemópolis Art and Culture Movement Association (AMACI), announced the project to rehabilitate the traditional Iracema Cinema, so that it could once again be the stage for major cultural events in the city of Iracemápolis. Part of the funds for the project will be obtained by the São Martinho Group through financing from the Brazilian Development Bank (BNDES) and through the Rouanet Cultural Incentive Law, whereby the Company will transfer the amount of the tax incentive to AMACI.

The São Martinho Group uses theater to provide its surrounding communities with both leisure and knowledge

CHRISTMAS WITHOUT HUNGER CAMPAIGN

Held in partnership with social institutions, the campaign collected non-perishable food items from São Martinho's employees and sugarcane suppliers. Campaigns such as this one encourage the spirit of solidarity and volunteerism among its workforce.

VOLUNTEER WORK

This Iracemápolis-based program is run by Junior Achievement in association with the Limeira Development Institute (Ideli), which has promoted the Entrepreneurs of the Future project in the Limeira region for the last ten years. Lasting for 15 weeks and led by volunteers from the Iracema mill, this program shows high school students how a company works by introducing them to such concepts as marketing, finance, human resources and production. It also involves practical activities.

INCLUSION OF PEOPLE WITH DISABILITIES

Aware of its social role, São Martinho, together with the National Industrial Learning Service (SENAI), is developing a project specifically focused on the inclusion of people with disabilities.

The Company also offers an internal readaptation program for employees who have been released by the INSS but cannot return to their original position. These employees do not receive INSS benefits or a salary, therefore, their readaptation takes place at their own initiative and is funded by São Martinho.

The Iracema mill also seeks to promote the inclusion of people with disabilities. The unit provides a monthly contribution to serve children with disabilities at the Limeirense Children's Rehabilitation Association (ARIL). The city of Iracemápolis also has an ARIL unit, installed in 2006 in areas temporarily ceded by the mill. For actions such as these, the Iracema mill received the Socially Responsible Company – Friend of ARIL seal. Another institution from Limeira that receives support from São Martinho is APAE, which, in 2011, in response to the support it received, provided the company with a APAE Corporate Citizen Partnership seal.

ART AND SUSTAINABILITY

In 2010, the São Martinho mill helped hundreds of students and teachers from municipal schools in Dumont and Pradópolis (SP) to increase their knowledge of the arts and subjects related to sustainability. Divided into groups, the students first learned about the activities of the Environmental Education Center (CEA), located in the mill's headquarters. They then visited the Design & Nature exhibition in the Ribeirão Preto Art Museum (MARP), 40 kilometers from the mill.

The São Martinho mill was one of the first sponsors of this project, which brought together the work of 42 Brazilian designers faced with the challenge of creating unique pieces uniting aesthetics, functionality and durability with themes such as the need to protect natural resources, reduce pollution, and respect social and cultural issues. This exhibition, which traditionally takes place in São Paulo, was brought to Ribeirão Preto for the first time by Origem Produções.

The students visited the exhibition accompanied by monitors and received a brochure on sustainability at the end of the visit. Teachers also received audio-visual material that can be used in the classroom.

GOVERNMENT

The São Martinho Group's relations with government agencies are largely conducted through the Brazilian Sugarcane Industry Association (UNICA).

Every March, the São Martinho and Iracema mills receive the annual certification renewal for the sugar and ethanol industry's Agro-Environmental Protocol, a voluntary commitment by the mills in São Paulo state with UNICA and the state government. The São Martinho Group joined the Protocol in 2008, but its membership has to be renewed every year following the presentation of its results and targets in regard to the elimination of cane burning and other aspects of sustainable production.

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

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





Corporate governance



07

OVERVIEW

[GRI 2.3/ 2.9]

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

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

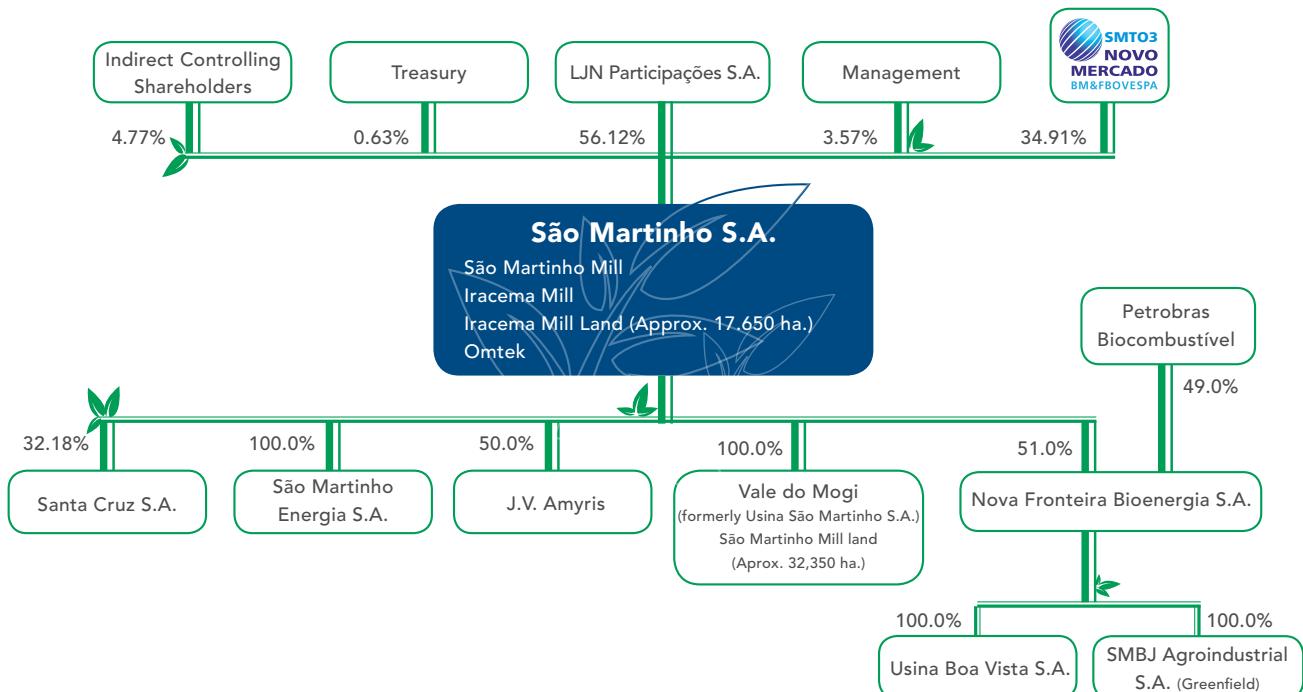
Also as part of the corporate restructuring process, in 2011 São Martinho S.A. merged Omtek (another wholly-owned subsidiary) and took over responsibility for its activities, which consist of the production, sale and import/export of chemical and organic products, on its own behalf or on the behalf of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

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

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



OWNERSHIP STRUCTURE OF SÃO MARTINHO S.A.



SHAREHOLDER BREAKDOWN

In August 2011, São Martinho announced to its shareholders that its controlling shareholders, Luiz Ometto Participações S.A., João Ometto Participações S.A and Nelson Ometto Participações Ltda. Had consolidated their holdings into a single holding company that would be the controlling shareholder of São Martinho S.A. The holding company, known as LJN Participações S.A., is a privately-held company that retains 56.12% of the Company's capital stock, which is the result of the sum of the shares previously held by the controlling shareholders, calculated respectively at 26,134,286, 26,134,286 and 11,145,716.

The creation of the holding company resulted in a shareholders' agreement that governs, among other issues, how the Company's shares should be purchased and sold. The agreement further consolidates the São Martinho Group's best practices of corporate governance. The table below shows the shareholder breakdown following the creation of LJN Participações.

Shareholders	% of shares
LJN Participações S.A.	56.12
Indirect Controlling Shareholders	4.77
Management	3.57
Treasury	0.63
Outstanding shares	34.91
Total	100.00

CLASSIFICATION OF THE COMPANY'S SHARES

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

GOVERNANCE STRUCTURE

[GRI 4.1/ 4.2]

BOARD OF DIRECTORS

[GRI 4.3]

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

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

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

BOARD OF EXECUTIVE OFFICERS

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

Name	Position
Fábio Venturelli	CEO
Agenor Cunha Pavan	Agroindustrial Executive Officer
Mario Ortiz Gandini	Agroindustrial Officer - São Martinho Mill
Augusto Braúna Pinheiro	CFO and IRO
Roberto Pupulin	Administrative Officer
Fernando Zaneti	Agroindustrial Officer – Iracema Mill
Helder Luiz Gosling	Commercial and Logistics Officer

MANAGEMENT COMMITTEES

Three non-statutory committees focusing on specific management issues were created to support the decisions of the Board of Directors and strengthen the Group's corporate governance structure. These committees, comprising members of the Board of Directors and certain invitees, analyze the matters within their scope and prepare proposals to be submitted to the Board. Their duties include:

Strategy, Technological Innovation and New Business Committee

- Periodically evaluates the course of the Company's business.
- Supports the identification of new products/services that add more value to the Company.
- Supports the Board of Directors in identifying and developing alternative growth strategies.
- Monitors the results from new businesses.

Finance, Audit and Risk Management Committee

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

People Management Committee

- Guides strategic people management planning.
- Defines the short- and long-term variable compensation policy (bonuses based on overall results and professional performance).
- Evaluates the performance of the executive officers.

RISK MANAGEMENT

The São Martinho Group's risk management area helps identify and manage the risks inherent to the Group's business, as well as the opportunities that they present, and communicates its risk exposure level and the course of action to be taken with clarity and transparency. In 2011, a management-level professional was hired to improve performance on this issue, giving rise to the Risk Management area. In order to ensure its independence and access to other departments in the Company, the area reports directly to the CEO and the Board of Directors, which also reinforces its priority within the company.

The area's main function is to forecast the potential threats to the Company's long-term financial and operational health. The main risks that São Martinho seeks to mitigate are listed below.

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

Exchange rate position: Given that a significant part of São Martinho's revenue comes from foreign markets, the price of the dollar is a very important variable with respect to the Company's profitability. That is why the São Martinho Group has a systematic price-setting strategy in place.

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



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

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

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





GRI Indicators



GRI INDICATORS

[GRI 3.12]

STRUCTURAL INDICATORS	Location in the report or observations
1.1 Statement from the most senior decision maker about the relevance of sustainability to the organization and its strategy.	6
2.1 Name of the organization.	12
2.2 Primary brands, products and/or services.	20-21
2.3 Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	24-25
2.4 Location of organization's headquarters.	102
2.5 Number and name of countries where the organization operates.	12
2.6 Nature of ownership and legal form.	12
2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	12
2.8 Scale of organization.	9,39 and 60
2.9 Significant changes during the reporting period regarding size, structure, or ownership.	84
2.10 Awards received during the reporting period.	The Company did not receive any awards during the reporting period.
3.1 Reporting period.	8
3.2 Date of most recent previous report.	8
3.3 Reporting cycle (annual, biennial, etc.).	8
3.4 Information for contact.	102
3.5 Process for defining report content.	8
3.6 Boundary of the report.	8
3.7 State any specific limitations on the scope or boundary of the report.	8
3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities.	8
3.10 Explanation of the consequences of any reformulation of information supplied in previous reports.	8
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	8
3.12 Table identifying the location of the standard disclosures in the report.	92
4.1 Governance structure.	86-87
4.2 Indicate whether the Chair of the highest governance body is also an executive officer.	86
4.3 For organizations that have a unitary board structure, state the number and gender of independent and/or non-executive members of the highest governance body.	86

The mechanism for shareholders (including minority shareholders) to provide recommendations or guidance to the São Martinho Group's governance bodies is the e-mail of the Investor Relations department: ri@saomartinho.ind.br.

4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.

Although there is no direct communications channel between employees and top management, they do have two channels available: e-mail for matters related to the Code of Ethics and Professional Conduct – etica@saomartinho.ind.br – and the communications area e-mail to address general matters – comunicacoes@saomartinho.ind.br.

The disclosure of issues raised by these communications during the reporting period is restricted to the areas in question.

4.8	Mission statement, values, codes of conduct and internal guidelines relevant to economic, environmental and social performance, as well as the progress of their implementation.	13 and 15-16
4.14	List of stakeholder groups engaged by the organization.	58 to 81
4.15	Basis for identification and selection of stakeholders with whom to engage.	60

PERFORMANCE INDICATORS		Location in the report or observations
EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	68
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	76
EN1	Materials used by weight or volume.	50
EN3	Direct energy consumption by primary energy source.	50
EN4	Indirect energy consumption by primary energy source.	51
EN16	Total direct and indirect greenhouse gas emissions by weight (2010/11 Harvest).	51-52
EN17	Other indirect emissions of greenhouse gases, by weight.	51-52
EN21	Total water discharge by quality and destination (effluents).	53
EN22	Total weight of waste by type and disposal method.	54-55
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	56
LA1	Total workforce by employment type, employment contract, and region.	60-61
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	69
LA4	Percentage of employees covered by collective bargaining agreements.	68
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.	73
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	70 to 72
LA9	Health and safety topics covered in formal agreements with trade unions.	72
LA10	Average hours of training per year per employee, and by employee function.	64
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	64 to 67
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	Funds donated by the São Martinho group companies to political parties and candidates running for president, senator, and federal and state deputy during the 2010 election amounted to R\$3,630,000.00. The files recording all donations, payment authorizations, checks and electronic transfers and registration are available for audit in the Controllership Department, as are the Superior Electoral Court registration and the certificate issued by the latter. During the period covered by the 2011/2012 harvest years (April 1 to March 31), no contributions were made to political parties or related institutions.



Financial statements



9

FINANCIAL STATEMENTS

SÃO MARTINHO - CONSOLIDATED ('000 reais)	12M12	12M11	% Change
Gross revenue	1,447,266	1,384,387	4.5%
Deductions from gross revenue	(80,276)	(89,341)	-10.1%
Net revenue	1,366,990	1,295,046	5.6%
Cost of goods sold (COGS)	(990,438)	(895,702)	10.6%
Gross income	376,552	399,344	-5.7%
Gross margin (%)	27.5%	30.8%	-3.3 p.p.
Operating expenses	(147,711)	(163,579)	-9.7%
Selling expenses	(53,748)	(58,205)	-7.7%
General and administrative expenses	(120,499)	(101,130)	19.2%
Equity result	(451)	-	n.m.
Other net operating revenue (expenses)	26,987	(4,244)	n.m.
Operating income before financial result	228,841	235,765	-2.9%
Financial income (expenses):	(62,638)	(38,669)	62.0%
Financial income	75,692	39,473	91.8%
Financial expenses	(116,006)	(101,607)	14.2%
Net monetary and exchange variations	(22,324)	23,465	n.m.
Operating income before income tax and social contribution	166,203	197,096	-15.7%
Income tax and social contribution – current portion	(16,333)	(59,496)	-72.5%
Income tax and social contribution – deferred portion	(23,259)	4,688	n.m.
Net income prior to minority interest	126,611	142,288	-11.0%
Minority interest	-	-	n.m.
Net income for the period	126,611	142,288	-11.0%
Liquid margin (%)	9.3%	11.0%	-1.7 p.p.

BALANCE SHEET - ASSETS

SÃO MARTINHO S.A. - ASSETS
('000 REAIS)

ASSETS	Mar/12	Mar/11
CURRENT		
Cash and cash equivalents	410,567	222,219
Accounts receivable from clients	38,399	59,673
Derivatives	11,063	5,967
Inventory	137,375	139,106
Recoverable taxes	39,701	33,520
Income tax and social contribution	20,550	5,037
Other assets	5,551	5,692
TOTAL CURRENT	663,206	471,214
NON-CURRENT ASSETS		
Long-term		
Financial investments	6,541	2,848
Inventory	26,877	-
Related parties	3,788	33
Deferred Income Tax and Social Contribution	38,227	43,917
Accounts receivable - Copersucar	1,737	9,939
Recoverable taxes	46,581	37,220
Escrow deposits	44,972	32,367
Other assets	395	7,101
TOTAL NON-CURRENT	169,118	133,425
Investments		
Biological assets		
Fixed assets		
Intangible assets		
TOTAL ASSETS	4,123,961	3,470,444
TOTAL ASSETS	4,787,167	3,941,658

BALANCE SHEET - LIABILITIES

SÃO MARTINHO S.A. - CONSOLIDATED BALANCE SHEET - LIABILITIES

('000 REAIS)

LIABILITIES AND EQUITY	Mar/12	Mar/11
CURRENT		
Loans and financing	247,504	140,982
Derivatives	14,269	25,910
Suppliers	76,655	61,096
Obligations - Copersucar	2,356	2,203
Salaries and social contributions	57,297	44,000
Taxes payable	12,199	20,343
Income tax and social contribution	240	829
Related parties	224	705
Dividends payable	30,070	9,180
Advances to customers	8,418	14,475
Acquisition of equity interest	57,906	-
Other liabilities	10,215	21,137
TOTAL	517,353	340,860
NON-CURRENT ASSETS		
Loans and financing	984,865	570,711
Obligations - Copersucar	222,007	207,645
Taxes in installments	57,873	55,833
Deferred Income Tax and Social Contribution	820,201	728,368
Provision for contingencies	74,259	74,284
Acquisition of equity interest	55,569	-
Advance for future capital increase	23,543	-
Other liabilities	6,819	10,471
TOTAL	2,245,136	1,647,312
SHAREHOLDERS' EQUITY		
Capital stock	455,900	455,900
Adjustments to equity	1,272,558	1,304,969
Profit reserves	308,867	194,516
Treasury stock	(12,753)	(1,899)
Options granted	106	-
TOTAL	2,024,678	1,953,486
TOTAL LIABILITIES AND EQUITY	4,787,167	3,941,658

CONSOLIDATED CASH FLOW

SÃO MARTINHO S.A.

('000 REAIS)

CASH FLOW FROM OPERATING ACTIVITIES

	12M12	12M11
Net income for the period	126,611	142,288
Adjustments		
Depreciation and amortization	184,963	143,587
Collected biological assets (depreciation)	166,910	186,773
Change in the fair value of biological assets	(31,978)	34,298
Equity result	451	-
Jointly controlled capital gains from investments	(13,720)	(24,666)
Negative goodwill on purchase of investments	(11,259)	-
Residual costs of sold investments and real estate	1,178	(2,102)
Net interest, monetary and exchange variations	121,705	56,243
Recognition (reversal) of the provision for contingencies, net	5,832	22,394
Deferred income tax and social contributions	23,259	(4,688)
Provision for inventory losses	(3,282)	3,799
Present value adjustments and others	5,091	(1,743)
	575,761	556,183
Asset and liability variations		
Accounts receivable from clients	26,578	(25,068)
Inventory	11,561	(41,955)
Recoverable taxes	(23,566)	28,636
Financial investments	(3,933)	(2,812)
Related parties	(1,623)	340
Other assets	(9,992)	(6,129)
Suppliers	(14,223)	(4,927)
Salaries and social contributions	9,803	6,269
Taxes payable	1,868	26,649
Taxes in installments	(10,707)	3,467
Provision for contingencies - liquidations	(16,767)	(18,033)
Other liabilities	(24,464)	17,707
Cash from operations	520,296	540,327
Interest paid	(37,708)	(50,594)
Paid income tax and social contribution	(14,322)	(23,878)
Net cash from operating activities	468,266	465,855

CASH FLOWS FROM INVESTMENT ACTIVITIES

Application of funds in investment	(59,010)	410
Additions to fixed and intangible assets	(308,318)	(223,103)
Additions to biological assets (plantations and tracts)	(308,041)	(235,828)
Receipt from fixed asset sales	3,649	7,302
Receipt from Uniduto investment	6,782	-
Increase in cash and cash equivalent due to the change in equity interest	100,588	143,165
Advance for future capital increase	(5,364)	153
Received dividends and interest on capital	-	-
Net cash applied to investment activities	(569,714)	(307,901)

CASH FLOWS FROM FINANCING ACTIVITIES

Derivatives	(533)	(34,789)
Raising third-party financing	696,997	571,483
Amortization of financing - Copersucar	(8,460)	(5,807)
Amortization of financing – third party	(379,962)	(562,583)
Raising (payment) of funds to related parties - mutual	-	(103)
Advance for future capital increase	22,851	295
Purchase of treasury stocks	(10,854)	-
Payment of dividends and interest on equity	(30,243)	(34,865)
Net cash from (applied to) financing activities	289,796	(66,369)
Net increase (reduction) of cash and cash equivalents	188,348	91,585
Cash and cash equivalents at the start of the period	222,219	130,634
Cash and cash equivalents at the end of the period	410,567	222,219



Credits and contacts



10

CREDITS AND CONTACTS

[GRI 2.4 / 3.4]

Project coordination

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Sustainability consulting services, content and editing

BRIC Integrated Corporate Communications

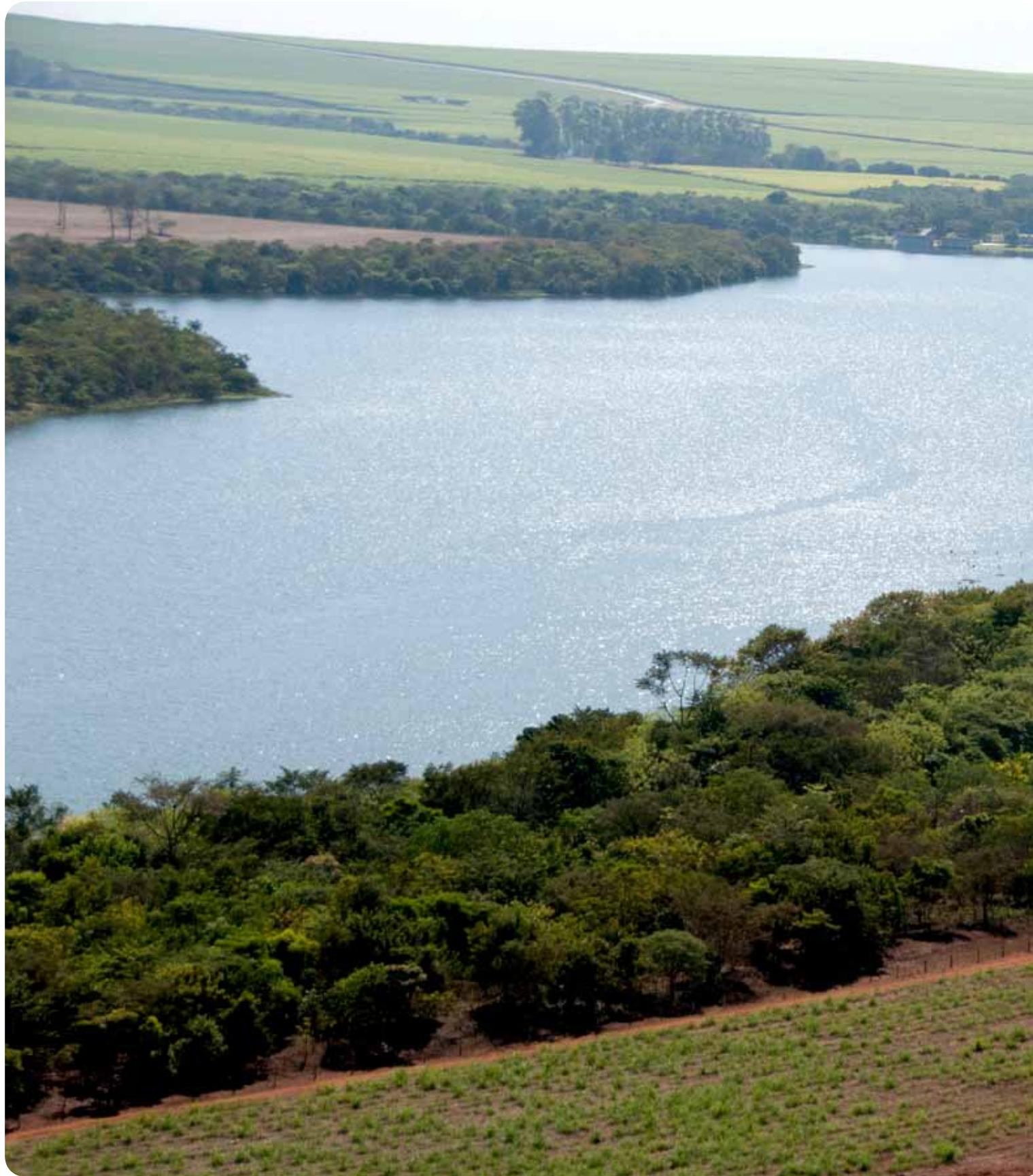
Design and layout

MZ Group

Photos

São Martinho archives

Shutterstock







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