



2015/2016
Annual and
Sustainability Report





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PRESENTATION

About the report

GRI G4-17; G4-18; G4-19; G4-20; G4-21; G4-23; G4-24; G4-25;
G4-26; G4-27; G4-28; G4-32

For the fifth time, the São Martinho Group 2015/2016 (crop year) Annual and Sustainability Report is aligned with Global Reporting Initiative (GRI) methodology, which establishes guidelines for managing and communicating economic, social and environmental performance indicators.

The report is self-declared in accordance with the GRI Core option (*see what this means in the following table*) and presents the company's performance from April 1, 2015 to March 31, 2016.



MANDATORY ITEMS FOR THE CORE "IN ACCORDANCE" OPTION

General standard content	Information on management approach	General sector contents (sector indicators for material aspects)
Strategy and analysis (G4-1)	Generic information about management approach (only for material aspects)	
Organizational profile (G4-3 to G4-16)	Indicators (at least one indicator related to each material aspect identified)	
Material aspects identified and boundaries (G4-17 to G4-23)		
Stakeholder engagement (G4-24 to G4-27)		
Report profile (G4-28 to G4-33)		
Governance (G4-34)		
Ethics and integrity (G4-56)		

Materiality

The indicators reported were prioritized according to their relevance for the São Martinho Group and its stakeholder groups. This process involved building a materiality matrix.

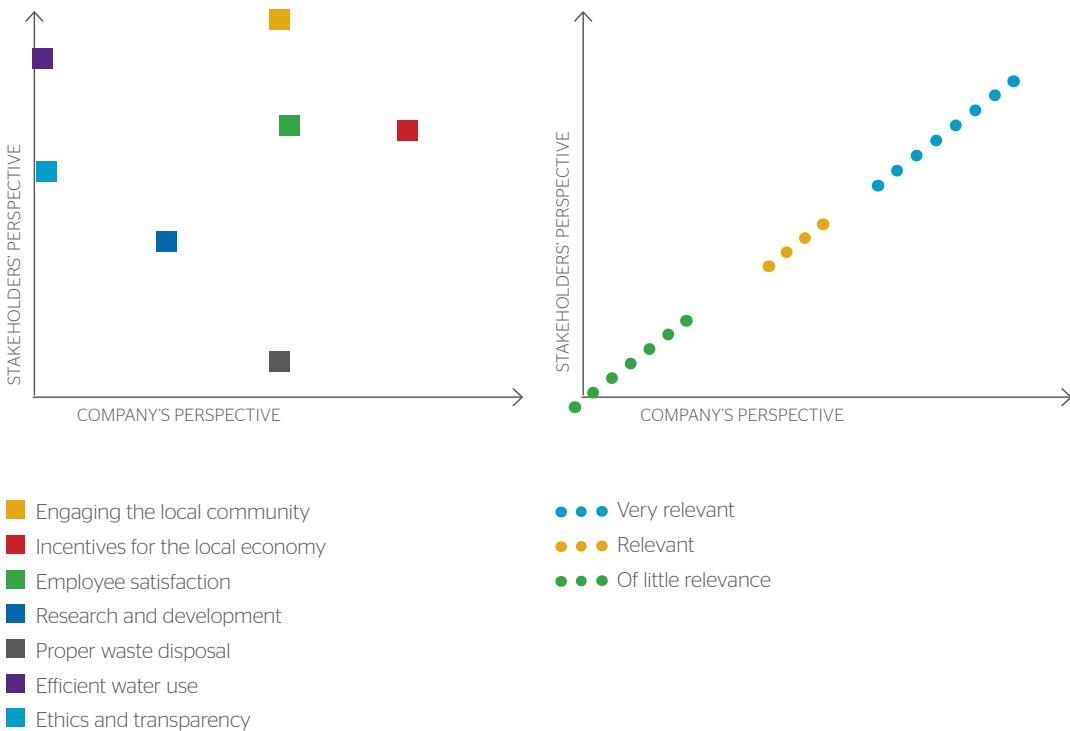
Internal and industry documents were studied in order to build this materiality and help contextualize the report. Additionally, a cross-functional São Martinho Group team undertook a diagnosis to identify stakeholders. This involved interviews, focus groups and an online consultation process as a means of engaging stakeholders and of prioritizing the material topics.

The following stakeholder groups took part in the online consultation: the internal public, the community, the press and suppliers. The stakeholders were asked to

classify the sustainability aspects as “Very relevant”, “Relevant” or “Of little relevance”.

The comparison of these results with the company's perception of the importance and applicability of the indicators for its businesses and the industry highlighted the aspects that were effectively material for the organization (topics that could reflect economic, social and environmental impacts or that could significantly influence stakeholder assessments and decisions). This process resulted in the following materiality matrix.

Only the aspects in the “Very relevant” quadrant are addressed in this report. The responses cover all São Martinho S.A. operational and administrative units (the Iracema, São Martinho and Santa Cruz units).



MANDATORY ITEMS FOR THE CORE "IN ACCORDANCE" OPTION

Material aspect	Material topic	Location	Boundary within the organization	Boundary outside the organization
Economic performance	Ethics and transparency	page 69	Employees (management and operational) São Martinho mill Iracema mill Santa Cruz mill	Local communities Customers Stock market Shareholders Suppliers
Market presence	Incentives for the local economy	pages 52 to 58	Employees (management and operational) São Martinho mill Iracema mill Santa Cruz mill	Local communities Suppliers
Indirect economic impacts	Engagement with the local community Incentives for the local economy	pages 52 to 58	Employees (management and operational) São Martinho mill Iracema mill Santa Cruz mill	Local communities Industry associations Suppliers NGOs Public health policies
Procurement practices	Incentives for the local economy	page 53	São Martinho mill Iracema mill Santa Cruz mill	Local communities Suppliers
Water	Efficient water use	pages 32 and 33	São Martinho mill Iracema mill Santa Cruz mill	Local communities Municipal public utility
Effluent and waste	Proper waste disposal Efficient water use	pages 34 to 37	São Martinho mill Iracema mill Santa Cruz mill	Local communities
Employment	Employee satisfaction	pages 44 to 49	Employees (management and operational) São Martinho mill Iracema mill Santa Cruz mill	Local communities
Investments	Ethics and transparency	pages 25 and 69	Employees (management and operational) São Martinho mill Iracema mill Santa Cruz mill	Local communities Customers Shareholders Government Press Suppliers Stock market
Non discrimination	Ethics and transparency	page 69	Employees (management and operational) São Martinho mill Iracema mill Santa Cruz mill	Customers Local communities Shareholders Press Suppliers
Local communities	Engagement with the local community	pages 54 to 58	São Martinho mill Iracema mill Santa Cruz mill	Local communities
Anti-corruption	Ethics and transparency	page 69	Employees (management and operational) São Martinho mill Iracema mill Santa Cruz mill	Customers Stock market Shareholders Local communities Government Press Suppliers
Public policy	Ethics and transparency	page 69	Employees (management and operational) São Martinho mill Iracema mill Santa Cruz mill	Industry associations Stock market Shareholders Local communities Customers Government Press Suppliers
Unfair competition	Ethics and transparency	page 69	Employees (management and operational) São Martinho mill Iracema mill Santa Cruz mill	Suppliers Customers Stock market Shareholders
Grievance and complaint mechanisms related to impacts on society	Engagement with the local community Employee satisfaction	page 54 to 58 and 69	Employees (management and operational) São Martinho mill Iracema mill Santa Cruz mill	Local communities Industry associations NGOs

2015-2016 CROP YEAR HIGHLIGHTS

GRI G413; G49

20 MILLION

metric tons of sugarcane, a record crushing volume for a single crop

1,230,000

metric tons of sugar produced

98.9%

98.9% of the guidance reached in sugar and ethanol production (measured in TRS equivalent)

751,000 m³

of ethanol produced

- **445,000 m³** anhydrous
 - **306,000 m³** hydrated
-

7%

growth in volume of sugarcane processed

99%

use of installed capacity

20.5%

increase in group net revenues

102.7%

of crushing guidance reached

¹Acronym for Total Recoverable Sugar, which indicates the capacity to convert sugarcane into sugar or alcohol

OPERATIONAL AND FINANCIAL HIGHLIGHTS



OPERATIONAL INDICATORS	2013/2014	2014/2015 ¹	2015/2016	Variation 14/15 - 15/16
Cane processed (000's of metric t)	15,592	18,718	20,024	7.0%
Sugar production (000's of metric t)	986	1,231	1,230	-01%
Anhydrous ethanol production (000's of m3)	388	438	445	1.5%
Hydrated ethanol production (000's of m3)	252	353	306	-13.3%
Energy exported (000's MWh)	--	720	741	2.9%

¹ the highlights above consider the 100% stake in the Santa Cruz mill and the 50.95% stake in the Nova Frontera mill.

FINANCIAL INDICATORS	2013/2014	2014/2015 ²	2015/2016	Variation 14/15 - 15/16
Gross revenue (000's of R\$)	2,047,162	2,398,740	2,837,663	18.3%
Net revenue (000's of R\$)	1,971,177	2,293,982	2,727,418	18.9%
Cost of goods sold (CGS)	-1,440,705	-1,643,056	-1,966,159	19.7%
Gross profit	530,472	650,926	761,259	17.0%
Adjusted Ebitda	766,601	1,091,592	1,301,240	19.2%
Ebitda Margin	38,90%	46,50%	46,0%	-0.5 p.p.
Shareholders' equity	2,075,952	2,616,085	2,648,365	1.2%

² The highlights above consider the 36.09% stake in the Santa Cruz Mill until July 2014, and 100% from August on. From August the 50.95% stake in Nova Frontera is also taken into account.



Recognition

- In the Guia Você S/A 150 Best Companies to Work For ranking
- In the Você S/A magazine 35 Best Companies to Start Your Career ranking
- Excellence rating of 99.9% in the Instituto Agronômico de Campinas (IAC) proficiency test for the São Martinho Group Agricultural Chemistry Laboratory
- Merit award in the South-Central 2015 MasterCana Award, for organization's that advance efficiency and sustainability in the sector.

MESSAGE FROM THE CEO

G4-1

Dear readers,

We are pleased to present another edition of the São Martinho Group Annual and Sustainability Report, which is aligned with the Global Reporting Initiative (GRI) international standard and presents the company's most striking achievements for 2015/2016.

One of the major highlights of this crop year was the effective start up of the Santa Cruz Mill operations. With the investments made by the São Martinho Group during the course of the last six years, we managed to achieve new crushing targets and improved operational and financial results.

Also worthy of mention is the change in our production commercialization strategy, boosting and using almost all of our storage capacity, driving better futures prices with a differentiated commercial and logistics strategy.

Obtaining record operational earnings at a moment of economic uncertainty meant impressive results for the São Martinho Group, but even more importantly, had a direct impact on Brazil's energy matrix, fulfilling a significant ethanol demand due to the competitiveness of its price compared with gasoline.

All of these successes described throughout the report are the result of a great deal of commitment, dedication and a strategy has proven to be correct. Other factors in our favor are the differentials in planting, cutting and loading technologies, as well as processing and logistics. We have gained increasing recognition in the market due to our innovative approaches on these fronts.

In terms of sustainability, care for the environment and respect for people

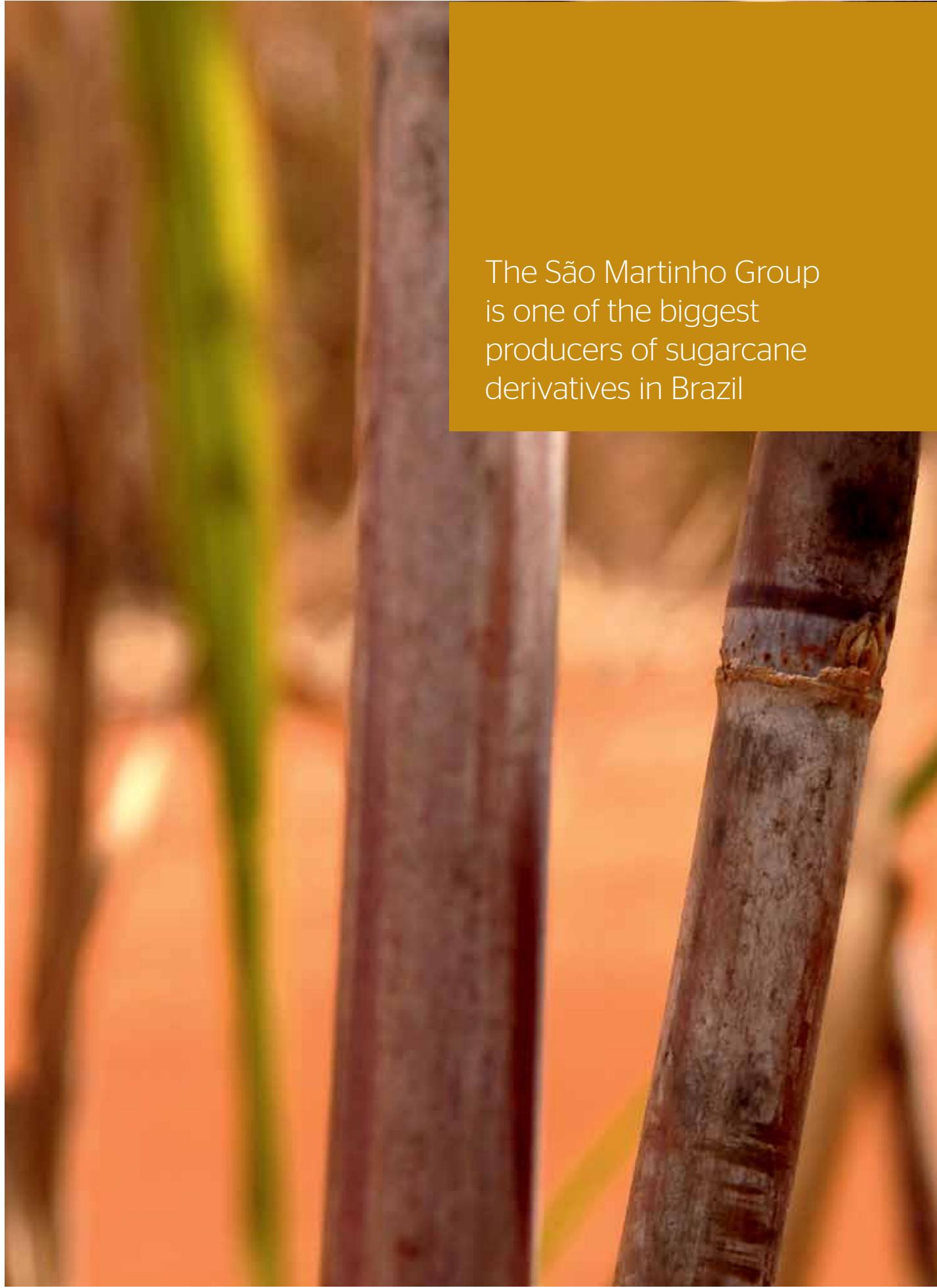
constitute the essence of our work. We work the land and, rather than just putting a concept into practice, these values are at the very root of our culture. Any deviation in this respect impacts both our professional and personal success.

We are aware that the prospects for the coming years are uncertain. It is clear that the sector will undergo readjustments, but we remain firm in our intention to consolidate the business and are confident of a promising future for our people, for our company and for our country.

Enjoy reading the report.



Fábio Venturelli
CEO, São Martinho Group



The São Martinho Group
is one of the biggest
producers of sugarcane
derivatives in Brazil

Profile

THE SÃO MARTINHO GROUP

One of the major players in the Brazilian sugar-energy sector, the São Martinho Group produces cane derivatives – sugar, ethanol and bioenergy based on innovative, sustainable processes. It started in the industry in 1914 with the construction of its first mill in the interior of the state of São Paulo. More than a century later, the group maintains a distinguished position in the domestic market by combining high productivity, the intensive pursuit of technological innovation and respect for people and for the environment.

The group comprises four mills: São Martinho, Iracema, Santa Cruz and Boa Vista, the latter

belonging to Nova Fronteira Bioenergia, a joint venture between São Martinho S.A. and Petrobras Biocombustível for the production of ethanol and co-generation of energy.

In addition to Nova Fronteira, the group has Omtek, a factory in the Iracema Mill industrial park that manufactures yeast derivatives mainly for the human food and animal feed markets using advanced biotechnology processes. The group also has a corporate office in the city of São Paulo, as well as a Shared Service Center (SSC), housing the administrative, finance, legal, human resources, supply, IT and Control areas, in the city of Pradópolis.



Mission G4-56

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

Vision

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

Values

Integrity and ethics

Respect for people and for the environment

Group Pillars

The São Martinho Group also bases its activities on six pillars reflecting the strategic priorities underpinning all its activities:

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

Timeline



↑ 2015

Maximization of investments, achieving record operational and financial results

2014

Conclusion of acquisition of the Santa Cruz Mill and beginning of integration of unit into Group operations

2013

Inauguration of thermal energy unit at the São Martinho mill

2012

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

2011

Acquisition of a 32.18% stake in Santa Cruz S.A. - Açúcar e Álcool and a 17.97% holding in Agropecuária Boa Vista S.A.

2010

São Martinho S.A. and Petrobras Biocombustível S.A. announce a partnership resulting in a new company called Nova Fronteira Bioenergia S.A., which controls Boa Vista S.A. and SMBJ Agroindustrial S.A.

2008

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

2007

Company goes public on São Paulo's BM&FBovespa stock exchange, under the ticker symbol SMTO3



Our mills

[GRI G4-6; G4-8]



- ★ São Martinho, in Pradópolis (São Paulo)
- Iracema, in Iracemápolis (São Paulo)
- ▲ Santa Cruz, in Américo Brasiliense (São Paulo)
- ◆ Boa Vista, in Quirinópolis (Goiás)

São Martinho

Location: Pradópolis (São Paulo)

Production: 10.5 million metric tons per crop

Employees: 5,000

The largest sugarcane processing mill in the world and a global reference in the industry due to the high degree of mechanization. The mill has a storage capacity of 400,000 metric tons of sugar, with logistics infrastructure that includes an internal rail branch line enabling the handling of 16,000 metric tons of produce a day, ensuring greater logistics efficiency. The mill's thermal energy plant employs high technology to generate energy from sugarcane bagasse - a sustainable, renewable source that reduces atmospheric emissions and rationalizes water use. The electricity produced powers the unit, and the excess is commercialized.

Iracema

Location: Iracemápolis (São Paulo)

Production: 3 million metric tons per crop

Employees: 2,000

The mill produces sugar and ethanol and has had Bonsucro certification since 2012. This is an international standard which promotes sustainable requirements for production processes in the sugar-energy industry. Bonsucro certification enables the possibility of exporting to demanding markets, such as Asian and European Union countries. The mill is located in Iracemápolis, in São Paulo state.

Santa Cruz

Location: Américo Brasiliense (São Paulo)

Production: 4.5 million metric tons per year

Employees: 3,000

With a 100% mechanization rate in planting and more than 90% in harvesting, the mill's processes have ISO 9001, ISO 14001, as well as Bonsucro certification. The anhydrous and hydrated ethanol produced at the unit meets international standards, complementing a product portfolio that includes VHP sugar, electricity and sugarcane yeast.

Boa Vista

Location: Quirinópolis (GO)

Production: 5 million metric tons per crop

Employees: 2,500

Part of Nova Frontera Bioenergia (further information below). The mill is dedicated exclusively to ethanol production and energy co-generation. Recognized as one of the most modern cane processing plants in the world due to the cutting edge technology employed in ethanol production, in Brazil it was a pioneer in implanting state-of-the-art sustainable practices. The harvest process is 100% mechanized and the mill does not burn the sugarcane. Its industrial operation center monitors all the processes undertaken in the plant in real time.

Partnerships /Other businesses

■ NOVA FRONTEIRA

A joint venture established between the São Martinho Group (51%) and Petrobras Biocombustível (49%) in 2010 aimed at leveraging ethanol fuel production in the country's Midwest region. The group's expertise in research and the application of technological innovations in the field of biofuels has positioned this venture as a leader in the domestic market.

■ OMTEK

This is a plant located at the Iracema mill dedicated to producing yeast derivatives for human foods and animal feed. The company also produces and exports the sodium salt from ribonucleic acid (RNA) used as raw material for flavor enhancers in the food industry. Omtek is one of the only producers of this ingredient worldwide, applying advanced biotechnology processes on a par with those used by global industry leaders.



Our Businesses GRI G4-4

Sugar

The São Martinho Group mills produce a number of different types of sugar, in particular the standard VHP (very high polarization) variety, aimed mainly at the export market.

Ethanol

Three types of ethanol are produced by the group. Hydrated ethanol is the fuel used in ethanol or flexible fuel powered vehicles. Whereas anhydrous ethanol is used as an additive to gasoline in car engines. Industrial ethanol is employed in paint, cosmetic and alcoholic beverage production.

Electrical energy

The bagasse left over from the cane crushing process is reused as raw material for generating steam and electricity. A renewable source of energy, it is used to fuel the mills and the surplus is commercialized.

Byproducts

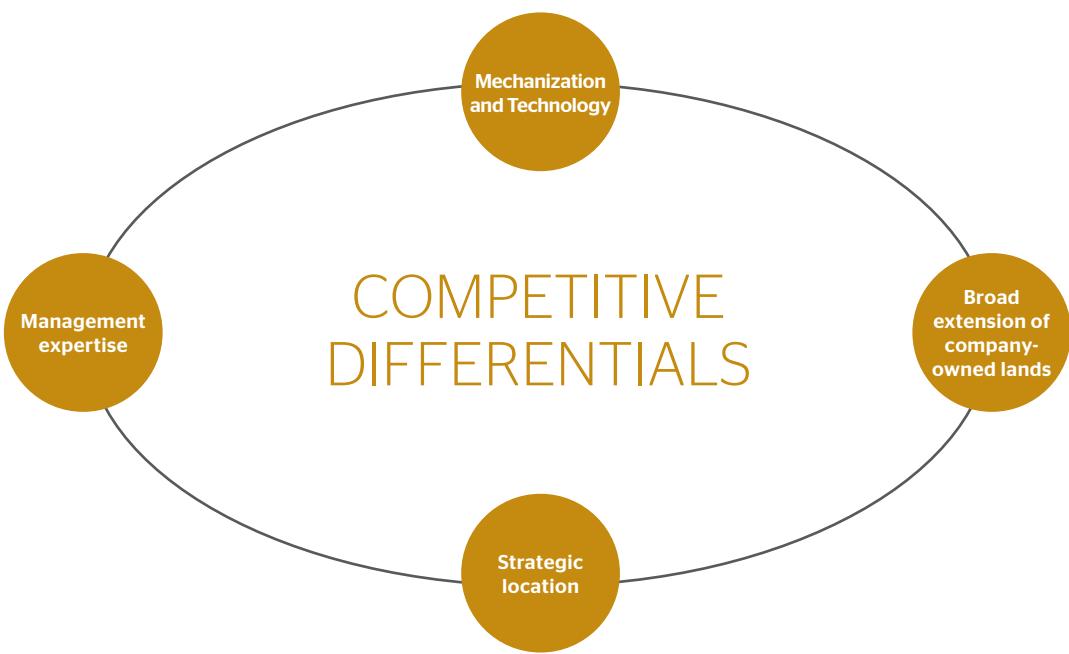
The byproducts from the sugar and ethanol production process include yeast, an ingredient in animal feed, and fusel oil, used as a solvent and in the manufacture of explosives. Yet another product is the sodium salt from ribonucleic acid (RNA), used in the pharmaceutical and foods industries as a flavor enhancer.



20
million

metric tons of
sugarcane in the
2015/16 crop





Competitive differentials

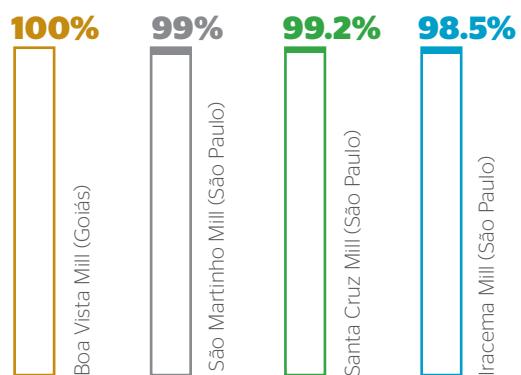
Technological innovation, expertise, large tracts of company-owned lands and privileged locations for the operations constitute the São Martinho Group's main competitive advantages. Together, these advantages enable constant process improvement which in turn drives high production capacity in the mills. This permits the company to maintain its position among the major producers of sugar, ethanol and energy in Brazil.

Mechanization and technology

Mechanized sugarcane harvesting helps mitigate social and environmental impacts because it eliminates the burning of cane straw, reducing atmospheric emissions and minimizing the risk of accidents and injuries associated with manual harvesting. Among the major companies in the sector, São Martinho was a pioneer in adopting mechanized planting, currently having the highest average mechanization rate in Brazil. This reached 97% in the 2015/16 crop.

Mechanization is accompanied by initiatives aimed at monitoring and preserving the soil, with ongoing studies of its physical, chemical and biological properties. These measures ensure the sustainability of the activity and reduce any losses identified

in the soil. Conservation techniques, such as crop rotation, contour and terraced cultivation and reduced and localized tillage complement the work done on preservation.



Strategic location

Three of the Group's mills are located in the state of São Paulo (São Martinho, Santa Cruz and Iracema), which reduces logistics costs and delivery times because of the proximity to port terminals and warehousing facilities in Santos. Furthermore, the São Martinho mill has its own railway branch line, which facilitates transportation, as well as warehousing facilities for storing bulk rather than bagged sugar, ready for exportation.

Large extension of company-owned lands

Around 2/3 of the sugarcane used in manufacturing the products comes from company-owned lands. These are areas that were selected taking into account criteria such as proximity to the mills, logistics considerations and the appropriateness of the soil, a combination which enables high productivity per hectare, reduces transportation costs and maximizes the sugar extraction potential during the processing phase, given that the sugar content in cane decreases over time.

Managers with great expertise in the business

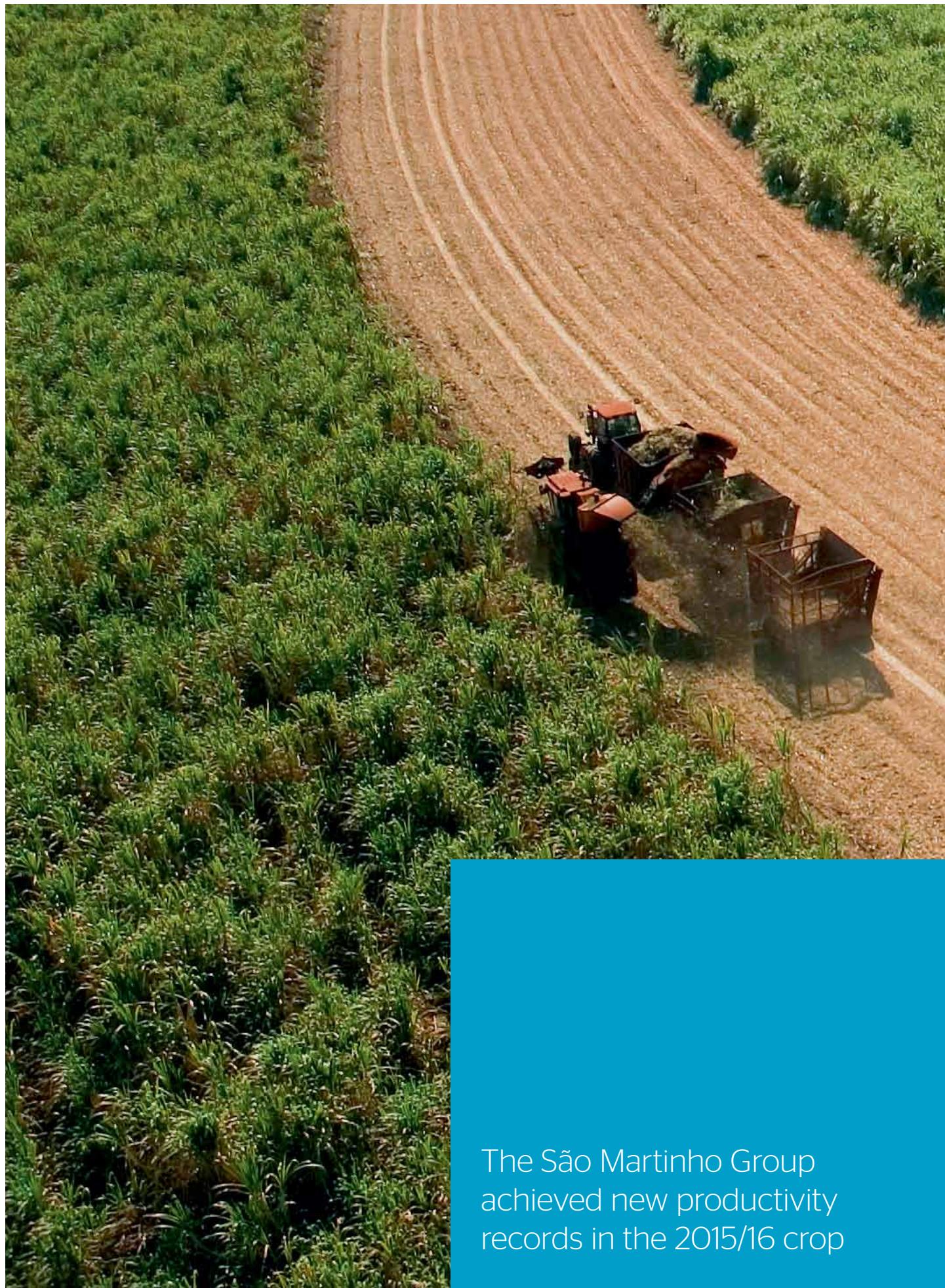
The São Martinho Group has a management team with a broad knowledge base and great industry experience. Its operating team consists of qualified professionals who are kept up to date on trends and innovations in agribusiness.

The company uses human resources management tools that drive the integration and motivation of the administrative team and the other professionals, maximizing their effectiveness. These range from training and development programs for administrative staff and management to training workers to operate tractors, cane harvesters and other machines. This initiative helps meet the demand for professionals prepared for the new market reality requiring manpower specialized in automation and mechanization.



ENERGY SELF-SUFFICIENCY

Throughout the crop period, which lasts on average eight months a year, the São Martinho Group is self-sufficient in electricity. This means that all the electricity used in the mills is generated internally from a renewable source: sugarcane bagasse. The surplus electricity is sold to power utilities and on the spot market



The São Martinho Group
achieved new productivity
records in the 2015/16 crop



Management and Performance

NEW CROP RECORDS

At the end of December the São Martinho Group ended the crushing for the 2015/16 crop year, totaling 20 million metric tons of sugarcane, a volume that corresponds to 99% use of the company's installed capacity. The total raw material crushed in 2015 was 7% higher than the volume of 18.7 million metric tons crushed in the previous crop.

Sugar and ethanol production volume (measured in equivalent TRS) reached 98.9% of the guidance. This was due to the significant drop in the sugarcane TRS, caused

by excessive rainfall, particularly in November 2015. Crushing reached 102.7% of the guidance, partially offsetting the drop in TRS.

Total production for the São Martinho Group mills was 1,230,000 metric tons of sugar. During the current crop year, the company manufactured 751 million liters of alcohol, comprising 445 million liters of anhydrous and 306 million liters of hydrated ethanol.



Sector analysis

As one of the biggest sugar producers and the leader in sugarcane ethanol production, Brazil is a global reference in the sugar-alcohol sector. The country's main advantages are the availability of arable lands – without jeopardizing other crops –, production technology and distribution infrastructure.

According to the Brazilian Ministry of Agriculture, around 60% of the sugarcane in the country is produced in São Paulo. The sugarcane industry association UNICA (União da Indústria de Cana de Açúcar) claims that the effective volume crushed by the end of the 2015/16 crop was 368.3 million metric tons, compared with 666.8 million metric tons for the country as a whole.

The central-south region where São Martinho operates ended the crop with an effective crushing volume of 617.7 million metric tons of sugarcane. This represents a 7.8% increase over the last crop; however, the TRS per metric ton of cane was 4.4% lower.

During the crop, the region produced 31.2 million metric tons of sugar (the country total was 33.8 million metric tons) and 28,225,000 m³ of ethanol (compared with 30,232,000 m³ for Brazil).

Sugar

Sugar production totaled 31.2 million metric tons or 2.5% less than in the same period of the 2014/15 crop. The reduction in production volume reflects the intense rainfall throughout the crop period, principally affecting the state of São Paulo. This was unfavorable for sugar production, and more sucrose was channeled into ethanol production, which saw a significant increase in prices.

Energy generation

The group was also responsible for the co-generation of 741,000 MWh of energy, counting its proportional holding in Nova Frontera Bioenergia, a joint venture with Petrobras Biocombustível in the state of Goiás.

According to the same report; however, given the expectation of more favorable climatic conditions in the 2016/17 crop, with a projected 4.5% average increase in TRS, a larger proportion of the increased production in the region should be channeled into sugar due to higher international prices than in the previous crop.

Taking this projected increase in sugar production in Brazil into account, the global scenario indicates a deficit of approximately 6.1 million metric tons of sugar, which should drive an increase in international prices in the short and medium terms.

Ethanol

Ethanol production volume in the 2015/16 crop grew 7.6%, reaching 28.2 billion liters. The growth in production was driven mainly by the demand for hydrated ethanol in the 2015/16 crop year, given ethanol's greater competitiveness than gasoline at the pump.

For the coming crop year, 2016/17, UNICA is projecting ethanol production in line with that of the 2015/16 crop. Differently from the beginning of the previous crop year, when the sector initiated the crushing period with high carryover ethanol stocks, in the 2016/17 crop the carryover stock was much lower. Given this situation, the São Martinho Group believes that the average price of ethanol in the 2016/17 crop will be higher than last year.

Economic and operational performance

G4-ECI

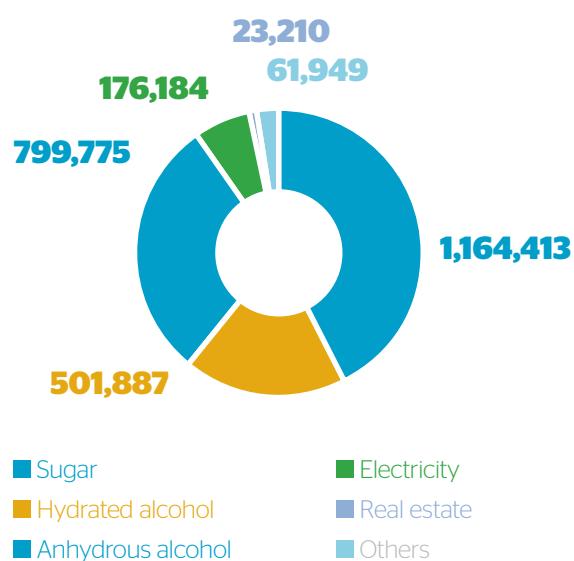
The São Martinho Group's adjusted net revenue totaled approximately R\$ 2.7 billion, growing 18.9% compared with the previous crop. This improvement is due to the higher volumes of sugar and anhydrous ethanol commercialized, at higher prices than the year ago period.

The average selling price for the company's sugar increased 9.7%, resulting in a 11.9% rise in net revenues, which totaled R\$ 1,164.4 million.

In the ethanol market, sales revenue increased 36.2% compared with the previous crop (R\$ 1,301.7 million), as a result of the 11.4% increase in the volume of ethanol sold (795,100 m³) and better prices (+22.2%).

In energy co-generation, the group had a 30.1% increase in sales volume at an average price of R\$ 212.0, 25.4% lower than in the 2014/15 crop, resulting in revenues similar to those of the previous crop, R\$ 176.2 million. The reduction in average price is explained by the settlement prices throughout the entire crop, which were lower than in 2014/15.

TOTAL NET REVENUE
(000'S OF R\$)



Capex

The São Martinho Group capex on maintenance totaled R\$ 676.6 million in 12M16, an increase of 7.9% over the previous crop year. The increase in maintenance capex essentially reflects higher costs due to inflation, such as labor and diesel.

The capital expenditure on operational improvement - investments in agricultural and industrial machinery to drive productivity - totaled R\$ 74.5 million in the 2015/16 crop, an increase of 23.8% compared with the previous crop. These

investments reflect the carry over of the improvements initiated in the previous crop year.

Regarding expansion capex, the company undertook investments totaling R\$ 89.7 million, 28.3% down on the 2014/15 crop. This reduced volume of investment reflects the finalization of a series of projects the company had begun in previous years - as communicated widely to the market -, combined with new investments in expanding the processing capacity of the Santa Cruz mill, which will begin in the 2017/18 crop year.

Stock exchange

The São Martinho Group ordinary shares (SMTO3), traded on the Novo Mercado, performed positively during the year. The price of SMTO3 increased by 24.5% between the beginning and the end of the crop year, during which time the Ibovespa index dropped 4.3%.

Investments

At the end of 2015, the group informed its shareholders that it would expand the Santa Cruz mill's processing capacity from 4.5 million metric tons of cane to 5.2 million metric tons.

The cost of this expansion project will be R\$ 41.7 million for the purchase of agricultural and industrial machinery and equipment. The investment will drive increased production capacity, mainly in ethanol and electrical energy.

With the expansion in cane processing, the Santa Cruz mill will increase ethanol production from the current level of 142,000 cubic meters to 200,000 cubic meters. Energy co-generation will grow from 220,000 MWh to 258,000 MWh. Sugar production will increase from 347,000 metric tons to 353,000 metric tons per crop.

The investments in expansion should take place during the course of the 2016/17 crop, with Santa Cruz's new operational capacity coming on line in the 2017/18 crop.

Research and development

The São Martinho Group Agricultural Chemistry Laboratory obtained an average excellence rating of 99.9% in the Proficiency test conducted by the Instituto Agronômico de Campinas (Campinas Agronomy Institute - IAC). It came in second place among the 132 laboratories evaluated in this edition.

The laboratory has the strategic function of supporting the company's business. Some 20,000 soil samples from the group's four units are analyzed per year. These analyses provide information that enables soil correction, the rational use of fertilizers,



as well as soil surveys to help define the production environment and other agricultural practices for a total area of approximately 212,000 hectares.

The IAC Proficiency program was created by the São Paulo State Agricultural Department in 1984 and regularly assesses performance of the laboratories that use the methods developed by IAC, a pioneer in soil analysis technology in Brazil.

In February 2016, the laboratory was recommended for INMETRO accreditation in "Soil Chemical Analysis and Sampling" in accordance with the ABNT NBR ISO/IEC 17025:2005 standard. This accreditation attests that the São Martinho Group conducts its analyses with accuracy and traceability, ensuring high quality end results.



São Martinho believes it must work in harmony with the environment to guarantee the sustainability of the business



The Environment

Environmental care is essential in agribusiness. The future depends on the supply of natural resources and suitable climatic conditions for growing sugarcane.

In the São Martinho Group, environmental care is strongly rooted in the organizational culture. It has been incorporated by the work force and permeates the entire production chain, ranging from responsible soil use, through best growing and harvesting practices, to the reuse of waste material and residues in the production process.

The company's environmental management and sustainable natural resource use model is set forth in São Martinho Group environmental policy. Its directives guarantee the principles and intentions that must govern the definition of environmental goals, action plans and targets aligned with applicable legal requirements.

Historically the group has invested in process improvements, technologies and initiatives that boost its operational and environmental efficiency. Moreover, the company employs specific measures to drive the rational use of resources and environmental preservation, as well as raising the awareness of the work force and the community, focused on mitigating negative impacts and leveraging positive ones. Furthermore, the company only contracts partners and purchases materials from third parties who are fully compliant with environmental laws and regulations.



"When there is a threat of serious or irreversible harm, the lack of absolute scientific certainty shall not be used as a reason for delaying the application of economically feasible measures to prevent environmental degradation."

Precautionary principle
Rio Declaration on the Environment and Development

Soil conservation

Precautionary principle GRI G4-14

A key driver for the company is the Precautionary Principle, established in the Rio Declaration on the Environment and Development. This determines that mankind should maintain a respectful and functional relationship with nature. This approach is set forth in the group's Environmental Policy

To preserve the sugarcane plantations and ensure their productivity, it is fundamental to maintain the properties of the soil. A key differential for the São Martinho Group is mastery of practices for maintaining the main physical, chemical and biological properties of the soil during the course of the cane cycle.

By using the best and most suitable growing practices, such as mechanized planting and harvesting, and eliminating the burning of the cane straw prior to the harvest, the company manages to conserve the soil successfully. Worthy of note are:

- crop rotation, planting legumes such as soy and peanuts to enable the soil to recover between sugarcane crops;
- maintaining the cane straw in the field after the mechanized cutting of the sugarcane, essential for retaining moisture and minimizing soil and nutrient losses;
- cultivation in contours or terraces, helping to control water erosion and reducing soil losses.

Additionally, the group reuses residues in growing sugarcane, such as fertigation with vinasse, an effluent rich in potassium generated during the ethanol distillation process, which provides the sugarcane with nutrients. Similarly filter cake, a residue rich in phosphorus and organic material obtained during the clarification of cane juice, is an excellent fertilizer after it has been treated and complemented with nutrients.





Biodiversity

Efforts to maintain the balance of biomes are aimed at preventing diverse problems in sugarcane plantations, such as infestation with pests, climatic factors or alterations in soil properties. The company also preserves forest fragments on its

land, as well as conserving firebreaks, fighting fires, ensuring the correct use of chemical products, biological control and reforestation.

A key São Martinho Group initiative is the Fauna Sighting process, which records the number and location of local biodiversity species. This work is recorded in a data bank, enabling determined species to be encountered with the purpose of assessing how efficient the reforestation work undertaken on company land is.

168,000

hectares under cultivation in
the group's mills

PROTECTED AREAS (BY MILL)

Protected areas	Iracema	São Martinho	Santa Cruz
Total area (hectares) (includes own + leased + partners' areas)	29,791	79,628	59,300
Position in relation to protected area		Partially in permanent preservation area	
Type of operation			Office/Production/Storage
Size of operational unit (km ²)	0.22	1.49	0.49
Biodiversity value	After a survey of fauna, no species in extinction were found in the mills' area of influence. Native vegetation has been found to be preserved.		

Note: leased or managed areas within or adjacent to company owned operational units: the São Martinho, Iracema and Santa Cruz units have permanent preservations areas within the areas under use.

Riparian vegetation

Riparian vegetation constitutes a natural protection against the silting up of water bodies, floods and erosion. Additionally, it helps preserve biodiversity and the sustainability of agricultural activities.

In the areas occupied by the São Martinho Group, the conservation and expansion of riparian areas is a fundamental aspect of company soil preservation policy. In these locations, rain water infiltrates the region's water table guaranteeing the ongoing supply to natural wells and nearby streams and rivers.



Two group environmental initiatives are directly related to the reclamation and conservation of riparian areas: the Viveiro de Mudas (Seedling Nursery) and the Viva a Natureza (Viva Nature) project.

■ SEEDLING NURSERY

An integral part of the Environmental Education Center, the nursery produces around 200,000 seedlings from 210 native species that are used in the reclamation of riparian zones on the company's properties or in partnership with environmental authorities. The company also donates plants to public authorities and to local communities.

More than 4 million seedlings produced in the group's nurseries have already been planted to reforest around 2,400 hectares of permanent preservation areas and forest fragments.

■ VIVA NATURE PROJECT

Implemented in 2000, this is a pioneering São Martinho Group initiative to reclaim riparian zones. It began in the São Martinho mill, with the target of planting one million tree seedling in the mill's agricultural areas over a period of ten years. However, the project has already exceeded the mark of 4 million seedlings planted in the São Martinho, Iracema and Santa Cruz units.e Santa Cruz.



Water

G4-EN9

A fundamental resource for São Martinho Group activities, water is subject to a painstaking management process which includes constant measurement of the volume withdrawn, both from surface and ground sources, for industrial or human consumption. Furthermore, consumption is carefully managed with a view to reducing the volume withdrawn. In parallel, the quality of the wastewater returned to the environment undergoes constant analysis to ensure the maintenance of the water cycle and mitigate any harm to the ecosystem.

The group controls the flow and the quality of the water withdrawn for industrial use and human consumption. The Iracema and Santa Cruz units have closed loop water circulation systems, which help reduce the withdrawal of water necessary for their processes. This in turn leads to a significant reduction in the volume of effluent generated.

The Santa Cruz mill withdraws water from three sources: the Paulino /João Mendes and Anhumas waterways and the Guarani aquifer (Well 1 and Well 2 -45,000 km³), none of which is in a protected or high biodiversity value area; only the Anhumas has some importance for the local community.

The São Martinho mill withdraws water from two sources: the Mogi Guaçu river and the Triste stream (2,500,000 m³). These are not in protected or high biodiversity value areas and have no significant relevance for the local community.

At the Iracema mill, no water sources are affected by withdrawal since supplies come from private reservoirs designed for industrial use. In 2015, the mill initiated a vinasse concentration operation, which enabled a reduction in water withdrawal and the reutilization of water in its processes.

MORE THAN 11 MILLION

liters of water reused or recirculated,
at an average rate of 56% during
the crop year



TOTAL WATER WITHDRAWN BY SOURCE (M³) [G4-EN8]

Santa Cruz	2013/2014	2014/2015	2015/2016
Surface water ¹	3,002,268	3,128,609	2,978,065
Ground water	544,976	593,280	573,568
Total	3,547,244	3,721,889	3,551,633
Iracema	2013/2014	2014/2015	2015/2016
Surface water	4,052,939	2,502,463	2,958,917
Ground water	-	-	-
Total	4,052,939	2,502,463	2,958,917
São Martinho	2013/2014	2014/2015	2015/2016
Surface water	25,480,910	18,399,967	25,283,790
Ground water	448,560	393,120	405,150
Total	25,929,470	18,793,087	25,688,940

1. Rivers, lakes, wetlands, oceans.

At all the units, water volumes are logged in the Integrated Management System (SAP) and measured by flow meters. Specifically in the Santa Cruz unit, the withdrawal of surface water from the Paulino and João Mendes streams is within the permitted limits of 100 m³ and 40 m³ respectively. In May 2016, Parshall flumes were installed in the streams, and these will be used to monitor and measure the flow.

Every crop year, the Santa Cruz mill is increasing the use of condensed water from the sugarcane juice in its production processes. This has permitted a reduction in the volume withdrawn from surface and ground sources. The higher volume of surface water withdrawn at the São Martinho mill is due to the 740,337 metric ton increase in cane processed compared with the 2014/15 crop.

Reuse G4-EN10

With support from the Water Resources Technical Plan, which takes into account the possibilities of reusing water and closing the main circuits, the group seeks to withdraw the minimum volume necessary and to reuse waste water in the plantations for irrigating the ratoons.

In the São Martinho, Iracema and Santa Cruz mills, a large volume of wastewater is reused in irrigating the plantations. The Iracema and Santa Cruz mills do not discharge wastewater into the treatment network because the units have closed circuit water reuse systems in their processes.

WATER RECYCLED AND REUSED

Santa Cruz	2013/2014	2014/2015	2015/2016
Total volume of water recycled/reused (m ³)	2,349,648.00	2,168,208.00	2,349,648.00
Recirculation rate (%) ¹	66.00	59.00	70.98
Iracema	2013/2014	2014/2015	2015/2016
Total volume of water recycled/reused (m ³)	2,239,748.00	1,916,330.00	2,034,787.22
Recirculation rate (%) ¹	55.00	77.00	68.77
São Martinho	2013/2014	2014/2015	2015/2016
Total volume of water recycled/reused (m ³)	6,437,791.00	6,496,039.00	7,198,965.00
Recirculation rate (%) ¹	25.00	35.00	28.47

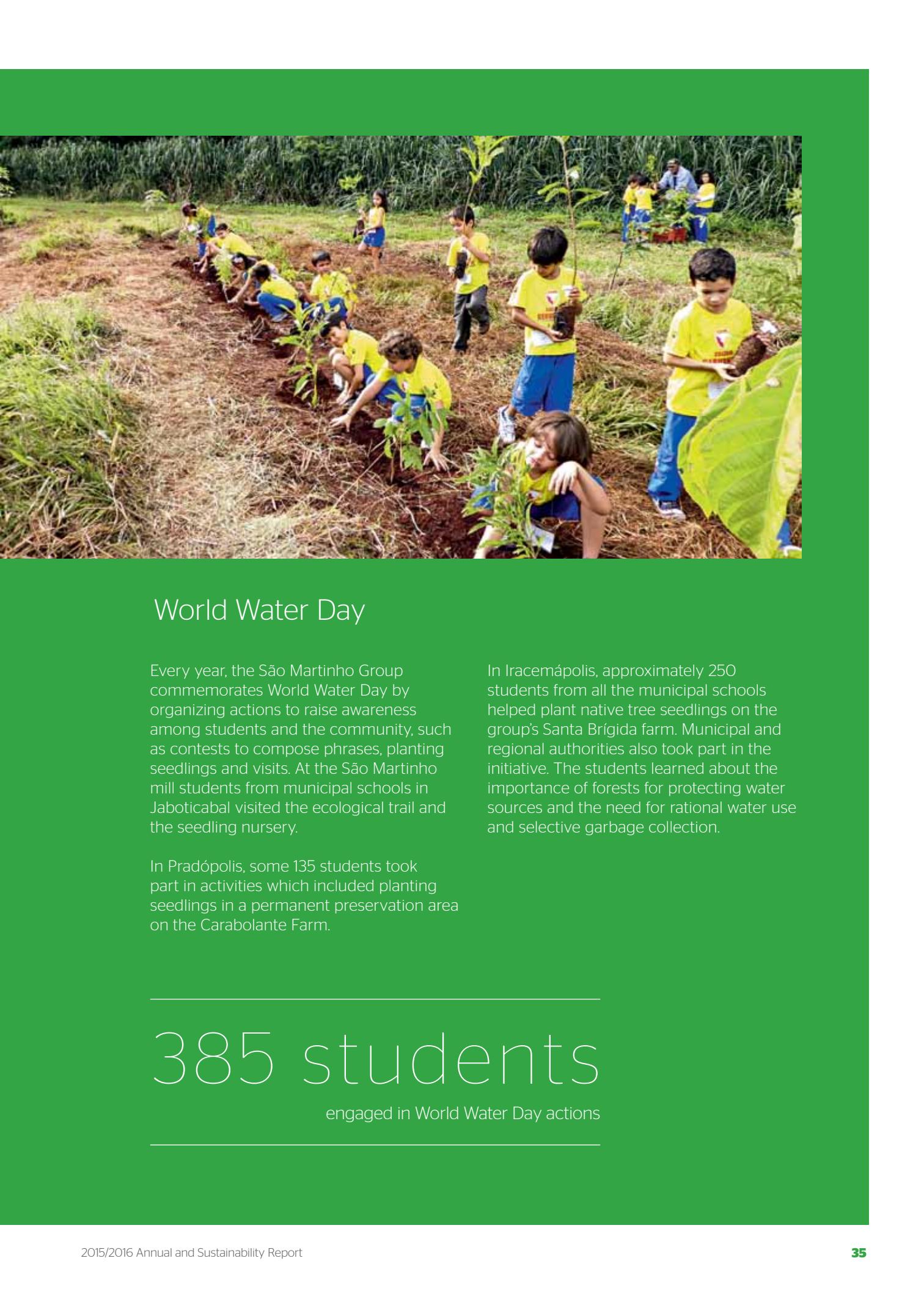
Discharge G4-EN22

In the São Martinho mill, the water is treated in stabilization reservoirs before being discharged into the Mogi Guaçu river. In the 2015/16 crop year, 16,855,860 m³ of water was discharged compared with 13,660,582 m³ in the previous crop. This 3,195,278 m³ increase was due to the additional 740,337 metric tons of cane

processed compared with the previous crop year.

At the Santa Cruz unit, the volume used for fertigation in the 2015/16 crop was 3,284,401 m³, compared with 3,086,891 m³ in the previous crop. At the Iracema mill, the discharge during the last crop totaled 1,346,354 m³, against 1,026,320 m³ in 2014/15 crop.





World Water Day

Every year, the São Martinho Group commemorates World Water Day by organizing actions to raise awareness among students and the community, such as contests to compose phrases, planting seedlings and visits. At the São Martinho mill students from municipal schools in Jaboticabal visited the ecological trail and the seedling nursery.

In Pradópolis, some 135 students took part in activities which included planting seedlings in a permanent preservation area on the Carabolante Farm.

In Iracemápolis, approximately 250 students from all the municipal schools helped plant native tree seedlings on the group's Santa Brígida farm. Municipal and regional authorities also took part in the initiative. The students learned about the importance of forests for protecting water sources and the need for rational water use and selective garbage collection.

385 students

engaged in World Water Day actions

Waste management

G4-EN23



The São Martinho Group systematizes the management of solid waste from its agricultural and industrial activities to prevent harmful impacts to the environment and ensure proper disposal. To do this, its Solid Waste Management program is aligned with the 3 Rs concept: reduce consumption of materials and inputs, reuse materials and byproducts and recycle materials by sorting and ensuring appropriate destination.

The group units control the exit of all the waste generated on their premises, weighing the material and recording the volumes in electronic spreadsheets and the SAP system. The waste is treated in accordance with its characteristics and disposed of ecologically by recycling, recovery and other sustainable disposal methods. In 2015, the São Martinho unit inaugurated a Waste Sorting Center, improving selective collection at the mill.

NON-HAZARDOUS WASTE (METRIC TONS)

Santa Cruz	13/14	14/15	15/16	Waste included
Mixing yard	318,380	263,638	301,250*	Soot and filter cake
Reutilization	1,286,091	1,268,131	1,338,128	Bagasse
Recycling	1,076	1,268	1,000	Metal/paper/plastic/ stainless steel/carbon steel/aluminum/ rubber/copper/batteries/electrical material/glass
Recovery (including energy recovery)	0	0	0	Wood
Sanitary landfill	179	174	213	Non-recyclable organic
Reverse logistics**			142	Tires / Inner tubes / rubber
Total	1,605,726	1,533,211	1,640,733	-

Iracema	13/14	14/15	15/16	Waste included
Mixing yard	208,824	154,467	166,348	Soot, ash and filter cake
Reutilization	920,171	812,564	801,239	Bagasse
Recycling	852	861	834	Metal/paper/plastic/ stainless steel/carbon steel/aluminum/ rubber/copper/batteries/electrical material/glass
Recovery (including energy recovery)	53	62	148	Wood
Sanitary landfill	11	74	27	Non-recyclable organic
Reverse logistics**	-	-	150	Tires / Inner tubes / rubber
Total	1,129,911	968,028	968,747	-

São Martinho	13/14	14/15	15/16	Waste included
Mixing yard	507,779	437,651	561,131	Soot, ash and filter cake
Reutilization	2,449,561	2,702,234	2,877,636	Bagasse
Recycling	1,340	1,976	1,355	Metal/paper/plastic/ stainless steel/carbon steel/aluminum/ rubber/copper/batteries/electrical material/glass
Recovery (including energy recovery)	0	0	3,009	Wood
Sanitary landfill	532	626	620	Non-recyclable organic
Reverse logistics**	-	-	583	Tires / Inner tubes / rubber
Total	2,959,212	3,335,680	3,444,334	-

* At the Santa Cruz mill, the volume of mixing yard waste increased compared with the 2014/15 crop because of the inclusion of ash, which was not counted the previous year.

** In the 2015/16 crop, tires were considered to be non-hazardous waste and were disposed of by reverse logistics.

NON-HAZARDOUS WASTE (METRIC TONS)

	Santa Cruz			Iracema			São Martinho			Waste included
	13/14	14/15	15/16	13/14	14/15	15/16	13/14	14/15	15/16	
Reutilization	8	9	10	17	18	11	13	55	23	Drums/ cylinders/ bags/ containers
Co-processing	63	60	54	153	117	119	217	487	174	Diverse contaminated waste
Reverse logistics	164	165	66	10	9	10	2	125	58	Batteries / Crop defense product packaging
Re-refining	118	127	111	44	34	34	131	53	102	Burnt oil
Total	353	361	241	224	178	174	192	721	356*	-

* In the São Martinho mill, the 55% reduction in hazardous waste generation was due to the change in the treatment of tires. They were considered as non-hazardous waste and disposed of via reverse logistics.

Energy

Throughout the crop, which lasts on average 8 months of the year, the São Martinho Group is self-sufficient in electrical energy. All its power is generated internally, with the surplus sold to power utilities. The energy comes from a renewable source, bagasse, a biofuel derived from sugarcane.

The energy generation process and equipment undergo continuous improvement and are highly efficient. Particularly worthy of note is the São Martinho mill with its fluidized bed boiler, which yields from 5% to 7% more than conventional ones.

Aware of its environmental responsibilities, the Group's concern goes far beyond energy efficiency. All the boilers have gas scrubbers which impede the emission of particulate material in the atmosphere. In conjunction with ash, this is reused as an ingredient in the organic mixture used to fertilize the cane plantations..

Emissions

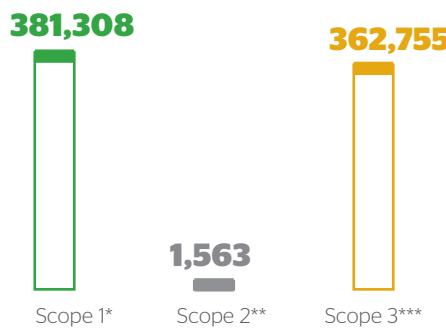
The group's mills use specific equipment to control atmospheric pollution caused by the gases from its boilers in line with the environmental laws in force. On an annual basis, the gases emitted from the boiler chimneys are monitored and NOx and particulate material emissions are reported.

Greenhouse gas (GHG) emissions

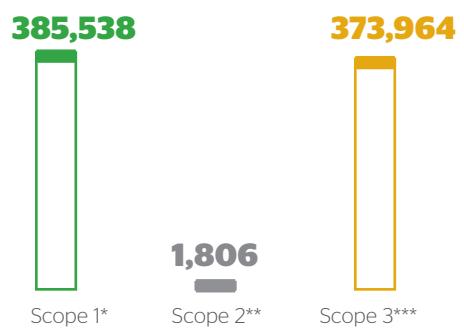
The São Martinho Group carries out a greenhouse gas (GHG) emissions inventory. The calculation takes into account metric tons of CO₂ equivalent (tCO₂e) emitted by the operations and the intensity in grams of CO₂ equivalent per megajoule (tCO₂e/MJ). G4-EN15, G4-EN16, G4-EN17

Emissions corresponding to production (t CO₂e)

14/15 crop year



15/16 crop year



* Direct emissions - Sources: fossil combustion in the agricultural area; CH4 and N2O emissions from burning straw; release of CH4 and N2O from the soil due to fertilization with nitrogen; application of lime in the plantation; application of vinasse and filter cake in the plantation; decomposition of unburned straw and release of CH4 and N2O in burning of bagasse.

** Indirect emissions - Source: energy balance from exportation and importation of electricity.

*** Indirect emissions (others) - Sources: production of inputs for agricultural area; production and maintenance of machines and equipment; manufacture of inputs for industry; construction and maintenance of buildings and industrial installations and use of fossil fuels in transportation of ethanol for export

Crop defense

The São Martinho Group maintains effective control of the amounts of herbicides, insecticides, fungicides, nematicides and plant growth regulators used by means of integrated pest and disease management, ensuring no harmful effects on the environment. The company prioritizes biological control whenever possible.



All these emissions (761,300 MtCO₂e) are offset by the use of ethanol instead of gasoline and the surplus electricity (substituting energy from the grid in the energy mix or in the operational margin):

Analysis by product results in higher reductions in emission rates from the substitution of gasoline with ethanol than those of all other commercial biofuels.

1,017,500
MtCO₂e



72,6000 MtCO₂e
to
326,500 MtCO₂e



Renewal of the Etanol Verde (Green Ethanol) program

Recently the Iracema, Santa Cruz and São Martinho mills were recertified under the Etanol Verde program.

This initiative is part of the Protocolo Agroambiental (Agri-environmental Protocol), of which the group has been a signatory since its launch in 2008. The certification is renewed annually and attests that the mills are engaged in measures that stimulate the sustainability of the sugar, green ethanol and bioenergy production chain.

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

Environmental measures

G4-SO2

Sugarcane is at the heart of the São Martinho Group's business. This is a renewable resource that depends on the ongoing supply of other natural resources, such as water, air and soil, in order to ensure continuous production of its derivatives, including ethanol, sugar and energy.

For this reason, sustainability is much more than just a value: it is a strategic pillar for the business. It also explains why the company makes such an effort to promote sustainability across its different stakeholder groups with the intention of preserving existing resources. This involves the following measures:

■ Environmental Education Center (CEA)

Created in the São Martinho mill in 2000 and extended to Santa Cruz in 2005, the purpose of the center is to raise the awareness of students,

employees and the community about the need to preserve natural resources. It contains rooms with thematic displays on waste, recycling, water, air, soil, renewable energy, biodiversity and sugarcane, among others, as well as a room dedicated to environmental controls, where visitors may see how the agricultural and industrial processes in the mills work, as well as the biological controls over cane pests.

In 2015, the centers received 4,239 visitors. In total, these environmental education centers have been visited by around 105,000 people. At the Iracema mill, environmental measures include talks and internal training during the induction of new employees. Initiatives for the public are also organized in partnership with the Iracemápolis local government and the Environmental Police, including planting native tree seedlings on the mill's grounds on commemorative dates.



Monitoring legislation

The São Martinho Group units use a computerized system to manage environmental information and impacts and ensure legal compliance. The system comprises management tools for identifying, accessing, analyzing, updating and verifying conformance with legal requirements.

■ Viva Nature project

A pioneering initiative run by the group since 2000, the project is focused on the reclamation of riparian vegetation – the native vegetation on the banks of rivers, lakes and reservoirs – which plays a key role in protecting the soil in and around the beds of these and other bodies of water.

■ Responsible soil use

A practice that adds nutrients to the soil, retains moisture and prevents erosion through the application of sugarcane straw leftovers on the plantations (*read more on page 29*).

■ Responsible water use

The group controls the withdrawal and the quality of water used in its plants and for human consumption (*read more on page 32*).

■ Biological control

This involves the use of natural methods to control pests common to sugarcane, such as the sugarcane borer, the root frog hopper and the sugarcane weevil. The group's biological laboratories produce agents that help control these pests which are harmful to productivity and soil quality (*read more on page 38*).

■ Solid waste management program

The group units control the exit of all the waste generated on their premises, weighing it and recording it using electronic spreadsheets (*read more on page 36*).



The São Martinho Group's tradition and culture of respect is underpinned by robust relations with stakeholders





Relations



Safety, respect, companionship and partnership are values and virtues that guide the professional conduct of all São Martinho Group employees, establishing enduring ties and consolidating the company's way of being and the way it relates to its stakeholders.

Employees

The São Martinho Group strives to recognize and develop its employees, investing in human capital and providing opportunities for professional growth in a motivating working environment and in teams that are prepared to meet the challenges they face.

This tradition of investing in its people is based on the belief that the company's potential and its differential is precisely its people. This has

led the group to be included in the *Guia Você S/A* ranking of "150 Best Companies to Work For", published by Editora Abril, for the fifth time. This survey is considered to be the main one in the organizational climate segment in Brazil. Furthermore, São Martinho is listed in the "35 Best Companies to Start Your Career", also published by the magazine *Você S/A*. This is a survey aimed at understanding the expectations of young people starting off in the labor market.

TOTAL EMPLOYEES BY FUNCTIONAL LEVEL AND GENDER G410

	2013/2014		2014/2015		2015/2016	
	Men	Women	Men	Women	Men	Women
Board	9	0	10	0	10	0
Directors	9	1	8	1	8	1
Management	22	2	32	2	27	2
Heads/coordination	34	4	33	3	43	3
Technical/ supervisory	221	5	323	7	286	9
Administrative	257	116	329	156	370	170
Operational	5,765	519	8,466	655	8,435	583
Trainees ¹	Not available		8	3	16	11
Support	38	3	44	2	51	2
Apprentices	79	25	118	24	134	23
Interns ¹	Not available		16	20	23	23
Third-parties ²	789		863	82	1,122	77
Total by gender ³	7,223	675	10,250	955	10,525	904
Total ⁴	7,898		11,205		11,429	

¹ Total not counted in the 2013/2014 crop.

² Third-parties were not discriminated by gender in the 2013/2014 crop.

³ The sum by gender in the 2013/2014 crop does not include third-parties (see note 2).

⁴ The variation in the total number of employees from 2014/2015 is due to the acquisition of the Santa Cruz mill.



TOTAL EMPLOYEES BY TYPE OF CONTRACT *

	2013/2014		2014/2015		2015/2016	
	Men	Women	Men	Women	Men	Women
Fixed term	488	40	499	39	543	40
Permanent	5,928	634	8,855	814	8,819	764
Total by gender	6,416	674	9,354	853	9,362	804
Total	7,090		10,207		10,166	

NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT (6-hour work shift)

	2013/2014		2014/2015		2015/2016	
	Men	Women	Men	Women	Men	Women
Full-time	5,922	633	9,259	829	9,236	784
Part-time	6	1	95	24	126	20
Total by gender	5,928	634	9,354	853	9,362	804
Total	6,562		10,207		10,166	

* These figures do not include the following: members of Board of Directors and Fiscal Council, Statutory Directors, Third-Parties and Interns. The labor force increases in size during the crop.

Career and professional development

G4-EC8; G4-LA9

With a view to driving the ongoing personal and professional development of its employees through the acquisition of new skills and competencies, the group invests in technical, behavioral and educational training programs.

In place for 17 years and worthy of note is operational behavioral training, which is organized annually with the goal of developing behavioral competencies and disseminating the group's Mission, Vision and Values, as well as enhancing interpersonal relationships by means of conceptual and experiential activities.

These and other internal training initiatives are later assessed by the employees themselves, who may rate the instructor, the organization of the event, the methodology and the program. From the results of these assessments and conversations with managers, the group proposes improvements to the development processes. Over recent years, this process has enabled enhanced management of development, leveraging effective gains for the entire company.

São Martinho Group professional development opportunities entail criteria such as skills, competencies, job profiles and individual contributions.

São Martinho Group professional development opportunities employ criteria such as skills, competencies, job profiles and individual contributions.

The organization also has a policy of driving internal recruitment before opening vacancies up to the market, because it believes in the quality and potential of its professionals.

■ Succession Plan

This is a planning tool enabling the company to map, develop and retain talent for key positions. The targeted professionals are assessed by committees whose mission is to appraise the performance and identify the potential of each individual.

■ Recognition Program

Initiated in 2013, the program is aimed at establishing ways of recognizing employee potential, as well as encouraging creativity, team work and flexibility. The program is based on three pillars: Your Idea is Worth a Prize,

Highlight of the Year and Our People. All proposals are assessed by the official program committee and receive awards in accordance with the categories established in the regulations. In the 2015/16 crop , there were around 15 entries in the Your Idea is Worth a Prize contest, providing employees with the opportunity to present suggestions for improvements to the Group's business.

■ Career Paths

The Career Paths program is aimed at assisting in planning employees' careers by mapping the desired profile for all the positions in agricultural and industrial processes. This diagnosis enables employees to better plan their careers.



Attracting talent

In 2016, the São Martinho Group hired more than 1,500 people (see table below). All receive training and guidance in the organization's practices and values through the Induction Program, which also provides information on the company's Agricultural, Industrial, Human Resources, Information Technology and Health and Safety areas. As their career progresses, all employees participate in measures designed to reinforce the group's organizational culture.

With the objective of retaining talent and driving professional growth, the group promotes internal recruitment for all job vacancies. São Martinho also makes a point

of training the manpower necessary for the harvest mechanization process, a differential due to the increasing demand for qualified professionals to operate the equipment.

To develop the skills and competencies necessary for leaders, the group organizes programs such as Forming Future Leaders, which is part of the Trainee Program, opened every two years for recently graduated external candidates, and the Values in Action program, for existing employees. The company also organizes individually tailored development programs based on an assessment process¹.

ADMISSIONS G4-LA1

Admissions by gender	2014/2015	2015/2016
Male	1,601	1,479
Female	96	77
Number of admissions by age group	2014/2015	2015/2016
Under 30 years	811	631
Between 31 and 50 years	733	760
Over 50 years	153	165
New admissions rate by gender	2014/2015	2015/2016
Male	0.1569	0.1455
Female	0.0094	0.0076
New admissions rate by age group	2014/2015	2015/2016
Under 30 years	0.0795	0.0621
Between 30 and 50 years	0.0718	0.0748
Over 50 years	0.0150	0.0162

¹ Corporate performance appraisal carried out with all company leaders

TERMINATIONS AND TURNOVER* G4-LA1

Terminations by gender	2014/2015	2015/2016
Male	1,645	1,452
Female	134	128
Number of terminations by age group	2014/2015	2015/2016
Under 30 years	655	460
Between 30 and 50 years	848	824
Over 50 years	276	296
Turnover rate by gender	2014/2015	2015/2016
Male	0.1612	0.1428
Female	0.0131	0.0126
Turnover rate by age group	2014/2015	2015/2016
Under 30 years	0.0642	0.0452
Between 30 and 50 years	0.0831	0.0811
Over 50 years	0.0270	0.0291

* The numbers of people at the following levels were not considered: Board of Directors, Fiscal Council, Statutory Directors, Third-Parties and Interns.



Relationship Management Cell

The Relationship Management cell is designed to drive improvement in company x employee relations, in particular seeking to avoid terminations or, when they do occur, ensuring that they are coherent with the company's ethical principles.

The cell provides orientation for employees who have been terminated based on the Novos Tempos (New Times) manual, which includes information on managing finances and tips on finding a new job, as well as providing assistance for ex-employees in the job market.

Corporate Communication

Through its Corporate Communication area, the São Martinho Group maintains different communication channels to disseminate routine news about the organization's activities, as well as to reinforce company values and concepts among employees and other stakeholders.

In newspaper format, Nossa Gente is a quarterly publication containing reports on the market, productivity and company news. Nossas Notícias circulates every six months with business reports aimed at employees, investors, managers, directors, group partners and the community. The weekly newsletter Nossas Notícias da Semana is distributed to employees via email.

The group also has its intranet, which is dedicated to storing and disseminating documents, such as policies and procedures, as well as publicizing company information.

The company uses notice boards located strategically around the units and in the company buses used to transport employees. These channels are complemented by internal campaigns aimed at providing employees with news and information about day to day company business.

The São Martinho Group is also active on social networks¹, such as Facebook (www.facebook.com/GrupoSaoMartinho), with more than 14,000 likes, and LinkedIn (www.linkedin.com/company/grupo-s-o-martinho), where it has more than 11,000 followers.



¹ Numbers up to March 2016.

Remuneration and benefits G4-LA2

Remuneration at São Martinho is competitive and is based on integrating the strategic Human Resources pillars (attract, retain and develop) with the company's values (integrity, ethics and respect for people). This process ensures that the group remunerates employees not just based on market rates, but also on recognition of good performance. In return, employees are

expected to contribute to achieving annual targets, to follow company guidelines and to uphold its values.

The benefits policy comprises a package that is compliant with legislation and attractive to employees. All employees are entitled to the benefits; however, specific eligibility depends on the employee's work unit.

- Medical and dental assistance
- Housing allowance
- Complementary allowances (reimbursement for glasses, corrective lenses, orthoses and prostheses)
- Shopping card /advance
- Medication card
- Meal voucher card (São Paulo branch)
- Christmas hamper
- Credit cooperative

- Work place exercise program
- Maternity¹ and paternity leave
- Company bus
- Private pension plan
- Canteens at units
- Group life insurance
- Anti-influenza vaccination
- Meal vouchers
- Transport vouchers (São Paulo branch)



¹ The maternity leave granted by the group is valid for up to six months - four months in accordance with the law, which may be prolonged for a further two months through the Empresa Cidadã program. Paternity leave is five days, with an additional 15 days for companies participating in the aforementioned program.

Health and safety

The São Martinho Group is committed to providing a safe and healthy working environment, ensuring the well being of all its employees, third-parties and visitors. For this reason, the company has a policy dedicated exclusively to the pillars of health and safety.

The function of the occupational health and safety management system is to reinforce alignment with the company's goals. The target is to provide all group employees with clear, unified orientation to ensure commitment to and responsibility for safety.

To reduce and eliminate health and safety-related risks, the São Martinho Group develops programs focused on awareness and prevention for employees

■ Safety and quality of life programs

The São Martinho Group has a number of programs focused on promoting quality of life, as well as health and safety for its employees. This is because the company believes that a safe and healthy work place is indispensable for the proper functioning of its operations and for the well being of its workers.

Worthy of note among the health promotion measures are the Stop Smoking, Control and Prevention of Hypertension, Clinical Accompaniment, Work Place Exercises, Balanced Diet, Always Healthy, Vaccination Campaign, Temporary

Rehabilitation and Occupational Health Medical Control programs.

As part of its strategy to reduce and eliminate health risks, the group runs awareness and preventive programs, such as Water, Food and Waste Quality, Hearing Conservation, Environmental Risk Prevention, Survey of Aspects, Hazards, Impacts and Risks and Implementation of Regulatory Standards, Internal Accident Prevention Week (Sipat in the Portuguese acronym), Internal Accident Prevention in Rural Work Week (Sipatr) and Integrated Inspections.

Health and safety beliefs

- Leaders are key figures in managing health and safety.
- Everyone is responsible for identifying, controlling, eliminating and/or reducing hazards and risks.
- Health and safety are key values for the São Martinho Group and fundamental factors for the success of the operations.
- The pursuit of excellence in health and safety is an integral part of the work routine.
- No work is so important and no task is so urgent that time may not be taken to plan its execution in safety.



Incentives for the local economy

G4-EC6, G4-EC7, G4-12, G4-S09

The São Martinho Group's relations with society are one of the company's values (respect for people) as well as one of its pillars (community). Through its social responsibility policy, São Martinho establishes guidelines for dealing with the local community based on ethics and transparency with stakeholders.

The activities of the São Martinho Group benefit the local economy in the regions in which it operates, principally through the generation of jobs for the community and incentives for the supplier chain. Furthermore, a significant percentage of the taxes paid by the group are transferred back to the municipalities by the state and federal governments.

Local hiring

In the 2015/16 crop , 60% of the workers and 60% of the senior managers came from the local community, a proportion similar to the previous crop.

The group understands local community to be “the cities in which its units are located and any cities subject to the economic, social and environmental impacts resulting from the organization's operations”.

The direct impact on these cities is a key factor in this definition and by means of specific health, safety, environmental, sustainability and social responsibility policies and actions, the company helps to care for these communities, constituting a key competitive differential.

Suppliers G4-EC9

The São Martinho Group procurement policy establishes that all material and service requirements must be fulfilled taking into account quality, price and deadlines. As of yet, the group does not have a policy or practice whereby local suppliers are given preferential treatment.

PROPORTION OF SPENDING ON LOCAL SUPPLIERS*

	2013/2014	2014/2015	2015/2016
São Martinho mill	58.50%	43.10%	37.30%
Iracema mill	66.40%	65.30%	46.60%
Santa Cruz mill	62.20%	45.90%	40.40%
São Martinho Group	52.90%	42.60%	40.10%

* The group considers local suppliers to be ones located within a radius of approximately 150 km from the key operating units.

MORE THAN 40%
of spending was on
local producers

Supplier contracts are only signed after full compliance with legislation, in particular labor-related laws, and respect for human rights have been ensured.

Partnership networks

Sugarcane producers represent an extremely important group for the company. For this reason the São Martinho Group invests heavily in ensuring the longevity of these relations. These partners receive differentiated treatment and have an exclusive area on the company's website. With restricted access, they can monitor production and financial information, technical questions, as well as receive news about the group.

The company organizes different meetings with producers, which range from the presentation of crop results and future projections to the dissemination of technologies that enhance cane production.

São Martinho also has a team of field technicians who periodically visit the producers' plantation to monitor service quality and to identify improvement opportunities.

São Martinho Group social responsibility policy establishes the guidelines for social actions and community relations

Community G4-15, G4-S01

It is the group's understanding that its entire stakeholder chain is important and may directly or indirectly generate significant results and impacts for the operation. For this reason it has an annual calendar with a series of actions to engage these groups - such as the investments in social projects in the communities around the São Martinho, Iracema and Santa Cruz mills, as well as a specific area to take care of relations with partners and cane suppliers, aimed at supporting and developing agricultural producers.

As it does every year, during the 2015/16 crop the group invested in supporting social responsibility projects and measures, prioritizing the areas of basic and professional education, sport and culture, and generating value for society as described ahead.

"Projov" First Job and Rangers

Developed in partnership with institutions in Iracemápolis and Pradópolis, in 2015 the program enabled access to the labor market for 52 young people aged between 16 and 18 years. The project provides training and professional opportunities for students in the public school network. At the end of the program, the students may continue to work in the company and to participate in internal recruitment processes for up to one year. In place for 18 years, the project has provided opportunities for all participants. A number of group employees started off as participants in the Projov First Job and Rangers program. Investments in the program total around R\$ 900,000 per year.

Apprentice Program

This program is run in partnership with the Senai National Industrial Learning Service, providing professional training for 90 apprentices aged from 16 to 18 in 2015. The program included courses for electrical and electronic systems technicians and industrial machinery maintenance mechanics.

Teleclassrooms

This is a project organized by the Iracema mill in partnership with the Fundação Bradesco and the local government of Iracemápolis, offering young people and adults the chance to resume their studies. The company funds four fully equipped teleclassrooms, teaching materials and monitors. Since 2002, thousands of people have completed their primary and secondary education through the project. The amount invested in 2015 was R\$ 46,000.

Entrepreneurs of the Future Program

Developed in Iracemápolis, the project is aimed at showing secondary school students how a company works. The program includes the presentation of disciplines such as marketing, finance, human resources and production. During 15 weeks, the participants have the opportunity to develop and commercialize a product based on market research, which they do under the supervision of São Martinho Group volunteer employees. Participation in the project is also voluntary for the young people, facilitated by the fact that the classes are held out of school hours. The project is the result of a partnership between the company and the NGOs Junior Achievement and Instituto de Desenvolvimento de Limeira (Ideli or Limeira Development Institute). In 2015, a group of 30 students graduated from the program.

Mayor Virgílio Ometto Theater

In partnership, the Iracema mill and the Iracemápolis Art and Culture Movement Association (Amaci) remodeled the town's old cinema, transforming it into a comfortable, modern cine theater. The objective is to provide the community with opportunities for leisure and culture. The theater holds 324 people and has a 12-meter stage. From June 2015 to March 2016, some 6,000 people attended 32 events promoted by Amaci, 12 by the local government and one by the Iracema mill.



The São Martinho Race

This annual 5 and 10 kilometer race is aimed at promoting the integration of employees from diverse units. The routes follow trails through the São Martinho mill sugar plantations. The race has increasingly drawn the attention of professional athletes to the point where, since it is held near the end of the year, it is used by marathon runners in preparation for São Paulo's traditional São Silvestre race. The event is open to the public and the prizes are organized by gender, age group, and whether the competitor is a group employee or not. Around 1,300 runners took part in the 2105 race.

Good School Year Program

Developed at the Iracema and Santa Cruz mills, the program helps employees to keep their children in school, underscoring the importance of education through the distribution of kits of school materials. Each year employees are entitled to request the benefit, which is granted in February. There are two types of kit at the Iracema mill: one for 1st to 5th grade students and the other for students from 6th to 9th grade. At the Santa Cruz mill there are three types of kit: one for pre-school, one for 1st to 4th years students and another for students from the 5th year to technical level. 1,600 kits were distributed in 2016.

Sesi Games Program

A partnership between Sesi (Industry Social Service) and the Iracema mill, the program is aimed at promoting sports and team work among employees. In 2015, the performance of the Iracema mill in the 68th Sesi Games in Limeira between March and September 2015 was outstanding. Unit employees competed in a series of games, such as athletics, truc, snooker, arm wrestling, tugs of war and volleyball, among others. The mill came in 1st place overall in the women's games and second in the men's games. These excellent results classified Iracema to compete in the Sesi Regional Circuit in Rio Claro in October.



THE TIFUI PROJECT

The Iracema Mill Internal Soccer Tournament (Tifui) is organized every year in the inter-crop period. It is a means of integrating employees and enabling them to enjoy themselves and have fun. Everything used in the games, which are held in the unit, is provided by the company. In 2016, some ten groups of employees took part in the tournament. The top three teams received trophies and medals.

Hunger-Free Christmas Campaign

Organized annually by the São Martinho Group, the campaign promotes goodwill and volunteer work among employees. Non-perishable foods are collected in November and December and donated to charities in the municipalities of Pradópolis, Iracemápolis and Américo Brasiliense.

Winter Clothing Campaign

This is an annual charity initiative to provide clothing and blankets for low-income families. It is organized by social assistance institutions in some of the towns around the São Martinho Group units with support

from the company. In 2015, 1,570 items of clothing and 480 blankets were collected in the campaign.

Citizen Company program (Programa Empresa Cidadã)

Since the beginning of 2010, the São Martinho Group has prolonged maternity leave from 120 days to 180 days, in accordance with a ruling by the federal government. This means that all mothers in the company may opt to spend six months at home after the birth of their baby. This practice is still quite rare in the market.

SUPPORT FOR PRONATEC

The São Martinho Group supported the participation of Iracema and São Martinho mill employees in courses organized by the Pronatec Technical Teaching and Employment program in 2015. Financed by the federal government and offered free of charge to the mills and surrounding communities, the course were given by Senai and were held on São Martinho Group premises.

680 HOURS
of Pronatec courses offered
to group employees and
community members

Unit	Course	Course load	Number of students		
			Company	Communities	Total
Iracema	Boiler operator	160 hrs	19	0	19
	Mechanical draftsman	160 hrs	2	8	10
	Light vehicle braking, suspension and steering system mechanics	160 hrs	2	7	9
São Martinho	Industrial chemical process operator	200 hrs	17	0	17

Contributions

In the last crop year, the São Martinho Group units invested around R\$ 500,000 in donations for the communities in which they operate. There were contributions for old people's homes, Apae, Casa da Criança (Children's Home), local government, senior citizens, among others.

Economically active social inclusion

Underscoring its commitment to diversity, since 2013 the São Martinho Group has promoted professional training courses for the disabled in partnership with the Ministry of Labor and Employment, the national learning service Senai, and the local governments of Guariba, Pradópolis, Barrinha, Araraquara and Américo Brasiliense.

The students receive professional qualifications from Senai based on specific training given by specialized instructors and monitored by a cross-functional team.

More than 130 apprentices have participated in the project, training as administrative and stockroom assistants. All participants receive a certificate at the end of the one-year course. In 2015, 16 course graduates were hired to work at the São Martinho mill as administrative or stockroom assistants. In March 2016, a new group of apprentices was formed in the Barrinha district. Yet another group will be formed in Iracemápolis for the 2016/17 crop.

Other company actions are also aimed at valuing the disabled. This is the case with the monthly contribution the Iracema mill makes to the Limeira Children's Rehabilitation Association, Aril. To drive improved service quality at the institution, the unit also provides it with physical space and management support. Thanks to this work, every year the unit receives the Friend of Aril seal. Another institution receiving incentives is the Limeira Apae (Exceptional Children's Parents and Friends Association), as a result of which GSM was awarded the Citizen Company seal in 2015.

Additionally, the São Martinho Group has a project to rehabilitate employees discharged by the social security authorities. Since these professionals are unable to return to their original function in the company, they would not be entitled to a social security allowance or to their salary. To avoid this situation, the company assumes responsibility for the initiative and for the cost of retraining.



Government G4-16

The São Martinho Group seeks to establish relations with public authorities essentially through the industry association Unica (União da Indústria de Cana-de-Açúcar). Therefore, any processes regarding the formulation of public policy for the sugar-energy sector are conducted exclusively through representative industry associations and organizations, as is the case with Unica.

In addition to its seat on the board of Unica, the company participates on the boards of Abag, (Ribeirão Preto Region Agribusiness Association), the São Paulo Commercial

Association, the Ciee (Enterprise-School Integration Center) and the Brazilian Overseas Trade Association. Other board positions are the vice-presidency of the São Paulo State Federation of Industries (Fiesp) and coordination of the São Paulo State Sugar Industry Association (Siaesp) and the São Paulo State Alcohol Manufacturing Industry Association (Sifaesp). In all these cases, the company pays only a basic fee as a member organization.

Investors and shareholders G4-7

Ever since São Martinho S.A. shares were listed on the BM&FBovespa exchange in 2007, an Investor Relations (IR) team has been responsible for disclosing the group's releases, material facts and financial statements to the market, both in Portuguese and English. Additionally the IR area maintains constant contact with São Martinho investors, with financial analysts and with all other parties interested in understanding the company's businesses.

In recent years, the company has received constant coverage from leading investment banks and investment funds.



A benchmark in the sector, corporate governance in the São Martinho Group means best management practice, transparency and ethical conduct.



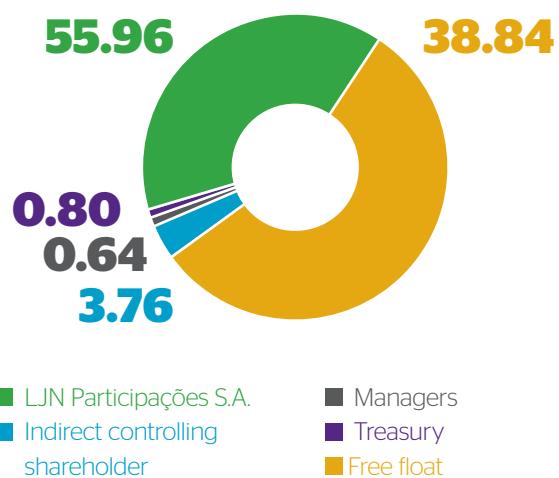
Corporate Governance

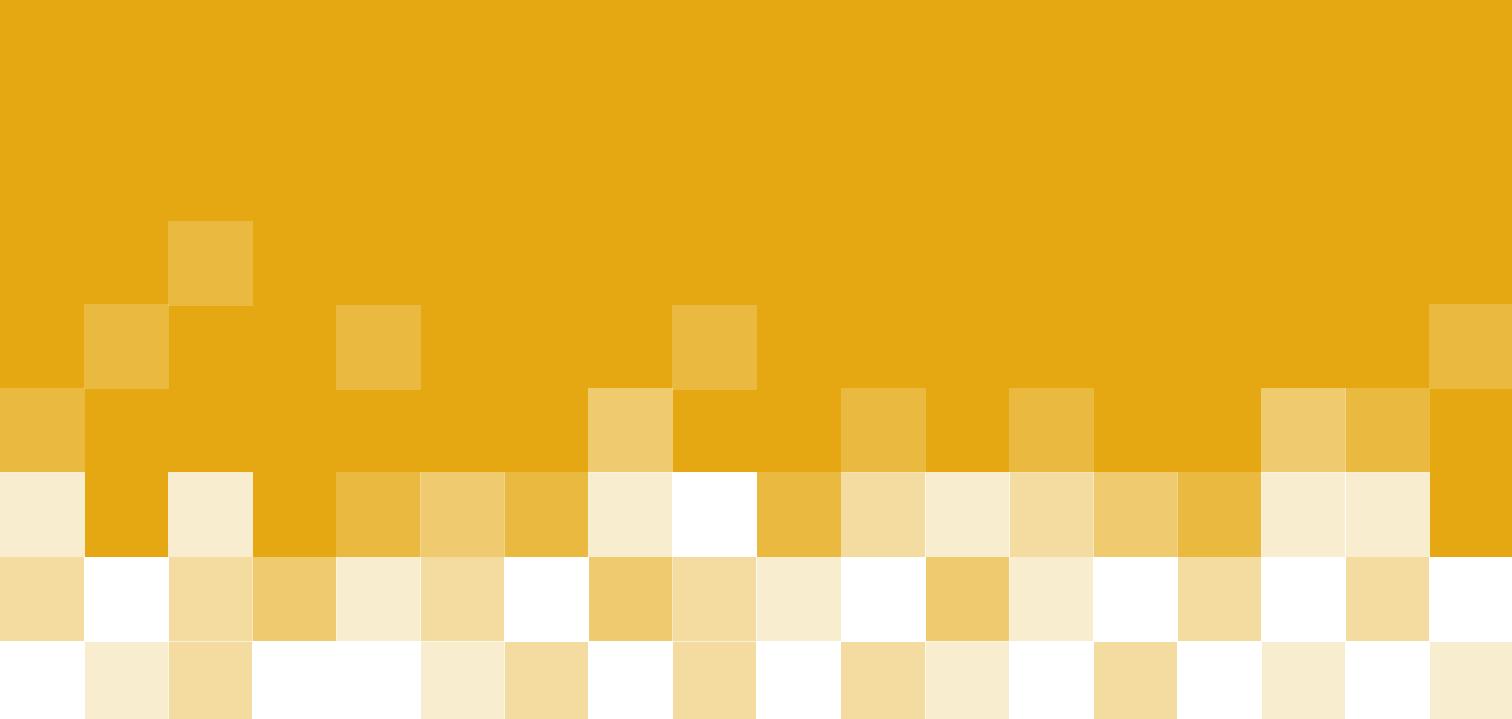
A publicly-traded company, São Martinho adopts the rules of the BM&FBovespa Novo Mercado, ensuring equal treatment for shareholders in line with one of the most rigorously regulated markets in the world.

Company share rating

The shares of the São Martinho Group were classified by the international rating agency Standard & Poor's (S&P), the world leader in financial market intelligence services, as BB+ on a global scale and BrAA+ on a national level. The classification is a reflection of the group's conservative capital structure, its high productivity in sugarcane cultivation and its low sugar and ethanol production costs, among other factors.

BREAKDOWN OF SHAREHOLDERS (%)





Board of Directors

GRI G4-34

The Board of Directors is a joint decision making body responsible for general oversight of the company, including its long-term strategy. Its attributions include electing and overseeing directors.

Board decisions require a majority vote. In the event of a tie, a new meeting is convened with the presence of all members required to resolve the situation. The approval of certain items requires a specified quorum among the directors.

In accordance with Brazilian corporate law (law 6.404), the company bylaws establish that the Board of Directors should comprise seven members, one of whom is independent, who are elected for a two-year term by the annual shareholders' meeting. Members may also be removed by the general shareholder meeting.

The current members of the São Martinho Board of Directors were elected by the

Ordinary General Meeting held on July 29, 2016 and are listed below:

- João Guilherme Sabino Ometto - *Chairman*
- Marcelo Campos Ometto - *Vice Chairman*
- Guilherme Fontes Ribeiro - *Member*
- Luiz Olavo Baptista - *Member*
- Maurício Krug Ometto - *Member*
- Murilo Cesar Lemos dos Santos Passos - *Independent Member¹*
- Nelson Marques Ferreira Ometto - *Member*

¹ The independent member was indicated by the controlling shareholder and by minority shareholders.

Executive Board GRI G4-34

In accordance with the São Martinho S.A. bylaws, the Executive Board comprises a minimum of two and a maximum of eight members, who, at the discretion of the Board of Directors, are permitted to hold more than one position.

Currently, the board consists of eight statutory and one non-statutory member. Executive board members are elected by the Board of Directors for a one-year term; they may also be dismissed by the board.

- Fábio Venturelli -
CEO
- Agenor Cunha Pavan -
Vice president and Agroindustrial Executive Officer
- Felipe Vicchiato - *CFO and IRO*
- Helder Luiz Gosling -
Commercial and Logistics Officer
- Rodrigo Tetti Garcia -
Administrative Officer
- Mário Ortiz Gandini - *Agroindustrial Officer - São Martinho*
- Carlos Fernando Zaneti -
Agroindustrial Officer - Iracema
- Marcos Helder Pavan Monaco -
Agroindustrial Officer - Santa Cruz
- Marcia Maria Cubas de Almeida - *Director of Human Resources, Labor Relations and Sustainability**

* Non-statutory director

Fiscal Council GRI G4-34

According to corporate law, the Fiscal Council is independent from management and from external auditors. It may function on a permanent basis or not. In the latter case, it functions during a specific period when installed at the request of shareholders who represent a minimum of 2% of the voting shares.

The São Martinho bylaws provide for a non-permanent Fiscal Council elected exclusively at the request of the company shareholders at a general meeting. Each period in which the fiscal council operates will end at the first Ordinary General Meeting after its installation.

The Fiscal Council's main responsibilities are to oversee management activities, review the company's financial statements and report its conclusions to the shareholders.

Corporation law requires that the members of the Fiscal Council receive remuneration of at least 10% of the average annual amount paid to company directors.

The Fiscal Council consists of three effective members and three alternates. The council may be installed in any situation provided for in corporation law. All members and alternates may be re-elected.

■ Jorge Michel Lepeltier -
Effective

■ José Roberto Martinez de Lima -
Effective

■ Marcos Ribeiro Barbosa -
Effective

■ Maurício Curvelo de Almeida Prado -
Alternate

■ Massao Fábio Oya -
Alternate

■ João Victor Guedes Santos -
Alternate

The São Martinho Group has three advisory committees, constituted by the Board of Directors and focused on key management areas. Their purpose is to provide support for decisions taken by the Board of Directors and to strengthen the company's corporate governance structure. Comprising board members and guest members, the committees provide opinions on questions within their respective areas of competence and prepare proposals to be put before the board.

TECHNOLOGICAL INNOVATION COMMITTEE

- To periodically review the direction the business is taking.
- To support the identification of new products /services that add greater value to the business.
- To support the board in identifying and developing alternative growth strategies.
- To monitor the development and growth of new businesses.

PERSONNEL MANAGEMENT COMMITTEE

- To oversee strategic personnel management planning.
- To determine short and long-term variable compensation policy (bonus linked with results and professional performance).
- To appraise executive performance

FINANCE, AUDIT AND RISK MANAGEMENT COMMITTEE

- To analyze and assess financial questions, to review quarterly and annual reports, and to review external audit proposals and fiscal planning.
- To analyze the risks associated with major investments and financial operations and any other risks that may affect the sustainability of the company.
- To ensure that best corporate governance practices are in place through the development of efficient processes and internal controls.
- To promote the development of a single management culture throughout the group, optimizing the risk/return ratio and the allocation of capital.



Risk Management

With the objective of anticipating potential threats to the Group's financial and operational performance, risk management in the São Martinho Group is oriented towards the long term, administering market risks through the use of financial instruments. The Risk Management area identifies new opportunities and ensures transparent communication about measures implemented and the level of risk to which the group's businesses are exposed. Working independently with full access to all company departments, the area reports directly to the Chairman and the Board of Directors.

The main risks reported to the Board of Directors were determined after detailed mapping of all group activities.

■ **Revenue:** prices are affected by changes in supply and demand conditions, as well as by economic, political and financial instability in Brazil. A reduction in the price of sugar or ethanol may adversely affect not only business related to these products, but also imply changes in the production mix. To mitigate this risk, São Martinho maintains a systematic pricing policy. The main objective of this strategy is to ensure the group's mission is achieved.

■ **Exchange rates:** since a significant portion of São Martinho revenues come from the overseas market and part of its liabilities are denominated in foreign currencies, the exchange rate is a key variable for company profitability. For this reason, the São Martinho Group's exchange policy is closely linked with its sugar pricing policy, taking into account all effects on revenues and liabilities in accordance with different scenarios involving the correlation between these variables.

■ **Financial leverage and liquidity:** the company is always extremely attentive to its indebtedness in relation to equity and to cash generation. For this reason it strives constantly to ensure both short and long-term solvency. To avoid being impacted by liquidity-related risks São Martinho maintains a debt profile that enables it to fully meet its current obligations while retaining equity and earnings expectations that ensure future sustainability. In parallel, the group makes sure that it has the necessary conditions to continue to invest in business growth.

The Risk Management area identifies opportunities and promotes transparent communication of the levels of risk company businesses are exposed to.

■ **Product transportation:** since sugar is a commodity, the speed with which the São Martinho Group transports its production may simultaneously represent an opportunity or a risk. Given that rail transportation is preferable due to its lower costs, São Martinho (in partnership with Rumo Logística) has a rail terminal in the São Martinho unit, guaranteeing a sugar transshipment capacity of up to 2 million metric tons a year.

However, the company is also aware that it should not be dependent on a single means of transportation, for which reason it also maintains strong road transportation capacity. Furthermore, the group sees investment in storage capacity as a key competitive advantage. Today this storage capacity corresponds to 60% of the group's sugar production and almost 70% of its ethanol production.

■ **Cane supply:** part of São Martinho's production depends on sugarcane bought from third-parties or harvested on the lands of agricultural partners. For this reason and due to climatic impacts which can affect crops, the company must always bear in mind the risk of not being able to obtain all the raw material supplies it requires. In this context, in addition to initiatives aimed at strengthening relations with suppliers, one way of mitigating risk is to exercise careful control over partnerships and purchase contracts, both in the medium and the long term, with constant monitoring to ensure the renovation of those on the point of expiring or the identification of alternative raw material sources.

■ **Availability of manpower:** business growth is linked intrinsically with the capacity to hire employees and to train the work force. For this reason, São Martinho always seeks to monitor its key positions and ensure that potential substitutes are in place. The Group also checks whether there are vacancies that need to be filled and which competencies need to be developed within the group so that employees will be prepared to meet requirements stemming from developments and advances in the business. This monitoring takes place at the level of technicians, analysts and managers.

The Risk Management area is also involved in compliance-related discussions, such as environmental or labor issues. Moreover, Risk Management participation is essential in controlling operational and asset-related risks, involving decisions such as investing in process improvement or contracting insurance.

Ethics

The São Martinho Group does business ethically and transparently. Since 2010, specific guidelines have been established via the company's Code of Ethics and Professional Conduct, with standards and principles that every member of the group is expected to follow, including employees, interns, apprentices, consultants, directors, members of the Board of Directors and the Fiscal Council, as well as the employees of third-party service providers.

Since 2011, there have been channels through which employees may report issues related to ethics and professional conduct and to make complaints, criticisms or recommendations. Reports may be made by telephone (0800 777 3131, toll-free

call), email (etica@saomartinho.com.br) or by post, in a closed envelope (Alameda Caiapós, 243, Barueri, CEP: 06460-110, São Paulo - SP). Since these channels are managed by a third-party, any reports may be made in full confidentiality.

The executive committees and working groups assess the information received and, when necessary, initiate an investigation and procedures to adopt appropriate measures.

The São Martinho Group also has its Anticorruption policy which sets forth procedures and guidance for preventing any attempts at corruption.

In the 2015/16 crop , no corruption-related law suits (public investigations, judicial actions or closed cases) were brought against the organization or its employees.

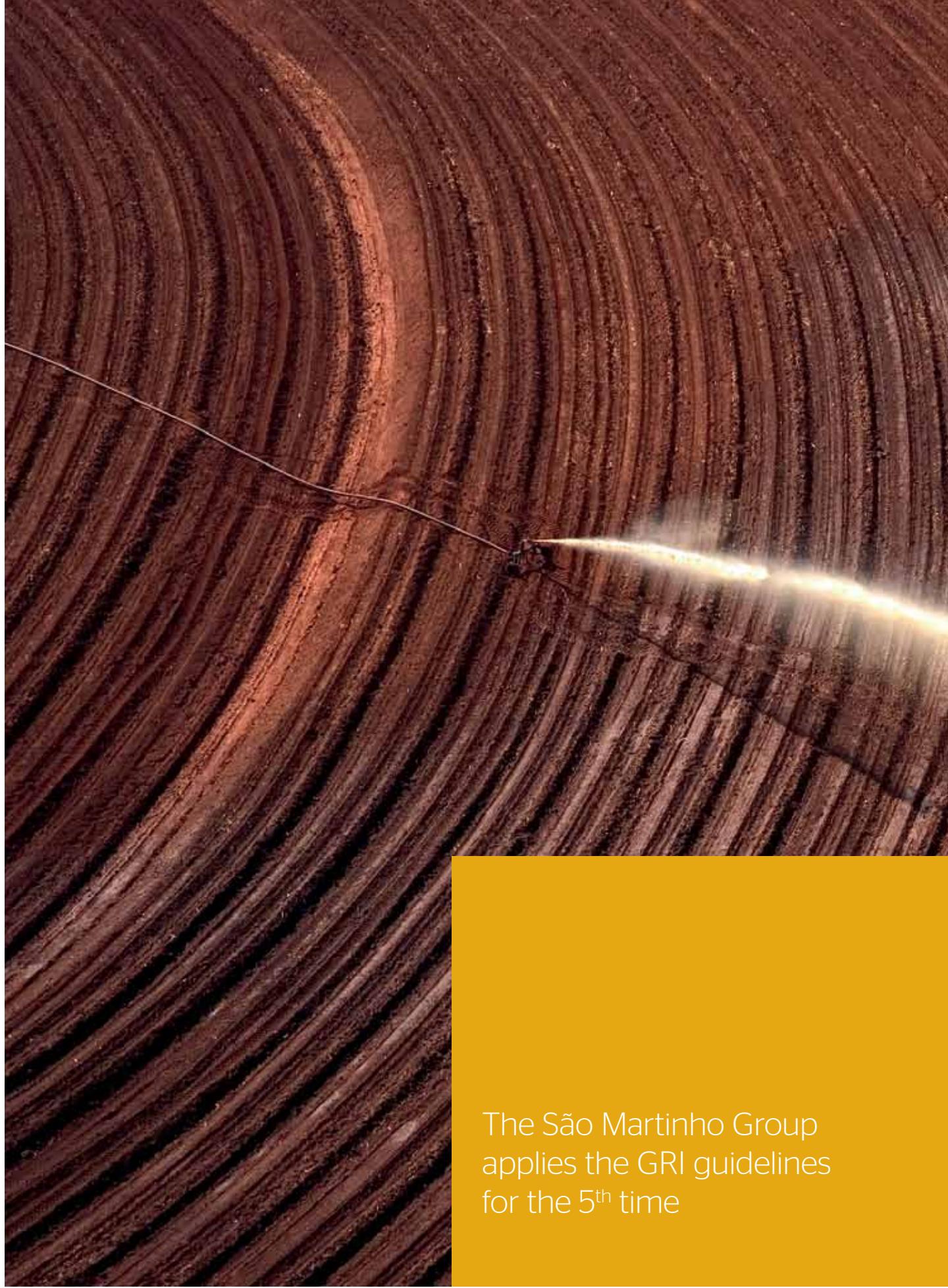
Integrity G4-SO3, G4-SO4

The São Martinho Group has a specific area dedicated to mitigating risks, including corruption related ones. This is the Internal Controls area, which maps risks, implements and monitors mitigation measures and controls with a view to preventing financial impacts and harm to the organization's image.

The mapping process enables the identification of non-conformances and improvement opportunities. Once these have been respectively addressed and implemented, they ensure process security. In parallel to the mapping exercise, audits are conducted on reports received via the Ethics Channel. According to the audit results appropriate actions are implemented to ensure compliance, security and transparency. In the 2015/16 crop, no corruption-related cases were reported or identified. This is a positive indicator which may be attributed to

the work done by the Internal Controls area, not to mention the contributions made by employees, who are guided by the company's Code of Ethics, its Anti-corruption policy and its Transactions with Related Parties and Conflict of Interest policy, among others. All group policies may be consulted via the group's website and intranet.

One of the key policies is the São Martinho Group Anti-corruption policy which was distributed to all employees and senior managers during the 2014/15 crop. Every new employee and supplier receives a copy of the anti-corruption policy upon induction. The objective is to establish procedures designed to prevent all forms of corruption and to provide guidance for the development of practices that assist in the prevention and elimination of corruption and attempts at corruption, reinforcing what is already set forth in the Code of Ethics and Professional Conduct.



The São Martinho Group
applies the GRI guidelines
for the 5th time

GRI

Summary

GENERAL CONTENT

Aspect	Description	Page/ response	External verification	Omission
Strategy and analysis	G4-1 Message from the CEO	4 and 9		
Organizational profile	G4-3 Name of the organization	4 and 82		
	G4-4 Primary brands, products and services	16		
	G4-5 Location of the organization's headquarters	12		
	G4-6 Countries in which the organization operates and in which its main operations or the ones most relevant in terms of the sustainability aspects addressed in the report are located	14		
	G4-7 Nature of ownership and legal form	59		
	G4-8 Markets in which the organization operates	14		
	G4-9 Scale of organization	7		
	G4-10 Employee profile	44 and 45		
	G4-11 Percentage of employees covered by collective bargaining agreements	All employees are covered by collective bargaining agreements. The group believes that collective labor agreements are fundamental for a balanced relationship between capital and labor. In the agreement negotiation processes, the demands presented by the unions and committees are discussed and evaluated until a consensus is reached on the best alternative. Additionally, all the agreements include clauses on consultation and negotiation to settle any doubts or divergences by means of new negotiations followed by their respective amendments.		
	G4-12 Description of organization's supply chain	52		
	G4-13 Significant changes during the reporting period regarding the organization's size, structure, ownership and supplier chain	7		
	G4-14 Description of whether and how the organization adopts the precautionary approach or principle	29		

Aspect	Description	Page/ response	External verification	Omission
	G4-15 List of social charters, principles, or other economic, environmental or social initiatives developed externally that the organization subscribes to or endorses	54-57		
	G4-16 Membership of associations and organizations	59		
Material aspects identified and boundaries	G4-17 List of all entities included in the organization's consolidated financial statements or equivalent documents	4		
	G4-18 Process for defining the report content	4		
	G4-19 List of material topics	4		
	G4-20 Boundary within the organization, for each material aspect	4		
	G4-21 Boundary outside the organization, for each material aspect	4		
	G4-22 Effects of any restatements of information provided in previous reports and reasons for such restatements	There were no significant restatements. Any modifications are described in the text.		
	G4-23 Significant changes in scope and boundaries of material aspects in relation to previous reports	4		
Stakeholder engagement	G4-24 List of stakeholder groups engaged by the organization	4		
	G4-25 Basis for identification and selection of stakeholders with whom to engage	4		
	G4-26 Approach to stakeholder engagement	4		
	G4-27 Key topics and concerns that have been raised through engagement, by stakeholder group	4		
Report profile	G4-28 Reporting period	4		
	G4-29 Date of most recent previous report	2014/2015		
	G4-30 Reporting cycle	Annual		
	G4-31 Contact point for questions regarding the report or its contents	82		
	G4-32 'In accordance' option for application of guidelines and location of GRI table	4		
Governance	G4-33 Current policy and practice with regard to seeking external assurance for the report	This report was not submitted to external verification.		
	G4-34 Organization's governance structure	63, 64, 65 and 66		
Ethics and integrity	G4-56 Values, principles, standards and norms of behavior in the organization	12		

SPECIFIC CONTENT

ECONOMIC CATEGORY

Aspect	Description	Page/ response	External verification	Omission
Economic performance	G4-DMA Management approach	24 and 25		
	G4-EC1 Direct economic value generated and distributed	24		
Market presence	G4-DMA Management approach	52		
	G4-EC6 Local hiring	52		
Indirect economic impacts	G4-DMA Management approach	46 and 52		
	G4-EC7 Development and impact of infrastructure investments and services supported	52		
	G4-EC8 Description and extension of significant indirect economic impacts	46		
Procurement practices	G4-DMA Management approach	53		
	G4-EC9 Policies, practices and proportion of spending on local suppliers	53		

ENVIRONMENTAL MANAGEMENT

Aspect	Description	Page/ response	External verification	Omission
Water	G4-DMA Management approach	32, 33 and 34		
	G4-EN8 Total water withdrawn by source	33		
	G4-EN9 Water sources significantly affected by water withdrawal	32		
	G4-EN10 Percentage and total volume of water recycled and reused	34		
Emissions	G4-DMA Management approach	38 and 39		
	G4-EN15 Direct greenhouse gas emissions	38 and 39		
	G4-EN16 Indirect greenhouse gas emissions from acquisition of energy	38 and 39		
	G4-EN17 Other indirect greenhouse gas emissions	38 and 39		
Effluents and waste	G4-DMA Management approach	33, 34, 36 and 37		
	G4-EN22 Total water discharge, discriminated by quality and destination	34		
	G4-EN23 Total weight of waste, discriminated by type and disposal method	36 and 37		

SOCIAL CATEGORY - LABOR PRACTICES AND DECENT WORK

Aspect	Description	Page/ response	External verification	Omission
Employment	G4-DMA Management approach	47, 48 and 50		
	G4-LA1 Total number of employees and admission rates of new employees and employee turnover by age group, gender and region	47 and 48		
	G4-LA2 Comparison of the benefits for full-time employees and temporary workers	50		
	G4-DMA Management approach	44, 45, 46 and 47		
Grievance and complaint mechanisms related to labor practices G4-LA16	Number of grievances and complaints related to labor practices filed by means of formal mechanism	From April 1, 2015 to March 31, 2016, 341 labor grievances were filed against São Martinho, of which all were addressed. During the same period, 411 labor complaints were resolved. It should be noted that the complaints resolved were not limited to the ones filed during the 2014/15 harvest. In this period, 333 claims related to previous crop years were finalized. Targets related to this indicator are being defined and possibilities for improvement include better personnel management practices, in particular behavioral training and the review of procedures.		

SOCIAL CATEGORY - HUMAN RIGHTS

Aspect	Description	Page/ response	External verification	Omission
Investments	G4-DMA Management approach	44, 45, 46 and 47		
	G4-HR2 Total number of hours training for employees in human rights policies and percentage of employees trained	During the 2015/2016 crop, 0.41% of the São Martinho Group employees were trained in human rights policies, totaling four hours of face to face training per employee, aimed specifically at managers. The program covered areas such as discrimination, psychological and sexual harassment, corporate governance and labor legislation in general (including admission, termination, contracts and collective bargaining, employment stability, principles of labor relations, non-material damage and workers' rights).		

SOCIAL CATEGORY - SOCIETY

Aspect	Description	Page/ response	External verification	Omission
Local communities	G4-DMA Management approach	54 to 57		
	G4-SO1 Percentage of operations with local community engagement, impact assessment and development programs implemented	54 to 57		
	G4-SO2 Operations with significant actual and potential negative impacts on local communities	40		
Anti-corruption	G4-DMA Management approach	69		
	G4-SO3 Operations assessed for corruption-related risks	69		
	G4-SO4 Percentage of employees trained in anti-corruption policies and procedures	69		
Public policies	G4-DMA Management approach	59		
	G4-SO6 Policy on financial contributions to political parties, politicians or institutions	No contributions were made to political parties in 2015/2016.		
Unfair competition	G4-DMA Management approach			
	G4-SO7 Total number of law suits brought against organization for unfair competition	The company has no law suits pending or finalized related to this question. It is not subject to this type of law suit, because its products are commodities whose prices are established by the market.		
Compliance	G4-DMA Management approach	52 and 53		
Screening of suppliers related to impacts on society	G4-DMA Management approach	52 and 53		
	G4-DMA Management approach	69		
Grievance and complaint mechanisms related to impacts on society	G4-SO11 Grievances related to impacts on society filed, addressed and resolved through formal mechanisms	During the 2015/2016 crop, the São Martinho Group received two complaints related to impacts on society. These were about company vehicles (sugarcane trucks) using urban perimeters. The two complaints were addressed and resolved during the year. The solutions included changing the truck routes to rural thoroughfares in order not to jeopardize town dwellers, as well as washing the roads to minimize dust.		

FINANCIAL STATEMENTS

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

	CPC 19			Pro forma		
	12M16	12M15	Chg. (%)	12M16	12M15	Chg. (%)
Gross Revenue	2,424,838	1,998,603	21.3%	2,837,663	2,398,740	18.3%
Deductions from Gross Revenue	(86,108)	(82,559)	4.3%	(110,245)	(104,758)	5.2%
Net Revenue	2,338,730	1,916,044	22.1%	2,727,418	2,293,982	18.9%
Cost of Goods Sold (COGS)	(1,714,882)	(1,370,538)	25.1%	(1,966,159)	(1,643,056)	19.7%
Gross Profit	623,848	545,506	14.4%	761,259	650,926	17.0%
Gross Margin (%)	26.7%	28.5%	- 1.8 p.p	27.9%	28.4%	- 0.5 p.p
Operating Expenses	(156,429)	(90,106)	73.6%	(254,309)	(149,420)	70.2%
Selling Expenses	(103,601)	(85,749)	20.8%	(109,145)	(94,218)	15.8%
General and Administrative Expenses	(136,687)	(144,447)	- 5.4%	(155,983)	(163,667)	- 4.7%
Equity Income	74,887	32,085	133.4%	456	545	- 16.3%
Other Operating Expenses, Net	8,972	108,005	- 91.7%	10,363	107,920	- 90.4%
'Operating Profit, Before Financial Effects	467,419	455,400	2.6%	506,950	501,506	1.1%
Financial Result, Net	(294,222)	(141,562)	107.8%	(320,232)	(181,121)	76.8%
Financial Revenues	105,139	84,825	23.9%	120,225	97,546	23.2%
Financial Expenses	(278,432)	(227,139)	22.6%	(311,272)	(266,105)	17.0%
Monetary and Exchange Variations - Net	(73,473)	(5,420)	n.m.	(78,264)	(23,402)	n.m.
Derivatives Results	(47,456)	6,172	n.m.	(50,921)	10,840	n.m.
Income (Loss) Before Income and Social Contribution Taxes	173,197	313,838	- 44.8%	186,718	320,385	- 41.7%
Income Tax and Social Contribution - Current	(26,130)	(19,953)	31.0%	(35,385)	(24,387)	45.1%
Income Tax and Social Contribution - Deferred	47,264	(5,568)	n.m.	42,998	(7,681)	n.m.
'Net Income (Loss) Before Minority Interest	194,331	288,317	- 32.6%	194,331	288,317	- 32.6%
'Minority Interest	-	(2,259)	n.m.	-	(2,259)	n.m.
Net Income	194,331	286,058	- 32.1%	194,331	286,058	- 32.1%
Net Margin (%)	8.3%	14.9%	- 6.6 p.p	7.1%	12.5%	- 5.3 p.p

FINANCIAL STATEMENTS

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

ASSETS	CPC 19		Pro-forma	
	mar/16	mar/15	mar/16	mar/15
SHORT-TERM ASSETS				
Cash and Cash Equivalents	266,659	1,020,112	267,315	1,126,517
Marketable Securities	706,487	-	839,127	-
Trade Receivables	86,419	156,317	116,965	168,031
Derivative Financial Instruments	145,701	221,797	145,701	222,226
Inventories	229,250	177,443	270,352	212,975
Taxes Recoverable	58,423	102,821	64,274	116,363
Income Tax and Social Contribution	113,758	64,633	119,781	68,718
Other Assets	15,548	6,476	17,066	7,661
TOTAL SHORT-TERM ASSETS	1,622,245	1,749,599	1,840,581	1,922,491
LONG-TERM ASSETS				
Long-term Receivables				
Marketable Securities	5,423	5,723	13,770	14,021
Inventories	62,309	49,607	71,030	72,288
Related Parties	1,000	34	-	34
Deferred Income Tax and Social Contribution	-	-	43,752	48,031
Derivative Financial Instruments	43,243	-	43,243	-
Trade Receivables	21,855	8,049	22,246	8,049
Trade Receivables from Copersucar	6,324	1,669	6,772	1,784
Taxes Recoverable	110,195	75,860	119,525	87,127
Judicial Deposits	30,300	27,927	32,257	29,553
Other Assets	498	518	498	518
TOTAL LONG-TERM ASSETS	281,147	169,387	353,093	261,405
Investments	509,951	429,780	25,629	20,902
Biological Assets	1,072,806	936,241	1,248,209	1,116,783
Property, plant and equipment	3,409,555	3,383,376	3,801,118	3,796,775
Intangible Assets	489,557	500,541	489,639	500,676
TOTAL ASSETS	7,385,261	7,168,924	7,758,269	7,619,032

FINANCIAL STATEMENTS

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

LIABILITIES AND SHAREHOLDERS' EQUITY	CPC 19		Pro forma	
	mar/16	mar/15	mar/16	mar/15
SHORT-TERM LIABILITIES				
Borrowings	670,559	872,419	776,532	978,828
Derivative Financial Instruments	196,664	232,711	197,238	232,711
Trade Payables	113,907	95,476	137,711	115,727
Payables to Copersucar	21,875	2,040	23,188	2,300
Salaries and Social Contributions	98,231	84,373	110,252	95,953
Taxes Payable	15,570	13,235	19,615	14,531
Income Tax and Social Contribution	916	1,511	916	1,540
Dividends Payable	53,164	67,939	53,164	67,939
Advances from Customers	1,298	3,197	1,606	4,321
Aquisition of Investment	17,937	17,507	17,937	17,507
Other Liabilities	26,591	29,484	32,099	34,079
TOTAL SHORT-TERM LIABILITIES	1,216,712	1,419,892	1,370,258	1,565,436
LONG-TERM LIABILITIES				
Borrowings	2,836,628	2,367,660	3,048,948	2,634,773
Derivative Financial Instruments	65,625	-	65,625	-
Payables to Copersucar	237,166	279,584	247,862	292,945
Taxes Payable in Installments	15,419	16,267	17,878	16,267
Deferred Income Tax and Social Contribution	232,774	323,811	233,015	324,064
Provision for Contingencies	60,643	55,430	64,383	58,702
Aquisition of Investment	61,750	78,815	61,750	78,815
Advances for future capital increase	-	-	-	31,492
Other Liabilities	10,179	11,380	185	453
TOTAL LONG-TERM LIABILITIES	3,520,184	3,132,947	3,739,646	3,437,511
MINORITY INTEREST				
SHAREHOLDERS' EQUITY				
Share Capital	931,340	812,992	931,340	812,992
Capital Reserves	10,531	9,119	10,531	9,119
Treasury Shares	(26,613)	(7,375)	(26,613)	(7,375)
Stock options granted	4,753	5,079	4,753	5,079
Adjustments to Book Value	1,295,698	1,405,708	1,295,698	1,405,708
Profit Reserves	432,656	390,562	432,656	390,562
TOTAL SHAREHOLDERS' EQUITY	2,648,365	2,616,085	2,648,365	2,616,085
TOTAL ASSET	7,385,261	7,168,924	7,758,269	7,619,032

FINANCIAL STATEMENTS

SÃO MARTINHO S.A - CASH FLOWS
(R\$ Thousand)

	CPC 19		Pro forma	
	12M16	12M15	12M16	12M15
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income in the period	194,331	288,317	194,331	288,317
Adjustments				
Depreciation and amortization	224,429	197,138	260,328	233,276
Harvested biological assets (depreciation)	385,297	277,709	475,628	365,684
Variation in fair value of biological assets	(32,950)	31,029	(40,816)	29,520
Amortization of intangible assets	9,937	10,358	9,937	10,824
Equity Income	(74,887)	(32,085)	(456)	(545)
Interest, monetary and foreign exchange variations, net	(3,531)	(7,055)	(3,531)	(7,235)
Result of investment and property, plant and equipment disposals	1,455	162	1,595	(518)
Interest, monetary and foreign exchange variations, net	318,273	202,541	352,835	256,287
Derivatives Financial Instruments	144,307	89,921	147,773	84,136
Constitution of provision for contingencies, net	12,796	14,162	16,469	16,385
Deferred income tax and social contribution	(47,264)	5,568	(42,998)	7,681
Adjustments to present value and others	3,758	(14,707)	3,217	(13,613)
Income (loss) from ownership diversment	(2,027)	(79,717)	(2,027)	(79,717)
	1,133,924	983,341	1,372,285	1,190,482
Changes in assets and liabilities				
Trade receivables	37,820	(72,927)	15,475	(68,256)
Inventories	(82,737)	44,780	(80,263)	26,178
Taxes recoverable	(30,245)	(38,226)	(23,312)	(36,751)
Derivatives Financial Instruments	(82,586)	42,642	(85,048)	45,821
Marketable Securities	963	118	1,948	181
Other assets	(9,152)	25,885	(9,694)	25,877
Trade payables	18,913	(12,411)	24,085	(1,804)
Salaries and social charges	13,858	1,945	14,300	4,412
Taxes payable	3,332	14,285	5,407	12,752
Obligations with Copersucar	(36,302)	13,742	(38,962)	14,724
Taxes payable in installments	(2,012)	(30,179)	(1,579)	(30,151)
Provision for contingencies - settlements	(17,595)	(28,699)	(21,270)	(32,168)
Other liabilities	(2,931)	937	(2,836)	(1,047)
Cash provided by operations	945,250	945,233	1,170,536	1,150,250
Interest paid	(188,616)	(132,415)	(213,279)	(168,076)
Income tax and social contribution paid	(6,991)	(5,967)	(7,032)	(6,060)
Net cash provided by operating activities	749,643	806,851	950,225	976,114

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FINANCIAL STATEMENTS

CONTINUATION »

SÃO MARTINHO S.A - CASH FLOWS

(R\$ Thousand)

	CPC 19		Pro forma	
	12M16	12M15	12M16	12M15
CASH FLOW FROM FINANCING ACTIVITIES				
Financial resources used in investments	(28,449)	(71,363)	(28,467)	(71,363)
Increased acquisition in ownership	-	44,860	(78)	25,273
Additions to property, plant and equipments, intangible assets and deferred charges	(279,483)	(285,323)	(324,675)	(342,124)
Additions to biological assets (planting and crop treatment)	(449,437)	(384,274)	(518,445)	(476,217)
Marketable Securities	(706,487)	-	(839,128)	-
Proceeds from sale of property, plant and equipment	12,333	3,356	12,771	4,858
Advance for future capital increase	(1,000)	-	-	(32)
Dividends received	-	3,127	-	443
Net cash used in investing activities	(1,452,523)	(689,617)	(1,698,022)	(859,162)
CASH FLOW FROM FINANCING ACTIVITIES				
New borrowing - third parties	1,023,010	1,380,818	1,064,514	1,538,259
Repayment of borrowing - third parties	(984,368)	(991,355)	(1,086,920)	(1,164,864)
Advance for future capital increase	-	-	216	689
Purchase of treasury shares	(31,904)	-	(31,904)	-
Sale of treasury shares	10,627	5,145	10,627	5,145
Payment of dividends	(67,938)	(43,089)	(67,938)	(40,405)
Net cash provided by financing activities	(50,573)	351,519	(111,405)	338,824
Increase (decrease) in cash and cash equivalents	(753,453)	468,753	(859,202)	455,776
Cash and cash equivalents at the beginning of the period	1,020,112	551,359	1,126,517	670,741
Cash and cash equivalents at the end of the period	266,659	1,020,112	267,315	1,126,517



CREDITS

G4-3; G4-4; G4-31

PROJECT COORDINATION

Daniele Galina Alvarez

Ive Caroline Pereira Zonfrile

Corporate Communication and Sustainability

CONTACTS

São Martinho S.A.

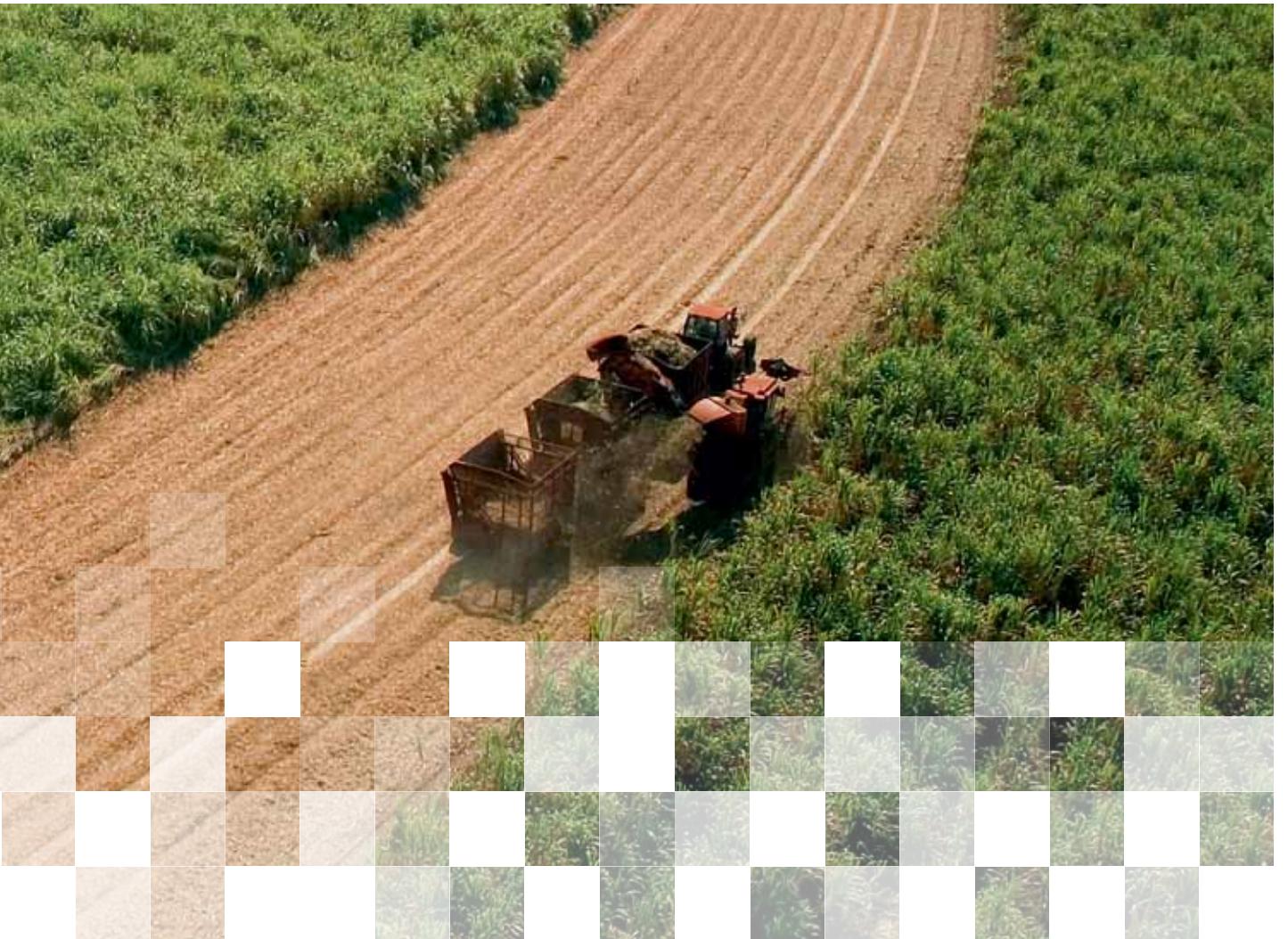
www.saomartinho.com.br

Address: Fazenda São Martinho, sem número.

Pradópolis, SP - CEP 14850-000

email: comunicacoes@saomartinho.com.br

Telephone: (11) 2105-4100



SUSTAINABILITY CONSULTING
Report Sustentabilidade

TEXT AND EDITING
Report Sustentabilidade

GRAPHIC DESIGN AND LAYOUT
Report Sustentabilidade

TRANSLATION TO ENGLISH
Raymond Maddock

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