# Quarterly Information (ITR) at June 30, 2018 and independent auditor's review report on quarterly information

**INDEPENDENT AUDITOR'S REVIEW REPORT ON QUARTERLY INFORMATION**

The
Board of Directors and Officers of
São Martinho S.A.
Pradópolis - SP

**Introduction**

We have reviewed the individual and consolidated interim accounting information contained in the Quarterly Information Form (ITR) of São Martinho S.A. for the quarter ended June 30, 2018, which comprise the balance sheet as of June 30, 2018, the related statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended, including explanatory notes.

Management is responsible for the preparation of the individual accounting information in accordance with CPC 21 (R1) - Interim Financial Reporting, and consolidated interim financial information in accordance with IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the fair presentation of this information in conformity with the standards issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim accounting information based on our review.

**Scope of review**

We conducted our review in accordance with Brazilian and International Standards on Review Engagements (NBC TR 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim accounting information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion of individual and consolidated interim financial information**

Based on our review, nothing has come to our attention that causes us to believe that the individual and consolidated interim accounting information included in the quarterly information referred to above is not fairly presented, in all material respects, in accordance with CPC 21 (R1) and IAS 34 applicable to the preparation of the Quarterly Information (ITR), and presented consistently with the standards issued by the Brazilian Securities and Exchange Commission (CVM).

**Other matters**

**Statements of value added**

We also reviewed the individual and consolidated statements of value added for the three-month period ended June 30, 2018, prepared under the responsibility of Company's management, whose presentation in the interim accounting information is required by the standards issued by the CVM applicable to preparation of Quarterly Information (ITR) and considered supplementary information under IFRS, whereby no statement of value added presentation is required. These statements were submitted to the same review procedures previously described and, based on our review, we are not aware of any fact that would make us believe that they were not prepared, in all material respects, in accordance with the overall individual and consolidated interim accounting information.

Campinas, August 13, 2018

ERNST & YOUNG
Auditores Independentes S.S.
CRC 2SP034519/O-6

José Antonio de A. Navarrete
Accountant CRC 1SP198698/O-4

# Statement of financial position
# At June 30 and March 31, 2018
## In thousands of reais

| ASSETS | Note | Company June 30, 2018 | Company March 31, 2018 | Consolidated June 30, 2018 | Consolidated March 31, 2018 |
|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 5 | 312,576 | 139,622 | 313,808 | 140,865 |
| Short-term investments | 5 | 1,157,507 | 953,900 | 1,255,489 | 1,320,851 |
| Trade accounts receivable | 6 | 186,009 | 66,813 | 215,030 | 177,893 |
| Derivative financial instruments | 22 | 63,959 | 66,345 | 63,959 | 69,173 |
| Inventories and advances to suppliers | 7 | 733,261 | 260,209 | 727,079 | 334,654 |
| Biological assets | 11 | 572,720 | 419,732 | 572,720 | 581,725 |
| Taxes recoverable | 8 | 22,812 | 23,802 | 23,761 | 36,093 |
| Income and social contribution taxes (IRPJ and CSLL) | 19 | 21,483 | 5,795 | 21,483 | 9,687 |
| Dividends receivable | 9 | 3,211 | 3,211 | - | - |
| Other assets | | 22,331 | 16,654 | 19,204 | 16,917 |
| TOTAL CURRENT ASSETS | | 3,095,869 | 1,956,083 | 3,212,533 | 2,687,858 |
| NONCURRENT ASSETS | | | | | |
| Short-term investments | 5 | 42,752 | 24,591 | 46,328 | 50,669 |
| Inventories and advances to suppliers | 7 | 125,291 | 88,430 | 125,291 | 111,135 |
| Transactions with related parties | 9 | 3,193 | 6,527 | 2,500 | 5,834 |
| Derivative financial instruments | 22 | 2,571 | 3,617 | 2,571 | 3,617 |
| Trade accounts receivable | 6 | - | - | 25,507 | 24,869 |
| Receivables from Copersucar | | 9,355 | 9,355 | 9,355 | 9,355 |
| Taxes recoverable | 8 | 123,926 | 111,677 | 123,926 | 122,200 |
| Income and social contribution taxes (IRPJ and CSLL) | 19 | 115,805 | 117,442 | 115,805 | 117,442 |
| Judicial deposits | 21 | 27,216 | 24,150 | 27,390 | 28,673 |
| Other assets | | 439 | 439 | 439 | 439 |
| | | 450,548 | 386,228 | 479,112 | 474,233 |
| Investments | 10 | 1,388,487 | 2,704,518 | 32,007 | 32,552 |
| Property, plant and equipment | 12 | 3,651,328 | 2,679,114 | 5,319,715 | 5,449,912 |
| Intangible assets | 13 | 397,770 | 399,008 | 463,247 | 470,157 |
| | | 5,437,585 | 5,782,640 | 5,814,969 | 5,952,621 |
| TOTAL NONCURRENT ASSETS | | 5,888,133 | 6,168,868 | 6,294,081 | 6,426,854 |
| TOTAL ASSETS | | 8,984,002 | 8,124,951 | 9,506,614 | 9,114,712 |

| LIABILITIES AND EQUITY | Note | Company June 30, 2018 | Company March 31, 2018 | Consolidated June 30, 2018 | Consolidated March 31, 2018 |
|---|---|---|---|---|---|
| CURRENT LIABILITIES | | | | | |
| Borrowings | 14 | 402,733 | 574,569 | 406,281 | 686,630 |
| Derivative financial instruments | 22 | 63,307 | 8,862 | 63,307 | 8,862 |
| Trade accounts payable | 15 | 245,740 | 111,893 | 234,734 | 154,146 |
| Payables to Copersucar | 16 | 8,583 | 8,583 | 8,583 | 8,583 |
| Salaries and social charges | | 190,879 | 109,711 | 191,821 | 137,155 |
| Taxes payable | | 23,129 | 9,289 | 25,698 | 16,877 |
| Income and social contribution taxes (IRPJ and CSLL) | 19 | - | - | 5,637 | 4,167 |
| Dividends payable | | 148,341 | 148,341 | 148,341 | 148,341 |
| Advances from customers | | 2,116 | 14,526 | 2,116 | 16,406 |
| Acquisition of ownership interests | 9 e 30 | 11,743 | 11,746 | 11,743 | 11,746 |
| Other liabilities | | 6,273 | 18,693 | 9,484 | 28,287 |
| TOTAL CURRENT LIABILITIES | | 1,102,844 | 1,016,213 | 1,107,745 | 1,221,200 |
| NONCURRENT LIABILITIES | | | | | |
| Borrowings | 14 | 3,801,841 | 3,045,999 | 3,810,549 | 3,238,267 |
| Derivative financial instruments | 22 | 8,665 | 930 | 8,665 | 930 |
| Payables to Copersucar | 16 | 201,166 | 201,787 | 201,166 | 201,787 |
| Taxes in installments | | 2,558 | 2,656 | 2,558 | 2,656 |
| Deferred income and social contribution taxes | 19 | 484,335 | 444,443 | 992,925 | 1,007,923 |
| Provision for contingencies | 21 | 99,375 | 70,096 | 99,788 | 99,122 |
| Acquisition of ownership interests | 9 e 30 | 38,510 | 38,510 | 38,510 | 38,510 |
| Other liabilities | 10 | 11,181 | 14,542 | 11,181 | 14,542 |
| TOTAL NONCURRENT LIABILITIES | | 4,647,631 | 3,818,963 | 5,165,342 | 4,603,737 |
| EQUITY | 17 | | | | |
| Capital | | 1,549,302 | 1,549,302 | 1,549,302 | 1,549,302 |
| Capital reserve | | 9,418 | 9,418 | 9,418 | 9,418 |
| Treasury shares | | (234,100) | (234,100) | (234,100) | (234,100) |
| Stock options granted | | - | 11,578 | - | 11,578 |
| Equity adjustments | | 969,261 | 1,120,319 | 969,261 | 1,120,319 |
| Income reserves | | 850,894 | 833,258 | 850,894 | 833,258 |
| Retained earnings | | 88,752 | - | 88,752 | - |
| TOTAL EQUITY | | 3,233,527 | 3,289,775 | 3,233,527 | 3,289,775 |
| TOTAL LIABILITIES AND EQUITY | | 8,984,002 | 8,124,951 | 9,506,614 | 9,114,712 |

**See accompanying notes.**

São Martinho

# Statement of income
## Periods ending at June 30, 2018 and 2017
### In thousands of reais

| | | Company | | Consolitaded | |
|---|---|---|---|---|---|
| | Note | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Revenues | 25 | 726,105 | 659,286 | 757,184 | 812,266 |
| Cost of sales | 26 | (507,382) | (474,484) | (500,153) | (536,880) |
| Gross profit | | 218,723 | 184,802 | 257,031 | 275,386 |
| Operating income (expenses) | | | | | |
| Selling expenses | 26 | (23,268) | (26,518) | (23,830) | (29,014) |
| General and administrative expenses | 26 | (43,304) | (37,546) | (44,202) | (44,966) |
| Equity pickup in subsidiaries | 10 | 37,928 | 62,353 | (849) | (1,892) |
| Other revenues, net | | 3,773 | (486) | 4,251 | 684 |
| | | (24,871) | (2,197) | (64,630) | (75,188) |
| Operating income | | 193,852 | 182,605 | 192,401 | 200,198 |
| Finance income (costs) | 27 | | | | |
| Finance income | | 23,302 | 33,216 | 27,139 | 44,794 |
| Finance costs | | (78,329) | (82,335) | (78,571) | (94,940) |
| Monetary variations and foreign exchange differences, net | | 28,752 | 4,818 | 28,752 | 2,519 |
| Derivatives | | (15,896) | 8,340 | (15,896) | 8,340 |
| | | (42,171) | (35,961) | (38,576) | (39,287) |
| Income before income and social contribution taxes | | 151,681 | 146,644 | 153,825 | 160,911 |
| Income and social contribution taxes (IRPJ and CSLL) | 19(b) | | | | |
| Current | | 15,888 | (18,614) | 13,299 | (20,905) |
| Deferred | | (63,610) | (11,157) | (63,165) | (23,133) |
| Net income for the period | | 103,959 | 116,873 | 103,959 | 116,873 |
| Basic earnings per share (in reais) | 28 | 0.3181 | 0.3493 | 0.3181 | 0.3493 |
| Diluted earnings per share (in reais) | 28 | 0.3181 | 0.3484 | 0.3181 | 0.3484 |

**See accompanying notes.**

## Statements of comprehensive income
## Periods ending at June 30, 2018 and 2017
### In thousands of reais

| Company and Consolidated | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Net income for the period | 103,959 | 116,873 |
| Items that will be reclassified subsequently to P&L | | |
| Changes for the period: | | |
| Changes in fair value | | |
| Commodity derivatives - Futures, options and forward contracts | 29,483 | 93,810 |
| Foreign exchange derivatives - Options / NDF | (69,045) | (27,716) |
| Foreign exchange differences on borrowing agreements (Trade Finance) | (167,252) | (57,374) |
| | (206,814) | 8,720 |
| Recognition in operating income | | |
| Commodity derivatives - Futures, options and forward contracts | (34,541) | (56,460) |
| Foreign exchange derivatives - Options / NDF | 6,794 | (32,883) |
| Foreign exchange differences on borrowing agreements (Trade Finance) | 10,305 | 52,220 |
| | (17,442) | (37,123) |
| Write-off due to ineffectiveness | | |
| Commodity derivatives - Futures, options and forward contracts | - | 51 |
| Foreign exchange derivatives - Options / NDF | - | 654 |
| Foreign exchange differences on borrowing agreements (Trade Finance) | - | (3,165) |
| | - | (2,460) |
| Total changes for the year | | |
| Commodity derivatives - Futures, options and forward contracts | (5,058) | 37,401 |
| Foreign exchange derivatives - Options / NDF | (62,251) | (59,945) |
| Foreign exchange differences on borrowing agreements (Trade Finance) | (156,947) | (8,319) |
| Deferred taxes on the items above | 76,247 | 10,492 |
| | (148,009) | (20,371) |
| Comprehensive income for the period | (44,050) | 96,502 |

**See accompanying notes.**

# Statement of changes in equity in periods ending at June 30, 2018 and 2017
# In thousands of reais

| | | | | | | | Equity adjustments | | | Income reserve | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | *Deemed cost* | | | | | | | | | |
| | Note | Capital | Capital reduction | Capital reserve | Treasury shares | Options granted | Own | Of investees | *Hedge accounting* | Legal | Capital budget | Unrealized income reserve | Tax incentive reserve | Additional dividends | Retained earnings | Total |
| Balance at March 31, 2017 | | 1,494,334 | (55,662) | 10,057 | (92,134) | 8,284 | 198,331 | 1,286,252 | (52,340) | 70,140 | 257,984 | 78,515 | 173,801 | 25,758 | - | 3,403,320 |
| Realization of deemed cost surplus | 17 (c) | - | - | - | - | - | (3,255) | (170) | - | - | - | - | - | - | 3,425 | - |
| Deferred tax set up/in subsidiary | 19 (b) | - | - | - | - | - | - | (286,324) | - | - | - | - | - | - | - | (286,324) |
| Gain (loss) on derivative transactions - hedge accounting | 17 (c) | - | - | - | - | - | - | - | (20,371) | - | - | - | - | - | - | (20,371) |
| Stock options granted | 17 (f) | - | - | - | - | 1,112 | - | - | - | - | - | - | - | - | - | 1,112 |
| Net income for the period | | - | - | - | - | - | - | - | - | - | - | - | - | - | 116,873 | 116,873 |
| At June 30, 2017 | 17 | 1,494,334 | (55,662) | 10,057 | (92,134) | 9,396 | 195,076 | 999,758 | (72,711) | 70,140 | 257,984 | 78,515 | 173,801 | 25,758 | 120,298 | 3,214,610 |
| Balance at March 31, 2018 | 17 | 1,549,302 | - | 9,418 | (234,100) | 11,578 | 185,691 | 992,484 | (57,856) | 94,725 | 411,441 | 46,954 | 248,479 | 31,659 | - | 3,289,775 |
| Realization of deemed cost surplus | 17 (c) | - | - | - | - | - | (2,854) | (195) | - | - | - | - | - | - | 3,049 | - |
| Initial Adoption CPC 48 of investees | | - | - | - | - | - | - | - | - | - | - | - | - | - | (620) | (620) |
| Set up of tax incentive reserve | | - | - | - | - | - | - | - | - | - | - | - | 17,636 | - | (17,636) | - |
| Gain (loss) on derivative transactions - hedge accounting | 17 (c) | - | - | - | - | - | - | - | (148,009) | - | - | - | - | - | - | (148,009) |
| Change Options Plan | 17 (f) | - | - | - | - | (11,578) | - | - | - | - | - | - | - | - | - | (11,578) |
| Net income for the period | | - | - | - | - | - | - | - | - | - | - | - | - | - | 103,959 | 103,959 |
| At June 30, 2018 | 17 | 1,549,302 | - | 9,418 | (234,100) | - | 182,837 | 992,289 | (205,865) | 94,725 | 411,441 | 46,954 | 266,115 | 31,659 | 88,752 | 3,233,527 |

**See accompanying notes.**



São Martinho

# Statement of cash flows
# Periods ending at June 30, 2018 and 2017
# In thousands of reais

| | Note | Company | | Consolidated | |
|---|---|---|---|---|---|
| | | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Cash flow from operating activities | | | | | |
| Net income for the period | | 103,959 | 116,873 | 103,959 | 116,873 |
| Adjustments | | | | | |
| Depreciation and amortization | 26 | 69,778 | 61,803 | 70,894 | 80,341 |
| Biological assets harvested | 26 | 128,695 | 97,946 | 128,695 | 121,714 |
| Change in fair value of biological assets | 26 | (5,431) | 28,162 | (5,431) | 15,539 |
| Amortization of intangible assets | | - | 219 | - | 219 |
| Amortization of energy contracts | | - | - | 3,677 | 3,290 |
| Equity pickup in subsidiaries | 10 | (37,928) | (62,353) | 849 | 1,892 |
| Income (loss) from investment and PPE written off | 12 | 1,908 | 162 | 1,908 | 141 |
| Interest, monetary variations and foreign exchange differences, net | | 43,265 | 44,290 | 41,182 | 47,407 |
| Derivative financial instruments | | (1,547) | (45,464) | (1,547) | (45,464) |
| Setup of provision for contingencies, net | 21.1 | 2,149 | 2,920 | 2,149 | 2,992 |
| Income and social contribution taxes (IRPJ and CSLL) | 19 (b) | 47,722 | 29,771 | 49,866 | 44,038 |
| Present value adjustment and other | | 6,890 | 1,943 | 5,925 | 1,373 |
| | | 359,460 | 276,272 | 402,126 | 390,355 |
| Changes in assets and liabilities | | | | | |
| Trade accounts receivable | | (15,371) | (78,024) | (30,726) | (130,671) |
| Inventories | | (267,448) | (160,972) | (255,446) | (215,604) |
| Taxes recoverable | | 2,609 | 4,697 | 2,603 | (2,972) |
| Derivative financial instruments | | 12,981 | 71,244 | 12,981 | 71,244 |
| Other assets | | (626) | (6,712) | (473) | (6,699) |
| Trade accounts payable | | 86,192 | 101,047 | 86,735 | 88,079 |
| Salaries and social contributions | | 36,590 | 31,859 | 36,814 | 39,329 |
| Taxes payable | | 23,705 | (19,364) | 24,464 | (19,531) |
| Payables to Copersucar | | (3,302) | (3,163) | (3,302) | (3,163) |
| Taxes in installments | | (105) | (638) | (105) | (606) |
| Provision for contingencies - settlements | 21.1 | (4,171) | (3,716) | (4,171) | (8,256) |
| Other liabilities | | (30,002) | (4) | (33,094) | 1,557 |
| Cash from operating activities | | 200,512 | 212,526 | 238,406 | 203,062 |
| Payment of interest borrowings | 14 | (60,832) | (54,429) | (61,051) | (76,224) |
| Income and social contribution taxes paid | | - | - | (872) | (1,731) |
| Net cash provided by operating activities | | 139,680 | 158,097 | 176,483 | 125,107 |
| Cash flow from investing activities | | | | | |
| Investment of funds | 31 | (781) | (1,661) | (781) | (2,361) |
| Additions to PPE and intangible assets | | (43,478) | (26,248) | (45,409) | (44,244) |
| Additions to PPE (planting and cultivation) | 11 e 12 | (166,484) | (115,555) | (166,484) | (152,257) |
| Short-term investments | | 121,869 | (437,007) | 88,020 | (195,944) |
| Funds from the sale of PPE | 12 | 1,569 | 281 | 1,569 | 1,058 |
| Cash and cash equivalents of subsidiary | | 156 | - | - | - |
| Future capital contribution | | (333) | (1,682) | (333) | (1,000) |
| Net cash used in investing activities | | (87,482) | (581,872) | (123,418) | (394,748) |
| Cash flow from financing activities | | | | | |
| Financing taken out from third parties | 14 | 981,355 | 800,721 | 981,355 | 825,461 |
| Amortization of financing - third parties | 14 | (860,599) | (441,197) | (861,477) | (618,488) |
| Net cash from financing activities | | 120,756 | 359,524 | 119,878 | 206,973 |
| Net decrease in cash and cash equivalents | | 172,954 | (64,251) | 172,943 | (62,668) |
| Cash and cash equivalents at beginning of period | 5 | 139,622 | 142,020 | 140,865 | 142,454 |
| Cash and cash equivalents at end of period | 5 | 312,576 | 77,769 | 313,808 | 79,786 |
| Additional information | | | | | |
| Balances in short-term investments | 5 | 1,157,507 | 1,009,767 | 1,255,489 | 1,259,991 |
| Total available funds | 5 | 1,470,083 | 1,087,536 | 1,569,297 | 1,339,777 |

**See accompanying notes.**

# Statement of value addes
# Periods ending at June 30, 2018 and 2017
# In thousands of reais

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Revenues | | | | |
| Gross sales of goods and products | 797,785 | 683,148 | 824,611 | 848,306 |
| Revenue related to construction of own assets | 164,055 | 117,555 | 164,055 | 154,864 |
| Other revenues | 10,537 | 668 | 10,985 | 1,135 |
| | 972,377 | 801,371 | 999,651 | 1,004,305 |
| Inputs acquired from third parties | | | | |
| Costs of sales | (248,908) | (241,180) | (228,367) | (252,769) |
| Materials, energy, third-party services and other operating expenses | (178,833) | (132,608) | (186,276) | (160,115) |
| | (427,741) | (373,788) | (414,643) | (412,884) |
| Gross value added | 544,636 | 427,583 | 585,008 | 591,421 |
| Depreciation and amortization | (69,778) | (61,803) | (70,894) | (80,341) |
| Biological assets harvested | (128,695) | (97,946) | (128,695) | (121,714) |
| Net value added produced by the entity | 346,163 | 267,834 | 385,419 | 389,366 |
| Value added received in transfer | | | | |
| Equity pickup in subsidiaries | 37,928 | 62,353 | (849) | (1,892) |
| Finance income | 55,969 | 65,367 | 59,798 | 77,432 |
| Other | (20) | (831) | 12 | (109) |
| Total value added to be distributed | 440,040 | 394,723 | 444,380 | 464,797 |
| Distribution of value added | | | | |
| Personnel and charges | | | | |
| Direct compensation | 111,053 | 93,358 | 111,103 | 112,947 |
| Benefits | 35,040 | 29,204 | 35,236 | 34,470 |
| Unemployment Compensation Fund (FGTS) | 10,282 | 9,847 | 10,286 | 11,669 |
| Management compensation | 10,008 | 4,660 | 10,280 | 5,080 |
| Taxes, charges and contributions | | | | |
| Federal | 67,418 | 40,036 | 70,858 | 67,207 |
| State | 4,930 | 633 | 5,057 | 1,433 |
| Municipal | 483 | 268 | 483 | 314 |
| Creditors | | | | |
| Interest | 70,632 | 73,524 | 70,856 | 85,743 |
| Leases | 615 | 652 | 615 | 728 |
| Foreign exchange differences | 2,680 | 10,556 | 2,680 | 12,855 |
| Other | 22,940 | 15,112 | 22,967 | 15,478 |
| Retained profits for the period | 103,959 | 116,873 | 103,959 | 116,873 |
| Value added distributed | 440,040 | 394,723 | 444,380 | 464,797 |

See accompanying notes.

## 1. Operations

São Martinho S.A. (the "Company" or "Parent Company") is a listed corporation headquartered in Pradópolis, State of São Paulo, registered with the B3 S.A – Bolsa, Brasil, Balcão. The Company, its subsidiaries and jointly-controlled subsidiaries (together, the "São Martinho") are primarily engaged in planting sugarcane and producing and selling sugar, ethanol and other sugarcane byproducts; cogenerating electricity; development of real estate ventures; agricultural production; import and export of goods, products and raw materials, and investment in other companies.

Approximately 70% of the sugarcane used in the production of the goods derives from the Company's own plantations, from shareholders, related companies and agricultural partnerships, and the remaining 30% from third-party suppliers. Sugar alcohol business is subject to seasonal trends based on the sugarcane growing cycle in the South and Central region of Brazil. The annual sugarcane crop period in the South and Central region of Brazil typically begins in April and ends in December. This creates fluctuations in the Company's inventories. Raw material supply can suffer from the impact of adverse climate conditions. Sugarcane requires an 18-month period for maturing and for the beginning of the harvest. The harvest generally takes place between April and December, which is also the period when sugar and ethanol are produced and electricity is cogenerated.

The Company is a subsidiary of the holding company LJN Participações S.A. ("LJN"), which holds controlling interest of 52.26% in its voting capital. In turn, the owners of LJN are the following family holding companies: Luiz Ometto Participações S.A., João Ometto Participações S.A. and Nelson Ometto Participações Ltda.

As detailed in note 10.2, at the Extraordinary General Meeting held on April 2, 2018, the incorporation of Usina Boa Vista SA ("UBV") was approved. Therefore, the comparability of the results of the current period with the same prior period of the Subsidiary, is significantly affected.

Issue of this interim financial information was approved by the Company's Board of Directors on August 13, 2018.

## 2. Summary of significant accounting practices

### 2.1 Statement of compliance and basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial

Reporting Interpretations Committee ("IFRIC"), implemented in Brazil by the Brazilian Financial Accounting Standards Board ("CPC") and CPC technical interpretations ("ICPCs") and guidance ("OCPCs") approved by the Brazilian SEC ("CVM"). The financial statements were prepared under the historical cost convention, except for certain derivative financial instruments and biological assets, measured at fair value.

Significant accounting practices adopted by the Company are described in the specific notes to these financial statements related to the items reported, and those generally applicable, in different respects, to the financial statements, are described below.

The Company records dividends received from its subsidiaries on its cash flow used in investing activities since it considers these dividends as return on investments made.

## 2.2 Basis of consolidation and investments in subsidiaries

Subsidiaries are all companies controlled by the Company, fully consolidated from the date on which control is transferred to the Company. Consolidation is ceased as from the date the Company loses control of the investee.

Consolidated balances in the interim financial information for the period ended June 30, 2018 and year ended March 31, 2018 include the following subsidiaries:

In thousands of reais, unless otherwise stated

| Company | Interest held in capital (direct and indirect) June 30, 2018 | March 31, 2018 | Main activities |
|---|---|---|---|
| São Martinho Terras Imobiliárias S.A. ("SM Terras Imobiliárias") | 100% | 100% | Exploitation of land through agricultural lease and partnership, rental and sale of real estate. |
| São Martinho Energia S.A. ("SME") | 100% | 100% | Cogeneration of electricity. |
| Cia Bioenergética Santa Cruz 1 ("Bio") | 100% | 100% | Cogeneration of electricity. |
| São Martinho Inova S.A. ("SM Inova") | 100% | 100% | Hold interest in companies. |
| São Martinho Terras Agrícolas S.A. ("SM Terras Agrícolas") | 100% | 100% | Exploitation of land through agricultural lease and partnership, rental and sale of real estate. |
| SPE - Residencial Recanto das Paineiras Empreendimentos Imobiliários Ltda ("SPE Paineiras") – controlada da SM Terras Imobiliárias | 100% | 100% | Merger and exploitation of real estate venture |
| SPE - Park Empresarial Iracemápolis Ltda ("SPE Park") – controlada da SM Terras Imobiliárias | 100% | 100% | Merger and exploitation of real estate venture |
| SPE - Residencial Limeira Ltda ("SPE Limeira") – controlada da SM Terras Imobiliárias | 100% | 100% | Merger and exploitation of real estate venture |
| SPE - Residencial Pradópolis Ltda ("SPE Pradópolis") - controlada da SM Terras Imobiliárias | 100% | 100% | Merger and exploitation of real estate venture |
| SPE - Residencial Pradópolis II Ltda ("SPE Pradópolis II") - controlada da SM Terras Imobiliárias | 100% | 100% | Merger and exploitation of real estate venture |
| São Martinho Logística e Participações S.A. ("SM Logística") | 100% | 100% | Storage of products in general |

Contractual investment arrangements whereby two or more parties have joint control of the venture are classified as jointly-controlled operations or joint ventures, according to rights and obligations of the parties thereto. Joint control is the sharing, contractually agreed, of the business control that exists only when decisions on the significant activities require the unanimous consent from the parties that share the control. These investments are accounted for under the equity method.

At June 30 and March 31, 2018, the Company had the following jointly-controlled entity:

| Company | Interest held in capital June 30, 2018 | March 31, 2018 | Main activities |
|---|---|---|---|
| **Jointly-controlled subsidiaries - direct:** | | | |
| Usina Santa Luiza S/A ("USL") | 66.67% | 66.67% | Storage services. |

### 2.3 Functional and reporting currency

The financial statements are presented in Brazilian real (R$), which is the currency of the primary economic environment in which the Company operates ("the functional currency").

### 2.4 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the corresponding transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation of monetary assets and liabilities denominated in foreign currency are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges.

### 2.5 Financial instruments

The Company adopted IFRS 9 (CPC 48) Financial Instruments (except for items related to hedge accounting) and did not opt for the restatement of comparative information.

The new standard brings together the three aspects of accounting for financial instruments:

*(i)* Classification and measurement of financial assets
IFRS 9 contains a new approach to financial asset classification and measurement that reflects the business model in which assets are managed and their cash flow characteristics and contains three main classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and at fair value through profit or loss. The standard eliminates existing IAS 39 categories held-to-maturity, loans and receivables and available for sale.

*(ii) Impairment*
The new standard replaces the "incurred losses" model of CPC 38 (IAS 39) with a prospective "expected credit loss" model. This requires a relevant judgment on how changes in economic factors affect expected credit losses. Such provisions will be measured in: expected 12-month credit losses and expected credit losses for a lifetime, that is, credit losses that result from all possible delinquency events over the expected life of a financial instrument. The Company recorded in its interim financial information, the amount of R$ 620 referring to the calculation of expected credit losses in the real estate segment. Such adjustment was recorded by deducting the "Accounts receivable from customers" account, as opposed to the "Retained earnings" account.

*(iii) Hedge accounting*

The Company will continue to adopt the requirements of IAS 39 / CPC 38, as permitted by IFRS 9.

### *a)* Financial Assets

The Company's financial assets are classified as (i) measured at amortized cost, (ii) measured at fair value through other comprehensive income, and (iii) measured at fair value through profit or loss. The measurement of financial assets depends on their classification.

### *b)* Financial Liabilities

The Company's financial liabilities include trade accounts payable, borrowings, related parties and other payables, which are classified as borrowings. After initial recognition, borrowings are measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized and through the amortization process under the effective interest rate method.

### *c)* Derivative financial instruments

Derivatives are measured at fair value, with gains and losses recognized in the income statement, unless hedge accounting is applied.

The Company documents, at inception, the relation between the hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking the hedging transactions.

The effective portion of changes in fair value of derivatives designated as cash flow hedges is classified as "Equity adjustments" in equity. The ineffective portion of such changes is recorded as "Finance income (costs)" in income for the years. The amounts accumulated in equity are reclassified in the income statement for the year when the hedged item affects income statement, and the related effects are recognized as "Net revenue from sales", in order to minimize undesired changes in the hedged item.

### 2.6 Business combinations and goodwill

Business combinations are accounted for under the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is evaluated based on the acquisition-date fair value.

Goodwill is initially measured at cost when the amount exceeds (a) the consideration transferred in exchange for control of the acquiree; (b) the amount of any noncontrolling interest in the acquiree; and (c) fair value of the interest previously held by the acquirer in the acquiree (if any) that exceeds the amounts, on the acquisition date, net of identifiable assets acquired and liabilities assumed, valued at fair value. If, after remeasurement, São Martinho's interest in the fair value of net identifiable assets acquired exceeds (a), (b) and (c) above, the excess amount is immediately recognized in income statement as gain arising from bargain purchase.

Goodwill corresponding to consolidated entities is recorded under specific "Goodwill" account in the consolidated statement of financial position.

In each business combination, the acquirer shall measure any noncontrolling interests in the acquiree at fair value of these interests or a portion assignable to them in the fair value of net identifiable assets of the acquiree.

Acquisition costs incurred are accounted for as expenses.

Upon acquiring a business, São Martinho assesses financial assets and liabilities assumed so as to correctly classify and designate them in accordance with contractual terms, economic circumstances and relevant conditions on the acquisition date, including the segregation, by the acquiree, of embedded derivatives existing in host contracts.

In case the business combination is performed in stages, the carrying amount on the acquisition date of the controlling interest previously held by the acquirer in the acquiree is remeasured at fair value on acquisition date through income statement.

After initial recognition, goodwill is recorded at cost, less accumulated impairment losses. For impairment test purposes, goodwill acquired in a business combination is, as of acquisition date, allocated to each São Martinho's cash-generating unit, which shall be benefited from such combination synergy, regardless of other assets or liabilities of the acquiree being attributed to these units.

### 2.7 Leases

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

## 3. Standands, interpretations and amendments to standards that are not yet effective

**IFRS 16 (CPC 06) – Leasing**

It establishes that the leases are recognized in the balance sheet of the lessee, and a liability is recorded for future payments and an intangible asset for the right of use. The definition of lease covers all contracts that give the right to use and control of an identifiable asset, including leases and, potentially, some components of contracts for services. The standard is effective as of January 1, 2019. The Company is evaluating the impact on its financial statements.

## 4. Significant accounting estimates and judgments

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events, which are believed to be reasonable under the circumstances.

Estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities for the next financial year are listed below:

### *(a)* Impairment of goodwill

São Martinho tests goodwill for impairment annually. The recoverable amounts of Cash-Generating Units (CGUs) were determined based on calculations of the value in use, based on estimates.

### *(b)* Fair value of biological assets

This represents the present value of expected net cash flows from these assets, which is determined based on assumptions used in the discounted cash flow method.

### *(c)* Income tax, social contribution and other taxes

São Martinho recognizes provisions for situations in which it is probable that additional tax amounts shall be levied. When the final result of these circumstances is different from those initially estimated and recorded, these differences will change the current and deferred tax assets and liabilities for the year in which the definitive amount is determined.

### *(d)* Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. São Martinho uses its judgment to select a variety of methods and to make assumptions based mainly on market conditions existing at the statement of financial position date.

In addition, certain financial assets and liabilities are discounted to present value. Management estimates the discount rates most appropriate in each circumstance and period.

### *(e)* Provision for contingencies

São Martinho is party to labor, civil and tax lawsuits at various court levels. The provisions for contingencies to cover losses arising from proceedings pending judgment are set up and restated based on management's assessment, according to the opinion of its legal advisors, and require a high level of judgment on the matters involved.

### *(f)* Business combination and acquisition of ownership interest

Management contracted independent experts to measure fair value of the identifiable assets acquired, the liabilities and the contingent liabilities assumed, in addition to the determination of the purchase pricing allocation (PPA).

The assumptions for determining the PPA are primarily based on the market conditions existing at the acquisition date.

### *(g)* ICMS tax benefits

As described in Note 17 (d), subsidiary UBV has ICMS tax incentives granted by Goiás state government. On August 7, 2017, the Complementary Law No. 160/2017 was published regulating the granting of tax benefits in disagreement with item "g" of subsection XII of paragraph 2 of art. 155 of the Federal Constitution.
The States and the Federal District shall regularize/ratify their benefits in this context, by registering and depositing with the Executive Secretariat of the National Council for Fiscal Policy - CONFAZ, the supporting documentation

In thousands of reais, unless otherwise stated

corresponding to the concessionary acts of the fiscal benefits granted by them.

The Company's management has been accompanying, along with its legal advisors, the evolution of the fulfillment of the obligations by the Finance Department of Goiás.

## 5. Cash and cash equivalents and short-term investments

Cash and cash equivalents include cash on hand, bank deposits and other highly-liquid short-term investments with original maturity within three months, readily convertible into a known cash amount and subject to insignificant risk of change in value.

| | Company | | | Consolidated | | |
|---|---|---|---|---|---|---|
| | Yields (*) | June 30, 2018 | March 31, 2018 | Yields (*) | June 30, 2018 | March 31, 2018 |
| Cash and banks - in Brazil | | 5,184 | 7,217 | | 6,416 | 8,461 |
| Cash and banks - abroad (US dollar) | 1,75% a.a. | 307,392 | 132,405 | 1,75% a.a. | 307,392 | 132,404 |
| Total cash and cash equivalents | | 312,576 | 139,622 | | 313,808 | 140,865 |
| Short-term investments | | | | | | |
| . Investment fund | 102.52% | 1,157,507 | 953,900 | 102.23% | 1,255,489 | 1,320,851 |
| . Funds - Financial Treasury Bills (LFT) (i) | 100% SELIC | 24,751 | 4,159 | 100% SELIC | 24,751 | 24,371 |
| . Bank Deposit Certificate (CDB)* | 97.76% | 17,436 | 19,873 | 97.76% | 17,437 | 19,873 |
| . Other (i) | 100.00% | 565 | 559 | 100.00% | 4,140 | 6,425 |
| Total financial investments | | 1,200,259 | 978,491 | | 1,301,817 | 1,371,520 |
| In noncurrent assets | | 42,752 | 24,591 | | 46,328 | 50,669 |
| Total available funds | | 1,470,083 | 1,093,522 | | 1,569,297 | 1,461,716 |

* Current remuneration based on the Interbank Deposit Certificate (CDI) rate variation - weighted average rate

*(i)* This balance is given as guarantee for financing operations with the BNDES (Finem Direto) with redemption restriction until the maturity of the contracts.

## 6. Trade accounts receivable

Trade accounts receivable are stated at present value, net of allowance for doubtful accounts, as applicable.

The balance of trade accounts receivable is broken down as follows:

In thousands of reais, unless otherwise stated

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | June 30, 2018 | March 31, 2018 |
| Domestic customers | 115,640 | 66,583 | 70,313 | 202,532 |
| Foreign market customers | 70,369 | 230 | 170,224 | 230 |
| | 186,009 | 66,813 | 240,537 | 202,762 |
| Current assets | 186,009 | 66,813 | 215,030 | 177,893 |
| Noncurrent assets | - | - | 25,507 | 24,869 |

As mentioned in Note 2.5, the amount receivable from customers is net of a provision for impairment in the amount of R$ 639, arising from the adoption of IFRS 9. This provision is derived from the real estate segment.

The aging list of these trade accounts receivable is as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | June 30, 2018 | March 31, 2018 |
| Falling due: | 184,117 | 66,813 | 238,322 | 201,441 |
| Overdue and not provisioned: | | | | |
| Within 30 days | 259 | - | 328 | 276 |
| Over 31 days | 1,633 | - | 1,887 | 1,045 |
| | 186,009 | 66,813 | 240,537 | 202,762 |

Out of the amount receivable, R$ 1,674 e R$ 76, Company and Consolidated, respectively (R$ 7,594 e R$ 297, Company and Consolidated, respectively, at March 31, 2017), refer to related parties, as detailed in Note 9.

In thousands of reais, unless otherwise stated

## 7. Inventories and advances to suppliers

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | June 30, 2018 | March 31, 2018 |
| Current | | | | |
| Finished products and work-in-process | 565,476 | 117,654 | 553,532 | 136,531 |
| Advances - purchases of sugarcane | 61,391 | 60,895 | 61,391 | 71,163 |
| Advances - purchases of inputs | 50,605 | 42,030 | 50,605 | 62,176 |
| Land subdivisions | - | - | 5,762 | 5,820 |
| Inputs, ancillary materials for maintenance and other | 55,789 | 39,630 | 55,789 | 58,964 |
| | 733,261 | 260,209 | 727,079 | 334,654 |
| Noncurrent | | | | |
| Advances - purchases of sugarcane | 125,291 | 88,430 | 125,291 | 111,135 |
| | 125,291 | 88,430 | 125,291 | 111,135 |
| | 858,552 | 348,639 | 852,370 | 445,789 |

Inventories are stated at average acquisition or production costs, adjusted, when applicable, by the provision for write-down to their realizable value. The land inventory balance (land slots) is stated at acquisition cost, increased by the deemed cost surplus of land.

The balance classified as "Land slots" refers to real estate developments SPE Paineiras, SPE Park, SPE Limeira, SPE Pradópolis and SPE Pradópolis II.

The Company entered into partnerships to purchase sugar cane grown on third-party rural properties (including agricultural partnerships), of which part of the delivery will only occur in future years.

In thousands of reais, unless otherwise stated

## 8. Taxes recoverable

Breakdown of taxes recoverable is as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | June 30, 2018 | March 31, 2018 |
| Current | | | | |
| PIS / COFINS | 8,202 | 12,423 | 8,226 | 13,793 |
| ICMS | 13,501 | 10,383 | 14,419 | 21,184 |
| Other | 1,109 | 996 | 1,116 | 1,116 |
| | 22,812 | 23,802 | 23,761 | 36,093 |
| Noncurrent | | | | |
| PIS / COFINS | 33,391 | 26,421 | 33,391 | 34,807 |
| Brazilian Special Regime for Reinstatement of Taxes for Exporters (REINTEGRA) | 65,164 | 62,100 | 65,164 | 62,100 |
| IOF on derivatives | 8,158 | 8,054 | 8,158 | 8,054 |
| ICMS | 11,034 | 9,010 | 11,034 | 11,143 |
| Social Security Tax (INSS) | 6,179 | 6,092 | 6,179 | 6,096 |
| | 123,926 | 111,677 | 123,926 | 122,200 |
| | 146,738 | 135,479 | 147,687 | 158,293 |

The balances of taxes recoverable arise from commercial transactions and tax prepayments, adjusted to present value when applicable.

The expected realization of the long-term tax credits is as follows:

| Company and Consolidated | June 30, 2018 |
|---|---|
| From 1°/04/2019 to 31/03/2020 | 98,668 |
| From 1°/04/2020 to 31/03/2021 | 4,967 |
| From 1°/04/2021 to 31/03/2022 | 4,967 |
| From 1°/04/2022 to 31/03/2023 | 4,967 |
| From 1°/04/2023 to 31/03/2024 | 2,209 |
| From 1°/04/2024 onwards | 8,148 |
| | 123,926 |

In thousands of reais, unless otherwise stated

## 9. Related parties

### *(a)* Company and consolidated balances:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | June 30, 2018 | March 31, 2018 |
| Current assets | | | | |
| Trade accounts receivable (i) | | | | |
| São Martinho Terras Imobiliárias S.A. | 23 | 155 | - | - |
| Cia Bioenergética Santa Cruz 1 | 821 | 5 | - | - |
| São Martinho - Energia S.A. | 732 | 803 | - | - |
| São Martinho Terras Agrícolas S.A. | 13 | 32 | - | - |
| Usina Boa Vista S/A | - | 6,296 | - | - |
| Usina Santa Luiza S/A | 8 | 63 | 8 | 63 |
| Others | 77 | 240 | 68 | 234 |
| | 1,674 | 7,594 | 76 | 297 |
| Inventories - purchase of sugarcane | | | | |
| From shareholders / related parties | 7,700 | 7,672 | 7,700 | 7,672 |
| Dividends receivable | | | | |
| São Martinho Terras Imobiliárias S.A. | 3,211 | 3,211 | - | - |
| | 3,211 | 3,211 | - | - |
| Noncurrent assets | | | | |
| Advance for future capital increase | | | | |
| São Martinho Inova S.A. | 693 | 693 | - | - |
| Usina Santa Luiza S/A | 2,500 | 5,834 | 2,500 | 5,834 |
| | 3,193 | 6,527 | 2,500 | 5,834 |
| Current liabilities | | | | |
| Trade account payables | | | | |
| São Martinho Terras Imobiliárias S.A. | 423 | 402 | - | - |
| Cia Bioenergética Santa Cruz 1 | 366 | 135 | - | - |
| São Martinho - Energia S.A. | - | 254 | - | - |
| São Martinho Terras Agrícolas S.A. | 10,071 | 4,535 | - | - |
| Others | 172 | 172 | 172 | 172 |
| | 11,032 | 5,498 | 172 | 172 |
| Rental of lands | | | | |
| From shareholders / related parties | 3,081 | 2,458 | 3,081 | 2,586 |
| Current liabilities and noncurrent liabilities | | | | |
| Acquisition of equity interest | | | | |
| Luiz Ometto Participações S.A. (note 30) | 50,253 | 50,256 | 50,253 | 50,256 |

*(i)* Refer to the apportionment of expenses with the Shared Services Center.

In thousands of reais, unless otherwise stated

### (b) Company and Consolidated significant transactions in the period:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Sales revenue | | | | |
| Cia Bioenergética Santa Cruz 1 | 2,494 | 2,051 | - | - |
| São Martinho - Energia S.A. | 2,012 | 1,761 | - | - |
| | 4,506 | 3,812 | - | - |
| Reimbursed expenses/(purchase of products and services) | | | | |
| São Martinho Terras Imobiliárias S.A. | (1,096) | (7,070) | - | - |
| São Martinho Terras Agrícolas S.A. | (20,143) | (11,624) | - | - |
| Cia Bioenergética Santa Cruz 1 | (970) | (796) | - | - |
| São Martinho - Energia S.A. | 73 | 68 | - | - |
| Agro Pecuária Boa Vista S/A | 33 | 55 | 33 | 55 |
| Usina Boa Vista S/A | - | 4,097 | - | - |
| | (22,103) | (15,270) | 33 | 55 |
| Shareholders and Related Parties | | | | |
| Sugarcane purchases / agricultural partnership and land lease | | | | |
| Agro Pecuária Boa Vista S/A | (6,569) | (8,218) | (6,569) | (8,218) |
| Others | (3,929) | (3,371) | (3,929) | (3,925) |
| | (10,498) | (11,589) | (10,498) | (12,143) |

Sales revenue refers to sale of steam. Purchases of products and services are derived from purchase of sugarcane, electricity and steam manufacturing service. Expenses reimbursed by investees refer to the costs of the shared service center, the Board of Directors, and the corporate office. Apportionments are supported by agreements between the parties.

### (c) Key management personnel compensation:

Key management personnel include directors and officers. Compensation paid or to be paid for the year is stated as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | June 30, 2018 | March 31, 2018 |
| Salaries, fees and bonus | 5,571 | 22,625 | 5,978 | 25,211 |
| Social security and social contributions | 1,224 | 4,481 | 1,305 | 4,998 |
| Other | 412 | 1,541 | 462 | 1,784 |
| | 7,207 | 28,647 | 7,745 | 31,993 |

Information on the Stock Option Plan offered to the Company's officers, which is not part of their fixed or variable compensation, is described in Note 17 (f).

In thousands of reais, unless otherwise stated

## 10. Investments

### 10.1 Subsidiaries, jointly-controlled subsidiaries and affiliates

The balance of investments in other companies, Company and Consolidated, is as follows:

| | | | | | | | Company |
|---|---|---|---|---|---|---|---|
| Company | % - Ownerhip interest (current) | Adjusted equity of investee | | Book value of investments | | Equity pickup | |
| | | June 30, 2018 | March 31, 2018 | June 30, 2018 | March 31, 2018 | June 30, 2018 | June 30, 2017 |
| **Classified in investment** | | | | | | | |
| São Martinho Terras Imobiliárias S.A. | 100.00% | 151,345 | 148,494 | 151,345 | 148,494 | 3,469 | 5,953 |
| São Martinho - Energia S.A. | 100.00% | 35,473 | 26,214 | 35,473 | 26,214 | 9,259 | 8,155 |
| São Martinho Inova S.A. | 100.00% | 23,815 | 24,360 | 23,815 | 24,360 | (544) | 521 |
| São Martinho Terras Agrícolas S.A. | 100.00% | 1,051,433 | 1,042,766 | 1,051,433 | 1,042,766 | 8,667 | 5,824 |
| São Martinho Logística e Participações S.A. | 100.00% | 2,923 | 2,952 | 2,923 | 2,952 | (29) | (30) |
| Usina Boa Vista S.A. (Note 10.2) | 100.00% | - | 1,353,646 | - | 1,353,646 | - | 30,134 |
| Companhia Bioenergética Santa Cruz 1 | 100.00% | 121,638 | 104,227 | 121,638 | 104,227 | 17,411 | 13,782 |
| Other | | | - | 1,860 | 1,859 | - | - |
| **Total classified in investment** | | 1,386,627 | 2,702,659 | 1,388,487 | 2,704,518 | 38,233 | 64,339 |
| **Classified in noncurrent liabilities** | | | | | | | |
| Usina Santa Luiza S.A. (i) | 66.67% | (16,770) | (21,812) | (11,181) | (14,542) | (305) | (1,986) |
| **Total classified in noncurrent liabilities** | | (16,770) | (21,812) | (11,181) | (14,542) | (305) | (1,986) |
| **Closing balance** | | 1,369,857 | 2,680,847 | 1,377,306 | 2,689,976 | 37,928 | 62,353 |

There are no cross-holdings between the Company and its investees.

*(i)* Investees are not consolidated and these investments are reported in the consolidated financial statements under the equity method.

| | | | | | | | Consolidated |
|---|---|---|---|---|---|---|---|
| Company | % - Ownerhip interest (current) | Adjusted equity of investee | | Book value of investments | | Equity pickup | |
| | | June 30, 2018 | March 31, 2018 | June 30, 2018 | March 31, 2018 | June 30, 2018 | June 30, 2017 |
| **Classified in investment** | | | | | | | |
| CTC - Centro de Tecnologia Canavieira S.A. (i) | 5.41% | 556,794 | 566,850 | 30,147 | 30,693 | (544) | 94 |
| Other | | - | - | 1,860 | 1,859 | - | - |
| **Total classified in investment** | | 556,794 | 566,850 | 32,007 | 32,552 | (544) | 94 |
| **Classified in noncurrent liabilities** | | | | | | | |
| Usina Santa Luiza S.A. (i) | 66.67% | (16,770) | (21,812) | (11,181) | (14,542) | (305) | (1,986) |
| **Total classified in noncurrent liabilities** | | (16,770) | (21,812) | (11,181) | (14,542) | (305) | (1,986) |
| **Closing balance** | | 540,024 | 545,038 | 20,826 | 18,010 | (849) | (1,892) |

### 10.2 Usina Boa Vista S.A. Incorporation

At the Extraordinary General Meeting held on April 2, 2018, the incorporation of Usina Boa Vista SA by the Company was approved, according to a material fact published on February 28, 2018 and approved by the Board of Directors on the same date.

The Merger is justified insofar as the combination of the UBV's assets with the Company's assets under a single legal entity will allow the structuring and more efficient use of the assets and the agro-industrial operations of the companies involved in order to concentrate in the Company all the activities developed by the UBV. This procedure will lead to the unification of the administration and activities of the two companies, generating greater efficiency, synergy and rationalization of administrative and financial costs.

In thousands of reais, unless otherwise stated

## 11. Biological assets

Biological assets correspond to agricultural products under development (standing cane) produced in sugarcane plantations (bearer plant), to be used as raw material in the production of sugar and ethanol upon its harvest. These assets are carried at fair value less costs to sell.

Measurement at fair value of biological assets is classified as Level 3 - Assets and liabilities whose prices do not exist, or whose prices or valuation techniques are supported by a small, nonexistent or illiquid market and unobservable market inputs.

The fair value of biological assets was determined based on the discounted cash flow method, considering basically:

(a) Cash inflows obtained from the multiplication of (i) the estimated production, measured in kilograms of Total Sugar Recoverable (ATR); and (ii) the future market price of sugarcane, which is estimated based on public data and estimates of the future prices of sugar and ethanol; and

(b) Cash outflows represented by estimates of (i) costs necessary for the biological transformation of the sugarcane (cultural treatments) up to the harvest; (ii) costs with harvesting/cutting, loading and transport; (iii) capital costs (land and machinery and equipment); (iv) costs of leases and agricultural partnerships; and (v) taxes on positive cash flows.

The following significant assumptions were used to determine fair value:

| | Company | | Consolidado | |
|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | June 30, 2018 | March 31, 2018 |
| Harvest estimated total area (ha) | 228,142 | 172,762 | 228,142 | 227,343 |
| Expected productivity (ton/ha) | 85.37 | 88.74 | 85.37 | 88.23 |
| Number of Total Recoverable Sugar (ATR) per sugar can | 138.22 | 132.56 | 138.22 | 133.42 |
| Projected average price of ATR (R$) | 0.5874 | 0.5759 | 0.5874 | 0.5757 |

At June 30, 2018 the discount rate used to calculate the fair value of biological assets is 8.29% p.a. (7.48% p.a. at March 31, 2018).

Based on the estimates of revenue and costs, the Company determines the future cash flows to be generated and adjusts them to present value, using a discount rate compatible with the remuneration of the investment in the circumstances. Changes in fair value are recorded as biological assets with a corresponding entry to the sub account "Changes in fair value of biological assets", under “Cost of sales” in the income statement for the year.

Changes in fair value of biological assets for the year are as follows:

In thousands of reais, unless otherwise stated

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Historical cost | 518,751 | 467,314 | 686,591 | 628,164 |
| Fair value | (99,018) | (29,658) | (104,866) | (41,802) |
| Biological assets at March 31 | 419,733 | 437,656 | 581,725 | 586,362 |
| Changes: | | | | |
| Increase resulting from cultivation | 106,142 | 79,017 | 106,142 | 103,392 |
| Usina Boa Vista Incorporation | 161,994 | - | - | - |
| Transfers from property, plant and equipment | 99,973 | 78,792 | 99,973 | 98,555 |
| Change in fair value | 31,178 | (22,232) | 31,178 | (17,818) |
| Fair value surplus - business combination | - | - | - | 4,450 |
| Reductions resulting from harvest | (246,300) | (143,369) | (246,298) | (195,987) |
| Closing balance of biological assets: | 572,720 | 429,864 | 572,720 | 578,954 |
| Represented by: | | | | |
| Historical cost | 640,559 | 481,754 | 646,408 | 634,124 |
| Fair value | (67,839) | (51,890) | (73,688) | (55,170) |
| Closing balance of biological assets: | 572,720 | 429,864 | 572,720 | 578,954 |

The operating activities of sugarcane cultivation are at risk of damage due to climate change, pests and diseases, forest fires and other natural forces. Consequently, future harvest results may be impacted, being increased or reduced.

## (a) Agricultural partnerships and lease agreements

The Company entered into agreements of agricultural partnerships to purchase sugarcane produced in the rural properties of third parties, maturing between six and twelve years, renewable upon termination. In addition, the Company has lease agreements for the production of sugarcane.

The amounts to be disbursed in respect of these agreements are determined at the end of each crop by the price of a metric ton of sugarcane established by CONSECANA. At June 30 and March 31, 2018, the total estimated payments (nominal value) are as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | June 30, 2018 | March 31, 2018 |
| Agricultural partnership: | | | | |
| Within 1 year | 309,557 | 250,931 | 309,557 | 316,488 |
| More than 1 year and less than 5 years | 933,386 | 713,263 | 933,386 | 933,683 |
| More than 5 years | 855,951 | 499,431 | 855,951 | 794,881 |
| (-) Present value adjustment | (676,197) | (423,772) | (676,197) | (627,247) |
| | 1,422,697 | 1,039,853 | 1,422,697 | 1,417,805 |
| Lease agreements: | | | | |
| Within 1 year | 52,072 | 51,647 | 52,072 | 52,550 |
| More than 1 year and less than 5 years | 194,905 | 193,973 | 194,905 | 197,586 |
| More than 5 years | 421,028 | 423,542 | 421,028 | 428,394 |
| (-) Present value adjustment | (290,738) | (284,875) | (290,738) | (288,064) |
| | 377,267 | 384,287 | 377,267 | 390,466 |

## 12. Property, Plant and Equipment (PPE)

The residual value, useful lives of the assets and depreciation methods used are reviewed, and adjusted prospectively, at year end. Depreciation is calculated using the straight-line method, and for production equipment the accelerated depreciation method is applied, taking into consideration the crushing season.

Maintenance costs that extend the useful lives of property, plant and equipment items are capitalized and items that replace others which suffer wear and tear during the crop period are recorded as assets, and are depreciated during the subsequent crop period. Maintenance costs that do not extend the useful lives of the assets are recognized as expenses when incurred. Replaced items are written off.

Sugarcane plantations correspond to bearer plants that are solely used to cultivate sugarcane. Sugarcane is classified as a permanent crop and its economically productive cycle lasts, on average, eight years after the first harvest.

The costs of charges on borrowings taken to finance the construction of property, plant and equipment are capitalized during the period of time required to execute and prepare the asset for its intended use.

In thousands of reais, unless otherwise stated

| Company | Land | Buildings and outbuildings | Equipment and manufacturing facilities | Inter-crop maintenance | Vehicles | Agricultural machinery and farming implements | Leasehold improvements of third part | Other PPE | Construction in progress | Sugarcane plantation | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balances at March 31, 2017 | 156,520 | 245,656 | 799,206 | 170,488 | 165,210 | 230,906 | - | 16,552 | 34,100 | 715,925 | 2,534,563 |
| Acquisition | - | 54 | 2,909 | 220,351 | 13,019 | 34,944 | - | 966 | 73,597 | 208,960 | 554,800 |
| Transfer to biological assets | - | - | - | - | - | - | - | - | - | (127,822) | (127,822) |
| Cost of sale | (712) | - | (151) | - | (759) | (2,082) | - | (82) | - | - | (3,786) |
| Transfers between groups | - | 4,790 | 46,573 | - | 1,822 | (7,599) | - | 8,150 | (62,346) | 8,610 | - |
| Depreciation | - | (7,746) | (57,420) | (172,795) | (13,335) | (24,148) | - | (3,197) | - | - | (278,641) |
| Balances at March 31, 2018 | 155,808 | 242,754 | 791,117 | 218,044 | 165,957 | 232,021 | | 22,389 | 45,351 | 805,673 | 2,679,114 |
| Total cost | 155,808 | 287,935 | 1,174,304 | 390,839 | 243,282 | 402,273 | - | 66,177 | 45,351 | 805,673 | 3,571,642 |
| Accumulated depreciation | - | (45,181) | (383,187) | (172,795) | (77,325) | (170,252) | - | (43,788) | - | - | (892,528) |
| Residual value | 155,808 | 242,754 | 791,117 | 218,044 | 165,957 | 232,021 | | 22,389 | 45,351 | 805,673 | 2,679,114 |
| Acquisition | - | 121 | 2,284 | 1,538 | 14,023 | 5,148 | - | 302 | 15,991 | 60,342 | 99,749 |
| Transfer to biological assets | - | - | - | - | - | - | - | - | - | (99,973) | (99,973) |
| Cost of sale | - | - | (39) | - | (740) | (2,698) | - | - | - | - | (3,477) |
| Usina Boa Vista S/A Incorporation | 49,198 | 161,880 | 413,287 | 60,568 | 61,980 | 80,845 | 33,300 | 5,237 | 4,044 | 232,839 | 1,103,178 |
| Transfers between groups | - | 3,097 | 10,239 | - | 1,241 | (611) | - | 154 | (16,695) | 2,575 | - |
| Depreciation | - | (3,806) | (30,302) | (70,038) | (6,997) | (13,444) | (1,448) | (1,228) | - | - | (127,263) |
| Balances at June 30, 2018 | 205,006 | 404,046 | 1,186,586 | 210,112 | 235,464 | 301,261 | 31,852 | 26,854 | 48,691 | 1,001,456 | 3,651,328 |
| Total cost | 205,006 | 453,034 | 1,600,075 | 452,945 | 319,785 | 484,957 | 33,300 | 71,870 | 48,691 | 1,001,456 | 4,671,119 |
| Accumulated depreciation | - | (48,988) | (413,489) | (242,833) | (84,321) | (183,696) | (1,448) | (45,016) | - | - | (1,019,791) |
| Residual value | 205,006 | 404,046 | 1,186,586 | 210,112 | 235,464 | 301,261 | 31,852 | 26,854 | 48,691 | 1,001,456 | 3,651,328 |
| Residual values: | | | | | | | | | | | |
| Historical cost | 46,801 | 331,199 | 946,493 | 210,112 | 205,418 | 240,742 | 31,852 | 26,854 | 48,691 | 1,001,456 | 3,089,618 |
| Surplus | 158,205 | 72,847 | 240,093 | - | 30,046 | 60,519 | - | | - | - | 561,710 |
| Annual average depreciation rates | - | 2% | 4% | 100% | 7% | 9% | 16% | 12% | - | 14% | - |

In thousands of reais, unless otherwise stated

| Consolidated | Land | Buildings and outbuildings | Equipment and manufacturing facilities | Inter-crop maintenance | Vehicles | Agricultural machinery and farming implements | Leasehold improvements of third part | Other PPE | Construction in progress | Sugarcane plantation | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balances at March 31, 2017 | 1,808,281 | 397,378 | 1,289,764 | 226,638 | 226,889 | 311,971 | 39,154 | 22,500 | 45,805 | 920,170 | 5,288,550 |
| Acquisition | 2,381 | 280 | 4,099 | 281,996 | 18,705 | 50,996 | - | 1,530 | 90,804 | 278,593 | 729,384 |
| Cost of sale | (2,884) | - | (176) | - | (845) | (5,366) | - | (90) | - | - | (9,361) |
| Transfers between groups | - | 22,414 | 51,108 | - | 2,265 | (9,904) | - | 8,363 | (85,293) | 11,047 | - |
| Transfer to biological assets | - | - | - | - | - | - | - | - | - | (171,298) | (171,298) |
| Transfer to intangible assets | - | - | - | - | - | - | - | - | (1,923) | - | (1,923) |
| Depreciation | - | (11,546) | (79,801) | (229,660) | (19,079) | (34,830) | (5,849) | (4,675) | - | - | (385,440) |
| Balances at March 31, 2018 | 1,807,778 | 408,526 | 1,264,994 | 278,974 | 227,935 | 312,867 | 33,305 | 27,628 | 49,393 | 1,038,512 | 5,449,912 |
| Total cost | 1,807,778 | 487,450 | 1,805,071 | 508,634 | 342,980 | 552,539 | 88,623 | 78,390 | 49,393 | 1,038,512 | 6,759,370 |
| Accumulated depreciation | - | (78,924) | (540,077) | (229,660) | (115,045) | (239,672) | (55,318) | (50,762) | - | - | (1,309,458) |
| Residual value | 1,807,778 | 408,526 | 1,264,994 | 278,974 | 227,935 | 312,867 | 33,305 | 27,628 | 49,393 | 1,038,512 | 5,449,912 |
| Acquisition | 1,905 | 121 | 2,284 | 1,538 | 14,023 | 5,148 | - | 301 | 15,992 | 60,342 | 101,654 |
| Cost of sale | - | - | (39) | - | (740) | (2,698) | - | - | - | - | (3,477) |
| Transfer to biological assets | - | - | - | - | - | - | - | - | - | (99,973) | (99,973) |
| Transfers between groups | - | 3,097 | 10,239 | - | 1,241 | (611) | - | 155 | (16,696) | 2,575 | - |
| Depreciation | - | (3,860) | (31,296) | (70,129) | (6,996) | (13,445) | (1,447) | (1,228) | - | - | (128,401) |
| Balances at June 30, 2018 | 1,809,683 | 407,884 | 1,246,182 | 210,383 | 235,463 | 301,261 | 31,858 | 26,856 | 48,689 | 1,001,456 | 5,319,715 |
| Total cost | 1,809,683 | 490,668 | 1,817,555 | 510,172 | 357,504 | 554,377 | 88,623 | 78,845 | 48,689 | 1,001,456 | 6,757,572 |
| Accumulated depreciation | - | (82,784) | (571,373) | (299,789) | (122,041) | (253,116) | (56,765) | (51,989) | - | - | (1,437,857) |
| Residual value | 1,809,683 | 407,884 | 1,246,182 | 210,383 | 235,463 | 301,261 | 31,858 | 26,856 | 48,689 | 1,001,456 | 5,319,715 |
| Residual values: | | | | | | | | | | | |
| Historical cost | 152,418 | 334,007 | 990,769 | 210,383 | 205,417 | 240,742 | 31,858 | 26,856 | 48,689 | 1,001,456 | 3,242,595 |
| Surplus | 1,657,265 | 73,877 | 255,413 | - | 30,046 | 60,519 | - | - | - | - | 2,077,120 |
| Annual average depreciation rates | - | 2% | 4% | 100% | 7% | 9% | 16% | 12% | - | 14% | |

In thousands of reais, unless otherwise stated

Under the terms of certain borrowing agreements of São Martinho, property, plant and equipment totaling R$ 1,288,726 consolidated) were pledged as collateral, of which R$ 287,657 refers to rural properties (8,754 hectares of land).

São Martinho capitalized financial charges amounting to R$ 360 for de period ended June 30, 2018 (June 30, 2017 - R$ 167).

## 13. Intangible assets

Contractual relationships have a defined useful life. Their amortization is calculated on the quantity of sugarcane harvested during the term of the agreement with the partner or supplier.

Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested annually for impairment.

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | June 30, 2018 | March 31, 2018 |
| Goodwill on future profitability (i) | 374,633 | 374,633 | 374,633 | 374,633 |
| Software | 29,748 | 27,025 | 29,748 | 29,725 |
| Accumulated amortization | (24,402) | (21,174) | (24,402) | (23,748) |
| Rights on sugarcane contracts (ii) | 7,957 | 8,780 | 7,957 | 8,780 |
| Rights on electricity agreements (iii) | - | - | 103,401 | 103,401 |
| Rights on electricity agreements - amortization (iii) | - | - | (45,572) | (40,001) |
| Other assets | 9,834 | 9,744 | 17,482 | 17,367 |
| | 397,770 | 399,008 | 463,247 | 470,157 |

*(i)* Goodwill related to business combination of prior years of companies merged into the Company;
*(ii)* Refers to the acquisition of rights on agreements for agricultural partnership and sugarcane supply (2,281 hectares);
*(iii)* Refers to the fair value of Bio's agreements for electricity supply, effective up to 2025.

### Impairment of nonfinancial assets

Under the provisions of CPC 01 (IAS 36) - Impairment of assets, goodwill, property, plant and equipment and intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least once a year or more frequently whether evidence of impairment is found. Annual impairment tests are performed at the end of March. To determine whether there was impairment loss, assets are grouped into Cash-Generating Units (CGU), which correspond to the smallest group of assets generating cash flows clearly independent from those generated by another CGU.

In thousands of reais, unless otherwise stated

At March 31, 2018, the Company tested noncurrent assets for impairment. The assessment was based on calculations of the value in use of each cash-generating unit. These calculations use cash flow projections, before calculation of income and social contribution taxes, based on financial budgets approved by management. The growth rate does not exceed the long-term average growth rate of the industry in which the CGU operates.

Main assumptions and estimates involved are estimates of sugar and ethanol sales prices, costs related to energy and other macroeconomic data.

Main assumptions used by the Company are as follows:

| | Data of March 31, 2018 | |
|---|---|---|
| Cash-Generating Units | Martinho e Iracema production units | Santa Cruz production unit |
| Average growth rate of net operating income | 3.3% | 3.3% |
| Nominal growth rate for perpetuity | 4.5% | 4.5% |
| Discount rate | 8.5% | 8.5% |

## 14. Borrowings

Borrowings are recognized at fair value, net of transaction costs incurred, and on their maturity dates they are carried at amortized cost.

| | Annual charges | | Company | | Consolidated | |
|---|---|---|---|---|---|---|
| Type | Rate | Index | June 30, 2018 | March 31, 2018 | June 30, 2018 | March 31, 2018 |
| **Local currency** | | | | | | |
| Export credit notes | 105.16% | CDI | 293,177 | 397,336 | 293,177 | 397,336 |
| BNDES credit facilities | 2.66% | +TJLP | 135,945 | 99,706 | 141,439 | 154,399 |
| BNDES credit facilities | 4.06% | PRÉ | 330,038 | 249,405 | 336,800 | 366,064 |
| BNDES credit facilities | 3.97% | +SELIC | 262 | 71 | 262 | 258 |
| Rural credit | 7.76% | PRÉ | 705,861 | 339,314 | 705,861 | 444,573 |
| Rural product note | 5.00% | PRÉ | 5,058 | - | 5,058 | - |
| FINEP | 4.00% | PRÉ | 80,114 | 83,508 | 80,114 | 83,508 |
| Agribusiness Receivables Certificate (CRA) (a) | 98.02% | CDI | 953,244 | 947,472 | 953,244 | 947,472 |
| Agribusiness Receivables Certificate (CRA) (a) | 4.88% | +IPCA | 412,530 | 413,077 | 412,530 | 413,077 |
| Other securitized credits | 4.56% | +IGP-M | 24,020 | 29,274 | 24,020 | 29,274 |
| Total in local currency | | | 2,940,249 | 2,559,163 | 2,952,505 | 2,835,961 |
| **In foreign currency** | | | | | | |
| Pre-export financing (PPE) | 1.73% | +Libor | 871,352 | 734,471 | 871,352 | 734,471 |
| Export credit notes (NCE) | 2.10% | +Libor | 2,349 | 8,101 | 2,349 | 8,101 |
| International Finance Corporation (IFC) *(b)* | 2.70% | +Libor | 348,493 | 303,797 | 348,493 | 303,797 |
| FINEM | 2.60% | +Cesta Moedas | 42,131 | 15,036 | 42,131 | 42,567 |
| Total in foreign currency | | | 1,264,325 | 1,061,405 | 1,264,325 | 1,088,936 |
| TOTAL | | | 4,204,574 | 3,620,568 | 4,216,830 | 3,924,897 |
| Current | | | 402,733 | 574,569 | 406,281 | 686,630 |
| Noncurrent | | | 3,801,841 | 3,045,999 | 3,810,549 | 3,238,267 |



São Martinho

In thousands of reais, unless otherwise stated

Changes in borrowings for the period are as follows:

| Changes in debt | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Prior balance | 3,620,568 | 3,174,394 | 3,924,897 | 3,719,060 |
| Financing taken out | 981,355 | 800,721 | 981,355 | 825,461 |
| Amortization of principal | (860,599) | (441,197) | (861,477) | (618,488) |
| Amortization of interest | (60,832) | (54,429) | (61,051) | (76,224) |
| Monetary restatement | 115,942 | 64,851 | 116,165 | 76,099 |
| Foreign exchange differences | 116,941 | 60,314 | 116,941 | 62,612 |
| Usina Boa Vista Incorporation | 291,199 | - | - | - |
| | 4,204,574 | 3,604,654 | 4,216,830 | 3,988,520 |

Some of the transactions conducted are pegged to swap agreements for Brazilian reais. The effect at June 30 and March 31, 2018 was as follows:

| Type | June 30, 2018 | | | | March 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Company | | Consolidated | | Company | | Consolidated | |
| | Fair value (MtM) | Debt balance (Accrual) | Fair value (MtM) | Debt balance (Accrual) | Fair value (MtM) | Debt balance (Accrual) | Fair value (MtM) | Debt balance (Accrual) |
| Swap transactions - from fixed rate to floating rate | 345,912 | 348,981 | 345,912 | 348,981 | 237,742 | 238,612 | 340,385 | 341,634 |
| Swap transactions - from libor to fixed rate | 2,348 | 2,349 | 2,348 | 2,349 | 25,750 | 26,322 | 25,750 | 26,322 |
| Non-swap transactions - local currency | 2,591,268 | 2,591,268 | 2,603,524 | 2,603,524 | 2,320,549 | 2,320,549 | 2,468,004 | 2,468,004 |
| Non-swap transactions - foreign currency | 1,261,976 | 1,261,976 | 1,261,976 | 1,261,976 | 1,035,084 | 1,035,085 | 1,088,937 | 1,088,937 |
| TOTAL | 4,201,504 | 4,204,574 | 4,213,760 | 4,216,830 | 3,619,125 | 3,620,568 | 3,923,076 | 3,924,897 |

Noncurrent borrowings mature as follows:

| | Company | Consolidated |
|---|---|---|
| From 01/07/2019 to 30/6/2020 | 801,085 | 804,599 |
| From 01/07/2020 to 30/6/2021 | 1,169,460 | 1,172,577 |
| From 01/07/2021 to 30/6/2022 | 330,183 | 331,316 |
| From 01/07/2022 to 30/6/2023 | 774,459 | 775,403 |
| After 2023 | 726,654 | 726,654 |
| | 3,801,841 | 3,810,549 |

At June 30, 2018, R$ 1,874,999 of the São Martinho's debt is charged, with 49% in equipment, 27% in receivables, 14% in land and 10% in others.

***Covenants***

The Company has covenants amounting to R$ 1,066,068,921, which are required and determined annually, the conditions of which are met for the period ended June 30, 2018.

In thousands of reais, unless otherwise stated

## 15. Trade accounts payable

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | March 31, 2018 | June 30, 2018 | March 31, 2018 |
| Sugarcane | 181,945 | 55,031 | 171,452 | 71,540 |
| Materials, services and other | 63,795 | 56,862 | 63,282 | 82,606 |
| | 245,740 | 111,893 | 234,734 | 154,146 |

Out of the total trade accounts payable, R$ 14,113 and R$ 3,253 Company and Consolidated, respectively (R$ 7,956 and R$ 2,586 Company and Consolidated, respectively) refer to related parties, as detailed in Note 9.

## 16. Agreements with Copersucar

In Copersucar withdrawal process, the Company entered into a contract providing for rights and obligations that have not yet expired. Significant obligations and rights are as follows:

### (a) Obligations:

Copersucar provided funds to companies during the period in which they were cooperative members through bills of exchange, for the purpose of financing their operations. The funds were obtained by the Cooperative and refer to temporary cash surpluses arising from preliminary injunctions in lawsuits claiming suspension of the enforceability of taxes. These cash surpluses are related to provisions for contingencies recorded by the Cooperative under noncurrent liabilities. However, in the event of unfavorable outcomes in lawsuits, the Company could be required to reimburse the amount within 120 days. The main amounts included in these liabilities arose from Federal VAT (IPI), whose constitutionality and lawfulness had been challenged in court by the Cooperative, and from tax liabilities included in the Tax Recovery Program (REFIS) of Copersucar, as shown below.

| Company and Consolidated | June 30, 2018 | March 31, 2018 |
|---|---|---|
| REFIS - Copersucar - Restated by reference to SELIC | 88,237 | 89,197 |
| Exchange Bill (LC) - Restated by reference to SELIC | 62,343 | 62,004 |
| Exchange Bill (LC) - Transfer of funds without incurring losses | 48,547 | 48,547 |
| Expenses with tax proceedings | 8,583 | 8,583 |
| Other | 2,039 | 2,039 |
| Total | 209,749 | 210,370 |
| Current liabilities | 8,583 | 8,583 |
| Noncurrent liabilities | 201,166 | 201,787 |

Bank sureties guarantee all the Company's obligations with Copersucar. In addition, in accordance with the terms negotiated for the withdrawal of Copersucar, the Company remains liable for obligations, proportionate to its investment in Copersucar in previous crops, which result from tax assessments that may arise and that relate to periods in which the Company was a cooperative member.

During the year ended March 31, 2018, Copersucar joined the PERT (Special Tax Regularization Program), including debts that were being discussed in court. The total amount disbursed by the Company is R$ 30,777.

Copersucar has been served delinquency notices with respect to State VAT (ICMS) on fuel and industrial ethanol sales made up to December 31, 2008, which amount attributed to Company would be R$ 246,020 (estimated amount and updated up to March 31, 2018).

Copersucar believes that it has solid arguments to support the success of the defenses of the fines imposed on them in these assessments and its legal advisors evaluate the aforementioned causes as a possible loss risk.

### (b) Rights:

Copersucar also figures as plaintiff in legal proceedings challenging the refund/overpayment of various taxes or indemnities. São Martinho, in the condition of former cooperative member, will be entitled proportionally to these credits, if any, and will inform the market when such rights become good and marketable on behalf of the Company.

As disclosed by Copersucar in its financial statements of March 31, 2018, the Judiciary condemned the Union to indemnify the cooperative for damages caused to its members resulting from the fixing of lagged prices on sales of sugar and ethanol made in the 1980s. There was a request for payment in the order of R$ 5.6 billion (R$ 730.5 million in proportion to the Company). The payment of a supplementary balance in the order of R$ 12.8 billion (R$ 1.7 billion in proportion) is pleaded, and the Federal Government claimed an excess of R$ 2.2 billion (R$ 286.3 million in proportion to the Company), in a manifestation dated May 4, 2018.

The decision on the issuance of the pre-order related to the R$ 10.6 billion (R$ 1.4 billion proportional to the Company), considered complementary to the uncontroversial part, is still pending publication. The same is blocked and subject to the lodging of appeals by the Union and will follow the rite of judicial installments ("precatórios").

At the date of preparation of this interim financial information, Management maintains the classification of this credit as probable, but not under its control, which is why the credit right remains unrecorded and is being disclosed.

## 17. Equity

### (a) Capital

At June 30 and March 31, 2018, capital amounted to R$ 1,549,302, and is represented by 364,011,329 common registered shares, with no par value.

The Company is authorized to increase its capital up to the limit of 372,000,000 (three hundred and seventy-two million) common shares, regardless of amendments to bylaws, upon resolution by the Board of Directors, which will determine the share issue conditions, including price and payment term.

At the Extraordinary General Meeting held on July 27, 2018, the shareholders approved a capital increase in the amount of R $ 147,350, without issuance of new common shares, using a capital budget reserve.

### (b) Treasury shares

Since these are equity instruments that are repurchased, they are recognized at acquisition cost and recognized in a reduction account of Shareholders' Equity. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of equity instruments owned by the Company.

During the period ended June 30, 2018, there were no treasury stock exchanges, remaining the balance of 13,208,663 shares.

### (c) Equity adjustments

#### *(i) Deemed cost*

This corresponds to the deemed cost surplus of land, buildings and premises, equipment and manufacturing facilities, vehicles and machinery, and agricultural implements. Amounts are recorded net of tax effects and their realization is based on depreciation, write-offs or sale of related assets. Realized amounts are transferred to "Retained earnings".

#### *(ii) Hedge accounting fair value*

This refers to the results of unrealized/settled derivative financial instrument transactions that qualify for hedge accounting. The balance is reversed over time from equity, as the related transactions mature/are shipped.

### (d) Income reserve

**Legal reserve**

Legal reserve is annually set up with allocation of 5% of net income for the year, capped at 20% of capital. The purpose of the legal reserve is to ensure maintenance of adequate capital level and may only be used to absorb losses and increase capital.

**Capital investment reserve**

The capital investment reserve is intended to fund investments in increasing production capacity and in several projects intended for improving processes.

**Unrealized income reserve**

This reserve refers to unearned income, comprising the sale of equity interest held in ABV, sale of properties arising from real estate developments, gains/losses on equity pickup and gain due to change in equity interest.

**Tax incentive reserve**

Subsidiary UBV benefits from a state tax incentive program with Goiás State, in the form of deferral of the ICMS payment, named "Goiás Industrial Development Program - Produzir", with partial reduction on such tax. The use of this benefit by subsidiary UBV is conditional upon compliance with all obligations set forth in the program, whose conditions refer to factors under the control of UBV.

The benefit related to the reduction in the payment of this tax is calculated on the debt balance determined in each calculation period, by applying the discount percentage granted by the tax incentive.

The amount of this grant calculated for the period was recorded in the statement of profit or loss under "Deductions from gross revenue", reducing the "ICMS payable" account. Since this amount may not be allocated as dividends, a reserve for tax incentives is set up, matched against "Retained earnings", in the amount determined for the grant.

The amount of this incentive that impacted profit or loss for the period ended June 30, 2018 was R$ 17,637, Company and Consolidated (R$ 5,426 at June 30, 2017, Consolidated).

**(e) Dividends**

Shareholders are entitled to receive a minimum dividend of 25% on net income for the year, after the deduction of any accumulated losses and the allocation to the legal reserve.

At the Annual Shareholders' Meeting held on July 27, 2018, the shareholders ratified the payment of additional dividends in the amount of R $ 31,569, as proposed by management for the year ended March 31, 2018.

In thousands of reais, unless otherwise stated

### (f) Stock option plan

During the quarter ended June 30, 2018, was defined the change in the balances of the current Stock Option Plan, which was approved at a Board of Directors' meeting held on May 2, 2018. This plan will govern by the cash settlement rule of the positive difference between the market value on the day before the exercise versus the price set in each program. The other terms determined in the new plans will be the same as already established in the previously agreed contracts.

In accordance with IFRS 2 (CPC 10), due to the change in the form of liquidation of the plans, previously settled with equity instruments, it was settled in cash, the balance provisioned on June 30, 2018 referring to Virtual Options was transferred to item of "Salaries and Charges payable" in current liabilities.

During the period the Company recognized an expense of R$ 5,775, reflecting the new calculation of the fair value of the Virtual Options Plan. The carrying amount of the liability as of June 30, 2018 is R$ 17,852.

The balances of the virtual options plans issued and their movement in the period ended June 30, 2018 are shown below:

| Plan | 4th Plan | 5th Plan | 6th Plan | 7th Plan | 8th Plan | 9th Plan | Total |
|---|---|---|---|---|---|---|---|
| Plan issue date | 17/12/2012 | 16/12/2013 | 15/12/2014 | 14/12/2015 | 12/12/2016 | 02/05/2018 | |
| Deadline for exercise (i) | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | |
| Options granted | 295,756 | 684,720 | 873,459 | 740,796 | 779,934 | 882,073 | 4,256,738 |
| Outstanding stock options | 295,756 | 684,720 | 873,459 | 740,796 | 779,934 | 882,073 | 4,256,738 |
| Strike price ( | 8.37 | 9.13 | 12.04 | 15.87 | 17.70 | 17.76 | |

*(i)* The virtual options for each of the plans may be exercised after their respective grace periods, which generally follow the following scheme: 1/3 after the 2nd year of the grant, 1/3 after the third year of the grant and 1/3 after the 4th year of the grant, all with deadlines as established in each plan.

### (g) Capital reserve

Refers to the valuation at market value of the Company's shares issued at the time of the exchange of shares with the non-controlling shareholders.

## 18. Profit sharing program

The Company manages, as part of its policy, a profit sharing program based on operating and financial targets previously agreed upon with its employees The amount of profit sharing for the periods ended 30 June, 2018 and 2017, recorded as operating costs or expenses in the income statement totaled R$ 12,318 and R$ 9,341, respectively, in the Company (Consolidated - R$ 12,324 e R$ 11,590), respectively.

In thousands of reais, unless otherwise stated

## 19. Income and social contribution taxes

Deferred income and social contribution taxes are calculated on income and social contribution tax losses, and corresponding temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available to offset temporary differences and/or tax losses, considering deferred income projections prepared and based on internal assumptions and future economic scenarios which may, therefore, be subject to changes.

### (a) Deferred income and social contribution taxes

| Company | March 31, 2018 | Recognized in P&L | Recognized in other comprehensive income | Recognized in equity | June 30, 2018 |
|---|---|---|---|---|---|
| . Income and social contribution tax losses | 24,206 | 19,017 | - | - | 43,223 |
| . Derivative financial instruments | 27,727 | 666 | 76,247 | - | 104,640 |
| . Provision for contingencies | 23,197 | 7,893 | - | 1,858 | 32,948 |
| . Biological assets and agricultural product (change in fair value) | 35,159 | (1,847) | - | (3,475) | 29,837 |
| . Provision for other obligations | 7,175 | 7,886 | - | 19 | 15,080 |
| . Other assets | 6,429 | (2,344) | - | (33) | 4,052 |
| Total income and social contribution tax assets | 123,893 | 31,271 | 76,247 | (1,631) | 229,780 |
| . Surplus of PPE (Deemed cost) | (162,391) | 2,906 | - | (1,383) | (160,868) |
| . Accelerated depreciation incentive | (180,591) | (24,539) | - | (49,515) | (254,645) |
| . Tax benefit on merged goodwill | (130,858) | (7,329) | - | - | (138,187) |
| . Gain on bargain purchase/surplus value - PPA | (52,669) | (7,130) | - | - | (59,799) |
| . Foreign exchange differences | (8,667) | (59,437) | - | - | (68,104) |
| . Divestiture with deferred taxation | (18,973) | - | - | - | (18,973) |
| . Securitized financing | (13,587) | 439 | - | - | (13,148) |
| . Present value adjustment | (600) | 209 | - | - | (391) |
| Total income and social contribution tax liabilities | (568,336) | (94,881) | - | (50,898) | (714,115) |
| Deferred income and social contribution taxes | (444,443) | (63,610) | 76,247 | (52,529) | (484,335) |

In thousands of reais, unless otherwise stated

| Consolidated | March 31, 2018 | Recognized in P&L | Recognized in other comprehensive income | Recognized in equity | June 30, 2018 |
|---|---|---|---|---|---|
| . Income and social contribution tax losses | 24,205 | 19,017 | - | - | 43,222 |
| . Derivative financial instruments | 27,728 | 666 | 76,247 | - | 104,641 |
| . Provision for contingencies | 25,056 | 7,893 | - | - | 32,949 |
| . Biological assets and agricultural product (change in fair value) | 31,686 | (1,847) | - | - | 29,839 |
| . Employees' profit sharing and bonus | 508 | - | - | - | 508 |
| . Provision for other obligations | 7,175 | 7,886 | - | - | 15,061 |
| . Other assets | 5,905 | (1,976) | - | - | 3,929 |
| Total income and social contribution tax assets | 122,263 | 31,639 | 76,247 | - | 230,149 |
| . Surplus of PPE (Deemed cost) | (646,075) | 2,983 | - | - | (643,092) |
| . Accelerated depreciation incentive | (230,105) | (24,539) | - | - | (254,644) |
| . Tax benefit on merged goodwill | (130,858) | (7,329) | - | - | (138,187) |
| . Gain on bargain purchase/surplus value - PPA | (52,669) | (7,130) | - | - | (59,799) |
| . Foreign exchange differences | (8,667) | (59,437) | - | - | (68,104) |
| . Divestiture with deferred taxation | (18,973) | - | - | - | (18,973) |
| . Securitized financing | (13,587) | 439 | - | - | (13,148) |
| . Present value adjustment | (599) | 209 | - | - | (390) |
| . Other liabilities | (151) | - | - | - | (151) |
| . Intangible assets | (23,012) | - | - | 1,916 | (21,096) |
| . Gain due to change in ownership interest - CTC | (4,964) | - | - | - | (4,964) |
| Total income and social contribution tax liabilities | (1,129,660) | (94,804) | - | 1,916 | (1,222,548) |
| Deferred income and social contribution taxes | (1,007,397) | (63,165) | 76,247 | 1,916 | (992,399) |
| Other deferred taxes | (526) | - | - | - | (526) |

Deferred tax assets and liabilities are presented net in the statement of financial position, by company, when there is a legally enforceable right and the intention to offset them on the calculation of current taxes and when related to the same tax authority.

The Company recognizes deferred tax assets based on projection of taxable profit in subsequent years. This projection is revised on an annual basis and within ten years.

Deferred income and social contribution tax liabilities are realized mainly through the depreciation and disposal of property, plant and equipment items that gave rise to them. Realization of this liability is estimated at the average rate of 15% per year, according to the depreciation rates of the respective property, plant and equipment items, except for the deferred tax liabilities on the surplus of land, which will be realized if sold.

In thousands of reais, unless otherwise stated

### (b) Reconciliation of income and social contribution taxes

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Pretax income | 151,681 | 146,644 | 153,825 | 160,911 |
| Income and social contribution taxes at nominal rates (34%) | (51,572) | (49,859) | (52,301) | (54,710) |
| Adjustments for calculation of effective tax rate: | | | | |
| . Equity pickup | 12,896 | 21,200 | (289) | (643) |
| . Other permanent exclusions/(additions), net | 6,499 | 2,433 | 6,499 | 2,373 |
| . State subsidy | - | - | - | 1,845 |
| . Adjustment of the subsidiary's calculation taxed by presumed profit | - | - | 11,770 | 10,629 |
| . IRPJ and CSLL previously unused credits recorded | - | (3,780) | - | (3,782) |
| . Other | (330) | 235 | (330) | 250 |
| Income and social contribution tax expense | (32,507) | (29,771) | (34,651) | (44,038) |
| Income and social contribution tax effective rate | 21.4% | 20.3% | 22.5% | 27.4% |
| Current income and social contribution taxes | 16,853 | (18,614) | 14,264 | (20,905) |
| Deferred income and social contribution taxes | (49,360) | (11,157) | (48,915) | (23,133) |
| Current income and social contribution taxes - prior periods | (965) | - | (965) | - |
| Deferred income and social contribution taxes - prior periods | (14,250) | - | (14,250) | - |
| Income and social contribution tax effective rate | 21.4% | 20.3% | 22.5% | 27.4% |

## 20. Commitments

São Martinho assumes various commitments in the ordinary course of its business. Significant commitments to be disclosed in these financial statements are as follows:

**Riparian forests and land for legal reserve**

São Martinho has uncultivated areas covered by conserved native vegetation in the process of regeneration or enrichment, corresponding to riparian forests and land for legal reserve, intended to ensure the ecological balance of the environment, contributing to the preservation of biodiversity and the sustainability of agricultural activities, strictly observing the provisions in the Forest Code in relation to the preservation of the Permanent Preservation Areas ("APP") and Legal Reserve ("RL").

The Company has already provided for the registry of its properties with the Environmental Rural Registry ("CAR") and will join the Program for Environmental Regularization ("PRA"). The manner in which investments for environmental regularization, if any, will be performed as well as the time required for their execution are not measurable at this time. Investments in preservation areas and other environmental regularization activities, when made, are recorded under property, plant and equipment.

In thousands of reais, unless otherwise stated

**Ethanol supply agreement**

Under a sale and purchase agreement, the Company has agreed to supply industrial ethanol to Mitsubishi Corporation, beginning with the 2008/2009 crop until 2038/2039 crop, under market conditions.

**Electricity supply**

The Company, BIO and SME have commitments for sale of part of their production through the Electric Energy Trade Chamber (CCEE) both in the regulated market (auctions) and in the free market (sales contracts with third parties).

**Purchase of inputs**

The Company has commitments for the purchase of inputs intended for maintenance of the plantation over the crop. The referred to operation is performed through purchase for future delivery.

## 21. Provision for contingencies

Provisions are recognized when São Martinho has a present legal or constructive obligation arising from past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably measured. Provisions are set up, reviewed and adjusted to reflect management's best estimate at the financial statements reporting dates.

### 21.1 Probable losses

São Martinho, based on legal advisors' assessment of probable losses, has the following provisions for contingencies (amounts monetarily restated):

| Company | Tax | environmental | Labor | TOTAL | Judicial deposits |
|---|---|---|---|---|---|
| Balance as of March 31, 2018 | 12,665 | 5,698 | 51,733 | 70,096 | 24,150 |
| UBV Incorporation | 3,194 | 21,420 | 4,011 | 28,625 | 4,349 |
| Additions | 11 | 537 | 3,527 | 4,075 | 1,183 |
| Reversals | (697) | (95) | (1,134) | (1,926) | - |
| Use | (349) | (453) | (3,369) | (4,171) | (2,722) |
| Restatements | (145) | 1,216 | 1,605 | 2,676 | 256 |
| Balance at June 30, 2018 | 14,679 | 28,323 | 56,373 | 99,375 | 27,216 |

In thousands of reais, unless otherwise stated

| Consolidated | Tax | environmental | Labor | TOTAL | Judicial deposits |
|---|---|---|---|---|---|
| Balance as of March 31, 2018 | 15,868 | 27,511 | 55,743 | 99,122 | 28,673 |
| Additions | 11 | 537 | 3,527 | 4,075 | 1,183 |
| Reversals | (697) | (95) | (1,134) | (1,926) | - |
| Use | (349) | (453) | (3,369) | (4,171) | (2,722) |
| Restatements | (145) | 1,228 | 1,605 | 2,688 | 256 |
| Balance at June 30, 2018 | 14,688 | 28,728 | 56,372 | 99,788 | 27,390 |

Judicial deposits are monetarily restated and reported in noncurrent assets.

The nature of the main lawsuits at June 30, 2018, included in the above provisions is as follows (Company and consolidated):

**Tax proceedings:**
These refer to: (a) taxes whose payment has been challenged in court by São Martinho; the amounts challenged have been deposited in court; and (b) success fees payable to legal advisors for defenses in tax proceedings.

**Civil and environmental proceedings**:
These refer to: (i) general indemnities; (ii) redress for damages caused by the burning of sugarcane straw; and (iii) environmental issues.

**Labor claims:**
These refer mainly to claims for: (i) overtime; (ii) commuting hours; (iii) indemnity for elimination of the break between shifts; (iv) hazardous duty and health hazard premiums; (v) refund of payroll deductions, such as union dues; (vi) night shift premium; and (vii) recognition of employment relationship with the consequent payment of the 13th monthly salary and vacation pay, plus 1/3 vacation bonus.

## 21.2 Possible losses

São Martinho is party to various lawsuits involving tax, environmental and civil matters that were assessed by legal advisors as possible losses. The nature and the amounts involved in these lawsuits are as follows:

| | | Company | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | June 30, 2018 | | March 31, 2018 | | June 30, 2018 | | March 31, 2018 | |
| Nature | | Number of proceedings | Amount | Number of proceedings | Amount | Number of proceedings | Amount | Number of proceedings | Amount |
| Tax | | | | | | | | | |
| Social security contribution | (i) | 15 | 202,599 | 15 | 199,114 | 15 | 202,599 | 15 | 199,114 |
| Calculation of IRPJ/CSLL | (ii) | 5 | 262,526 | 5 | 258,010 | 5 | 262,526 | 5 | 258,010 |
| Offset of federal taxes | (iii) | 64 | 95,245 | 65 | 89,061 | 65 | 95,401 | 66 | 89,214 |
| ICMS | (iv) | 10 | 24,779 | 9 | 12,832 | 10 | 24,779 | 10 | 24,352 |
| Other tax proceedings | (v) | 14 | 1,650 | 10 | 1,373 | 14 | 1,650 | 11 | 1,373 |
| Civil | | | | | | | | | |
| Indemnities | | 16 | 3,673 | 15 | 4,211 | 16 | 3,673 | 15 | 4,211 |
| Review of contracts | | 6 | 6,557 | 4 | 5,857 | 9 | 6,612 | 8 | 5,912 |
| Other civil proceedings | | 25 | 74 | 14 | 70 | 25 | 74 | 15 | 71 |
| Environmental | | 42 | 7,389 | 43 | 7,645 | 42 | 7,389 | 43 | 7,645 |
| Labor | | 40 | 903 | 17 | 61 | 40 | 903 | 20 | 61 |
| TOTAL | | 237 | 605,395 | 197 | 578,234 | 241 | 605,606 | 208 | 589,963 |

**Tax proceedings:**

*(i)* These refer to the levy of Social Security Tax (INSS) on export revenue, under the allegation that exports carried out through intermediation of a cooperative are not included in the exemption established in article 149, paragraph 2, of the Brazilian Federal Constitution.

*(ii)* These refer to exclusion of expenses on securitized financing, as well as expenses arising of accelerated tax-incentive depreciation as provided in art. 314 of the RIR / 99.

*(iii)* The proceedings refer to requests to offset IRPJ, CSLL, Contribution Taxes on Gross Revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS) and other federal taxes as a result of overpayments and/or tax losses proportional to export credits whose offset has been rejected by the Brazilian IRS (RFB) and which are pending judgment of protest letters/voluntary appeals.

*(iv)* These proceedings address allegedly undue ICMS credit arising from capital expenditures control register (CIAP).

*(v)* These proceedings refer to disputes involving other tax cases, including, among others, tax delinquency notices related to a fine arising from lack of approval of offset, Municipal Real Estate Tax (IPTU) collection claims, contribution to the National Service for Industrial Training (SENAI) and the fee to the National Department of Mineral Research (DNPM).

The civil lawsuits deal with lawsuits in general arising from (i) traffic accidents and (ii) review of contracts.

The environmental proceedings deal with tax assessments of CETESB and / or environmental police resulting from the burning of sugarcane straw, as well as annulment actions to cancel the fines applied by the aforementioned bodies.

The labor lawsuits have as main motive the infringements issued by the Ministry of Labor and / or annulment actions to cancel these mentioned cases.

## 22. Derivative financial instruments and risk management

The Company is exposed to market risks, including foreign exchange risk, commodity price volatility risk, interest rate risk, credit risk and liquidity risk. Company management understands risk management is critical to: (i) continuous monitoring of exposure levels relating to the sales volumes contracted; (ii) estimates of the value of each risk based on the established limits of foreign exchange exposure and sugar sales prices; and (iii) future cash flow forecasts and the definition of approval authority levels for taking out financial instruments designed to protect product prices and to hedge sales performance against foreign exchange fluctuation, price volatility and interest rate.

In thousands of reais, unless otherwise stated

Derivative financial instruments are taken out exclusively for the purpose of pricing and hedging the Company's sugar, ethanol and other product export transactions against foreign exchange risk, sugar price fluctuation and interest rate variations. No transactions with financial instruments are carried out for speculative purposes.

### 22.1 Market risks

#### (a) Currency risk

Management has established a policy that requires that São Martinho's companies manage their currency risk to reduce the potential impact entailed by this currency mismatch.

Non-Derivable Forwards (NDF) and swap and options strategies are used to manage currency risk. São Martinho's financial risk management policy defines guidelines that establish the adequate hedge volume of expected cash flows, particularly those related to export sales.

**Assets and liabilities subject to foreign exchange difference**

The table below summarizes foreign currency-denominated assets and liabilities (in US dollars - US$), recorded in the consolidated statement of financial position at June 30, 2018:

| Consolidated | June 30, 2018 | Thousands of US$ equivalent |
|---|---|---|
| Current and noncurrent assets | | |
| Cash and cash equivalents (banks - demand deposits) | 307,392 | 79,722 |
| Trade accounts receivable | 170,224 | 44,148 |
| Derivative financial instruments | 66,530 | 17,255 |
| Total assets | 544,146 | 141,125 |
| Current and noncurrent liabilities: | | |
| Loans and financing | 1,264,325 | 327,953 |
| Derivative financial instruments | 71,972 | 18,669 |
| Total liabilities | 1,336,297 | 346,622 |
| Subtotal assets (liabilities) | (792,151) | (205,497) |
| ( - ) Borrowings linked to exports - ACC and PPE | 873,701 | 226,629 |
| Net exposure - assets | 81,550 | 21,132 |

In thousands of reais, unless otherwise stated

These assets and liabilities were restated and recorded in the quarterly information at June 30, 2018 at the exchange rate in effect on that date, of R$ 3.8558 per US$ 1.00 for assets and R$ 3.8552 per US$ 1.00 for liabilities.

### (b) Commodity price volatility risk

The Company is exposed to the risk of changes in commodity price of manufactured products such as sugar and ethanol. At June 30, 2018, the prices of, 504,519 tons of sugar had been determined with commercial partners for delivery in 18/19 crop, priced at an average of 14.49 ¢/lb (US dollar cents per pound weight), including polarization premium.

### (c) Cash flow or fair value risk associated with interest rate

São Martinho takes out borrowings at floating rates. Regarding borrowings in local currency, the risk of fluctuation in interest rates is mitigated naturally since investments are all remunerated at floating rates. As regards foreign currency, swaps may be contracted to mitigate possible interest-rate fluctuations (Libor).

### (d) Market risk sensitivity analysis

The following table provides a sensitivity analysis of the effects of changes in the relevant risk factors to which the Company is exposed. Such analysis considers only instruments that are not designated for hedge accounting.

| | | Impacts on P&L | | |
|---|---|---|---|---|
| Consolidated | Risk factor | Probable scenarios - 5% | Possible scenarios - 25% | Possible scenarios - 50% |
| Cash and cash equivalents | Decrease in exchange rate - R$/US$ | (15,428) | (77,139) | (154,277) |
| Trade accounts receivable | Decrease in exchange rate - R$/US$ | (3,519) | (17,595) | (35,190) |
| Borrowings | Increase in exchange rate - R$/US$ | (264) | (1,318) | (2,636) |
| Derivative financial instruments | | | | |
| . Term currency contracts | Increase in exchange rate - R$/US$ | (28) | (139) | (278) |
| Swap contracts (a) | Decrease in exchange rate - R$/US - and increase in interest curve | (664) | (1,660) | (3,326) |
| Net exposure | | (19,903) | (97,851) | (195,707) |

*(a)* The sensitivity analysis of variations in interest curves considers the effects of an increase or decrease of 5bps, 25bps and 50bps (basis points) in the pricing curve of the derivative instruments. The exposure to rates refers exclusively to variations in the Interbank Deposit (DI) curve, Libor and foreign exchange coupons.

### (e) Financial instruments

The Company opted for hedge accounting to recognize part of its financial instruments. The instruments elected for designation are: a) derivatives of sugar, ethanol and foreign currency - US dollar; and b) foreign currency debts

- US dollar - that cover sales of the 2018/2018 to 2020/2021 crops and were classified as cash flow hedge of highly probable expected transactions (future sales).

In order to apply hedge accounting, prospective tests were carried out to verify effectiveness. These tests showed that the hedge-designated instruments qualify as highly effective hedges against the effects of price fluctuations on the value of future sales.

In the case of sugar hedges, the derivatives were designated as a cash flow hedge in respect of future sales of sugar. These transactions are carried out in the New York - Intercontinental Exchange (ICE Futures US) and with top-tier financial institutions through over-the-counter contracts or directly with customers.

In the case of foreign exchange hedges, derivative and non-derivative financial instruments were designated as a cash flow hedge in respect of future sales in foreign currency. These hedges are reviewed upon contracting of Non-Deliverable Forwards (NDFs), swap and option strategies as well as debt in foreign currency taken out with top-tier financial institutions.

In thousands of reais, unless otherwise stated

The balances of assets and liabilities at June 30 and March 31, 2018 relating to transactions with derivative financial instruments and their maturities are as follows:

| | June 30, 2018 | | | |
|---|---|---|---|---|
| Consolidated | Contracted amount/volume | Average price/rate | Notional value - R$ | Fair value - R$ |
| In current assets - Gain | | | | |
| Margin deposit | | | | 1,550 |
| Merchandise futures contracts - Sugar #11 - Commodities Exchange | | | | |
| . Sale commitment | 293,892 | 14.48 | 361,747 | 46,790 |
| . Purchase commitment | 23,623 | 12.45 | 25,001 | 418 |
| Merchandise futures contracts - Ethanol | | | | |
| . Sale commitment | 7,650 | 1,694.61 | 12,964 | - |
| . Purchase commitment | 1,800 | 1,806.67 | 3,252 | - |
| Merchandise forward contracts - Sugar #11 | | | | |
| . Sale commitment | 17,781 | 15.28 | 23,096 | 4,314 |
| Merchandise forward currency contracts (NDF) - Dollar - OTC | | | | |
| . Sale commitment | 271 | 4.0499 | 1,098 | 13 |
| Merchandise options contracts - Sugar #11 - Commodities Exchange | | | | |
| . Bidding position in puts options | 22,861 | 14.56 | 28,295 | 3,962 |
| Merchandise flexive options contracts - Dollar - OTC | | | | |
| . Bidding position in puts options | 16,044 | 3.4134 | 54,710 | 246 |
| Swap contracts - interest - OTC | | | | 6,666 |
| Total derivative financial instruments in current assets | | | | 63,959 |
| In noncurrent assets - Gain | | | | |
| Merchandise futures contracts - Sugar #11 - Commodities Exchange | | | | |
| . Sale commitment | 2,235 | 13.55 | 2,574 | 46 |
| Merchandise options contracts - Sugar #11 - Commodities Exchange | | | | |
| . Bidding position in puts options | 2,540 | 13.50 | 2,915 | 308 |
| Merchandise flexive options contracts - Dollar - OTC | | | | |
| . Bidding position in puts options | 11,996 | 3.7933 | 45,465 | 1,238 |
| Swap contracts - interest - OTC | | | | 979 |
| Total derivative financial instruments in noncurrent assets | | | | 2,571 |

In thousands of reais, unless otherwise stated

| Consolidated | June 30, 2018 Contracted amount/volume | Average price/rate | Notional value - R$ | Fair value - R$ |
|---|---|---|---|---|
| In current liabilities - Loss | | | | |
| Merchandise futures contracts - Sugar #11 - Commodities Exchange | | | | |
| . Sale commitment | 13,920 | 11.98 | 14,176 | 402 |
| . Purchase commitment | 27,687 | 13.37 | 31,467 | 2,175 |
| Merchandise forward contracts - Sugar #11 | | | | |
| . Sale commitment | 33,022 | 12.97 | 36,408 | 402 |
| Merchandise forward currency contracts (NDF) - Dollar - OTC | | | | |
| . Sale commitment | 117,603 | 3.4482 | 405,519 | 54,655 |
| Merchandise options contracts - Sugar #11 - Commodities Exchange | | | | |
| . Bidding position in call options | 22,861 | 15.94 | 30,976 | 471 |
| Merchandise flexive options contracts - Dollar - OTC | | | | |
| . Bidding position in call options | 16,044 | 3.6386 | 58,400 | 5,202 |
| Total derivative financial instruments in current liabilities | | | | 63,307 |
| In noncurrent liabilities - Loss | | | | |
| Merchandise futures contracts - Sugar #11 - Commodities Exchange | | | | |
| . Sale commitment | 711 | 13.20 | 798 | 7 |
| Merchandise forward contracts - Sugar #11 | | | | |
| . Sale commitment | 16,765 | 13.15 | 18,740 | 215 |
| Merchandise forward currency contracts (NDF) - Dollar - OTC | | | | |
| . Sale commitment | 12,104 | 3.9043 | 47,258 | 1,532 |
| Merchandise options contracts - Sugar #11 - Commodities Exchange | | | | |
| . Bidding position in call options | 2,540 | 14.50 | 3,131 | 194 |
| Merchandise flexive options contracts - Dollar - OTC | | | | |
| . Bidding position in call options | 11,996 | 3.9487 | 47,384 | 2,813 |
| Swap contracts - interest - OTC | | | | 3,904 |
| Total derivative financial instruments in noncurrent liabilities | | | | 8,665 |

| Consolidated | March 31. 2018 Contracted amount/volume | Average price/rate | Notional value - R$ | Fair value - R$ |
|---|---|---|---|---|
| In current assets - Gain | | | | |
| Margin deposit | | | | 824 |
| Merchandise futures contracts - Sugar #11 - Commodities Exchange | | | | |
| . Sale commitment | 330,571 | 14.90 | 322,256 | 48,446 |
| Merchandise futures contracts - Ethanol | | | | |
| . Sale commitment | 6,300 | 1,560.24 | 328 | 23 |
| Merchandise forward contracts - Sugar #11 | | | | |
| . Sale commitment | 29,973 | 15.28 | 29,964 | 5,418 |
| Non-Deliverable Forward (NDF) - Dollar - OTC | | | | |
| . Sale commitment | 67,819 | 3.3972 | 230,395 | 3,157 |
| Merchandise options contracts - Sugar #11 - Commodities Exchange | | | | |
| . Bidding position in puts options | 22,861 | 14.56 | 21,777 | 2,189 |
| Merchandise flexive options contracts - Dollar - OTC | | | | |
| . Bidding position in puts options | 12,900 | 3.2977 | 42,570 | 1,217 |
| Swap contracts - interest - OTC | | | | 7,899 |
| Total derivative financial instruments in current assets | | | | 69,173 |
| In noncurrent assets - Gain | | | | |
| Swap contracts - interest - OTC | | | | 3,617 |
| Total derivative financial instruments in noncurrent assets | | | | 3,617 |

In thousands of reais, unless otherwise stated

| Consolidated | Contracted amount/volume | Average price/rate | Notional value - R$ | Fair value - R$ |
|---|---|---|---|---|
| | March 31. 2018 | | | |
| In current liabilities - Loss | | | | |
| Merchandise futures contracts - Sugar #11 - Commodities Exchange | | | | |
| . Sale commitment | 57,915 | 13.98 | 52,972 | 293 |
| . Purchase commitment | 63,452 | 13.59 | 56,418 | 4,808 |
| Non-Deliverable Forward (NDF) - Dollar - OTC | | | | |
| . Sale commitment | 53,876 | 3.2918 | 177,349 | 2,325 |
| Merchandise options contracts - Sugar #11 - Commodities Exchange | | | | |
| . Bidding position in call options | 22,861 | 15.94 | 23,842 | 772 |
| Merchandise flexive options contracts - Dollar - OTC | | | | |
| . Bidding position in call options | 12,900 | 3.5568 | 45,924 | 646 |
| Swap contracts - interest - OTC | | | | 18 |
| Total derivative financial instruments in current liabilities | | | | 8,862 |
| In noncurrent liabilities - Loss | | | | |
| Swap contracts - interest - OTC | | | | 930 |
| Total derivative financial instruments in noncurrent liabilities | | | | 930 |

Margin deposit balances refer to funds maintained in current accounts with brokers to cover the initial margins and variation established by the Commodities Exchange in which the contracts are executed, with the objective of guaranteeing open contracts and net remittances in relation to daily adjustments resulting from fluctuations in contract prices in the futures and options market.

The potential results of futures, options and forward contracts refer to the cumulative positive (negative) effect of the fair value of derivative financial instruments in the corresponding categories.

At June 30, 2018, financial instruments designated for hedge accounting are broken down as follows:

| Company and Consolidated | Assets | Liabilities | TOTAL in other comprehensive income |
|---|---|---|---|
| Financial instruments: | | | |
| Commodity derivatives - Futures, options and forward contracts | 57,745 | 13,065 | 44,680 |
| Foreign exchange derivatives - Options / NDF | 34 | 61,453 | (61,419) |
| Foreign exchange differences on borrowing agreements (Trade Finar | - | 295,177 | (295,177) |
| | 57,779 | 369,695 | (311,916) |
| Deferred taxes on the items above | (19,645) | (125,696) | 106,051 |
| | 38,134 | 243,999 | (205,865) |

In thousands of reais, unless otherwise stated

### (f) Estimated realization

At June 30, 2018, impacts reported in the Company's equity and estimated realization in the income statement are as follows:

| Company and Consolidated | 18/19 Crop | Crops 19/20 and 20/21 | Crops 21/22 and 22/23 | From 22/23 crops to 25/26 | TOTAL |
|---|---|---|---|---|---|
| Derivative financial instruments: | | | | | |
| Commodity derivatives - Futures, options and forward contracts | 45,134 | (454) | - | - | 44,680 |
| Foreign exchange derivatives - Options / NDF | (58,046) | (3,373) | - | - | (61,419) |
| Foreign exchange differences on borrowing agreements (Trade Finance) | (3,856) | (15,553) | (120,014) | (155,754) | (295,177) |
| | (16,768) | (19,380) | (120,014) | (155,754) | (311,916) |
| Deferred taxes on the items above | 5,701 | 6,589 | 40,805 | 52,956 | 106,051 |
| | (11,067) | (12,791) | (79,209) | (102,798) | (205,865) |

## 22.2 Credit risk

Credit risk management consists of contracting only with top-tier financial institutions which meet the São Martinho's risk assessment criteria. São Martinho controls, on a monthly basis, its exposure in derivatives and financial investments, using maximum concentration criteria based on the rating of the financial institution.

With respect to customers default risk, São Martinho's assesses the credit risk associated with each customer annually, and whenever a new customer is included in its base, establishing an individual credit limit based on the risk identified.

## 22.3 Liquidity risk

The Finance Department monitors rolling forecasts of the São Martinho's liquidity requirements to ensure it has sufficient cash to meet its operational needs and short-term debt.

Cash surplus in local currency is invested in repurchase agreements backed by corporate bonds, Bank Deposit Certificates (CDB) and investment funds pegged to the CDI interest rate, with high liquidity and active trading in the market.

Cash surplus in foreign currency is invested with daily liquidity at fixed rates previously established.

The following table analyzes the São Martinho's financial liabilities, by maturity ranges, corresponding to the remaining period in the statement of financial position to the contractual maturity date.

In thousands of reais, unless otherwise stated

| Company | Within 1 year | From 1 to 3 years | Above 3 years | Total |
|---|---|---|---|---|
| At June 30, 2018 | | | | |
| Loans and financing | 402,733 | 1,970,545 | 1,831,296 | 4,204,574 |
| Derivative financial instruments | 63,307 | 8,665 | - | 71,972 |
| Trade accounts payable | 245,740 | - | - | 245,740 |
| Acquisition of ownership interest | 11,743 | 23,240 | 15,270 | 50,253 |
| Other liabilities | 6,273 | - | 11,181 | 17,454 |
| | 729,796 | 2,002,450 | 1,857,747 | 4,589,993 |
| At March 31, 2018 | | | | |
| Loans and financing | 574,569 | 1,627,291 | 1,418,708 | 3,620,568 |
| Derivative financial instruments | 8,862 | 930 | - | 9,792 |
| Trade accounts payable | 111,893 | - | - | 111,893 |
| Acquisition of ownership interest | 11,746 | 23,240 | 15,270 | 50,256 |
| Other liabilities | 18,693 | - | 14,542 | 33,235 |
| | 725,763 | 1,651,461 | 1,448,520 | 3,825,744 |

| Consolidated | Within 1 year | From 1 to 2 years | Between 2 and 5 years | Total |
|---|---|---|---|---|
| At June 30, 2018 | | | | |
| Loans and financing | 406,281 | 1,977,176 | 1,833,373 | 4,216,830 |
| Derivative financial instruments | 63,307 | 8,665 | - | 71,972 |
| Trade accounts payable | 234,734 | - | - | 234,734 |
| Acquisition of ownership interest | 11,743 | 23,240 | 15,270 | 50,253 |
| Other liabilities | 9,484 | - | 11,181 | 20,665 |
| | 725,549 | 2,009,081 | 1,859,824 | 4,594,454 |
| At March 31, 2018 | | | | |
| Loans and financing | 686,630 | 1,779,745 | 1,458,522 | 3,924,897 |
| Derivative financial instruments | 8,862 | - | - | 8,862 |
| Trade accounts payable | 154,146 | - | - | 154,146 |
| Acquisition of ownership interest | 11,746 | 23,240 | 15,270 | 50,256 |
| Other liabilities | 28,287 | - | 14,542 | 42,829 |
| | 889,671 | 1,802,985 | 1,488,334 | 4,180,990 |

## 22.4 Capital management

São Martinho's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide return for shareholders and benefits for other stakeholders and to maintain an optimal target capital structure to reduce the cost of capital.

To maintain or adjust its capital structure, the Company, under the Brazilian Corporation Law, may take actions to ensure the objectives mentioned above.

In thousands of reais, unless otherwise stated

# 23. Financial instrument classification and fair value

## 23.1 Classification

Financial assets and liabilities are classified as follows:

| | | | Company |
|---|---|---|---|
| | Classification | June 30, 2018 | March 31. 2018 |
| Financial assets | | | |
| Cash and cash equivalents | Amortized Cost | 312,576 | 139,622 |
| Short-term investments | Fair value through profit or loss | 1,200,259 | 978,491 |
| Trade accounts receivable | Amortized Cost | 186,009 | 66,813 |
| Derivative financial instruments | Fair value through Other comprehensive income | 58,885 | 61,275 |
| Derivative financial instruments | Fair value through profit or loss | 7,645 | 8,687 |
| Transactions with related parties | Amortized Cost | 3,193 | 6,527 |
| Other assets, except for prepayments | Amortized Cost | 11,437 | 9,082 |
| | | 1,780,004 | 1,270,497 |
| Financial liabilities | | | |
| Borrowings | Fair value through profit or loss | 24,020 | 29,274 |
| Borrowings | Amortized Cost | 4,180,554 | 3,591,294 |
| Derivative financial instruments | Fair value through Other comprehensive income | 68,068 | 8,845 |
| Derivative financial instruments | Fair value through profit or loss | 3,904 | 947 |
| Trade accounts payable | Amortized Cost | 245,740 | 111,893 |
| Acquisition of ownership interests | Amortized Cost | 50,253 | 50,256 |
| Other liabilities | Amortized Cost | 17,454 | 33,235 |
| | | 4,565,973 | 3,796,470 |

| | | | Consolidated |
|---|---|---|---|
| | Classification | June 30, 2018 | March 31. 2018 |
| Financial assets | | | |
| Cash and cash equivalents | Amortized Cost | 313,808 | 140,865 |
| Short-term investments | Fair value through profit or loss | 1,301,817 | 1,371,520 |
| Trade accounts receivable | Amortized Cost | 240,537 | 202,762 |
| Derivative financial instruments | Fair value through Other comprehensive income | 58,885 | 71,842 |
| Derivative financial instruments | Fair value through profit or loss | 7,645 | 948 |
| Other assets, except for prepayments | Amortized Cost | 8,309 | 7,080 |
| | | 1,931,001 | 1,795,017 |
| Financial liabilities | | | |
| Borrowings | Fair value through profit or loss | 24,020 | 29,274 |
| Borrowings | Amortized Cost | 4,192,810 | 3,895,623 |
| Derivative financial instruments | Fair value through Other comprehensive income | 68,068 | 8,862 |
| Derivative financial instruments | Fair value through profit or loss | 3,904 | 930 |
| Trade accounts payable | Amortized Cost | 234,734 | 154,146 |
| Acquisition of ownership interests | Amortized Cost | 50,253 | 50,256 |
| Other liabilities | Amortized Cost | 20,665 | 42,829 |
| | | 4,570,434 | 4,152,646 |

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. There is no history of significant default in São Martinho.

In thousands of reais, unless otherwise stated

### 23.2 Fair value

For measuring and determining fair value, the Company uses various methods including market approaches, of income or cost, in order to estimate the value that market participants would use to price the asset or liability. Financial assets and liabilities carried at fair value are classified and disclosed within the following fair value hierarchy levels:

**Level 1 -** Quoted prices (unadjusted) in active, liquid and visible markets, for identical assets and liabilities that are readily available at the measurement date;
**Level 2 -** Quoted prices (which may be adjusted or not) for similar assets or liabilities in active markets; and
**Level 3 -** Assets and liabilities whose prices do not exist, or whose prices or valuation techniques are supported by a small, nonexistent or illiquid market and unobservable market inputs.

For the period ended June 30, 2018, there is no reclassification of assets and liabilities at fair value from or to Level 1, 2 or 3.

| As per statement of financial position - Consolidated | June 30, 2018 | | | March 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Assets | | | | | | |
| Short-term investments | - | 1,301,817 | - | - | 1,371,520 | - |
| Derivative financial instruments | 51,524 | 15,006 | - | 50,658 | 22,132 | - |
| Biological assets | - | - | 572,720 | - | - | 581,725 |
| | 51,524 | 1,316,823 | 572,720 | 50,658 | 1,393,652 | 581,725 |
| Liabilities - Derivative financial instruments | 3,249 | 68,723 | - | 5,873 | 3,919 | - |

**<u>Futures and Options in the ICE</u>**
The fair value of futures negotiated in the New York - Intercontinental Exchange (ICE Futures US) is calculated by the difference between the price of the derivative in the contract and the market closing price on the reporting date, obtained from quotations in the active market, and reconciled to creditor or debtor balances with the brokers. The fair value of options traded in the ICE is obtained from quotation in the market.

**<u>Foreign exchange options</u>**
The fair value of foreign exchange options is obtained using the Black & Scholes method, based on public market data and characteristics thereof, specifically the price of the underlying asset, strike of options, volatility, yield curve and time remaining until expiration of the agreements.

**Forward contracts**

The fair value of forward contracts, both for foreign exchange and sugar, contracted in the OTC market with top-tier banks, are calculated using the discounted future cash flow method, based on observable market inputs, specifically the DI interest curves and foreign exchange coupons published by the BM&F, PTAX published by the Central Bank of Brazil (BACEN), and prices of sugar futures published by Ice Futures in the ICE.

**Other financial assets and liabilities**

The carrying amounts of trade accounts receivables, notes receivable, trade accounts payable and notes payable, less impairment loss, or present value adjustment, when applicable, are assumed to approximate their fair values.

## 24. Segment reporting (consolidated)

Management has determined the São Martinho's operating segments based on the reports used for strategic decisions, which are reviewed by the main decision-makers, namely: the Executive Board, the CEO and the Board of Directors.

The analyses are made by segmenting the business based on the products sold by São Martinho, into the following segments:

*(i)* Sugar;
*(ii)* Ethanol;
*(iii)* Electricity;
*(iv)* Real estate transactions; and
*(v)* Other products, which includes operations related to production and sale of ribonucleic acid (sodium salt) and other products or by-products of lesser importance.

The operating segment performance is analyzed based on the statement of operations by product, focusing on profitability. The operating assets related to these segments are located in Brazil only.

In thousands of reais, unless otherwise stated

## Consolidated income statement by segment

| Consolidated | Sugar | Ethanol | Electricity | Real estate ventures | Other products | Not by segment | Total |
|---|---|---|---|---|---|---|---|
| | | | | | | | June 30, 2018 |
| Gross revenue | | | | | | | |
| Domestic market | 39,104 | 415,970 | 82,292 | 1,755 | 16,585 | - | 555,706 |
| Foreign market | 243,139 | 19,361 | - | - | - | - | 262,500 |
| Gain/loss on derivatives | 17,444 | (2) | - | - | - | - | 17,442 |
| Amortization of electric power supply agreement | - | - | - | - | - | (3,676) | (3,676) |
| ( - )Taxes, contributions and deductions on sales | (2,525) | (62,250) | (6,586) | (443) | (2,984) | - | (74,788) |
| Net revenue | 297,162 | 373,079 | 75,706 | 1,312 | 13,601 | (3,676) | 757,184 |
| Cost of sales | (209,765) | (275,555) | (12,362) | (58) | (7,844) | | (505,584) |
| Change in market value of biological assets | - | - | - | - | - | 5,431 | 5,431 |
| Gross profit | 87,397 | 97,524 | 63,344 | 1,254 | 5,757 | 1,755 | 257,031 |
| Gross margin | 29.41% | 26.14% | 83.67% | 95.58% | 42.33% | - | 33.95% |
| Selling expenses | (18,778) | (2,016) | (2,890) | - | (146) | - | (23,830) |
| Other operating expenses | - | - | - | - | - | (40,800) | (40,800) |
| Operating income | 68,619 | 95,508 | 60,454 | 1,254 | 5,611 | (39,045) | 192,401 |
| Operating margin | 23.09% | 25.60% | 79.85% | 95.58% | 41.25% | - | 25.41% |
| Other income and expenses not by segment | - | - | - | - | - | (88,442) | (88,442) |
| Net income for the year | - | - | - | - | - | - | 103,959 |

| Consolidated | Sugar | Ethanol | Electricity | Real estate ventures | Other products | Not by segment | Total |
|---|---|---|---|---|---|---|---|
| | | | | | | | June 30, 2017 |
| Gross revenue | | | | | | | |
| Domestic market | 47,350 | 326,821 | 72,202 | 1,271 | 16,190 | - | 463,834 |
| Foreign market | 419,863 | 12,028 | - | - | 2,879 | - | 434,770 |
| Gain/loss on derivatives | 37,123 | - | - | - | - | - | 37,123 |
| Amortization of electric power supply agreement | - | - | - | - | - | (3,289) | (3,289) |
| ( - )Taxes, contributions and deductions on sales | (3,904) | (106,132) | (5,990) | (165) | (3,981) | - | (120,172) |
| Net revenue | 500,432 | 232,717 | 66,212 | 1,106 | 15,088 | (3,289) | 812,266 |
| Cost of sales | (303,307) | (195,418) | (11,859) | (57) | (10,700) | - | (521,341) |
| Change in market value of biological assets | - | - | - | - | - | (15,539) | (15,539) |
| Gross profit | 197,125 | 37,299 | 54,353 | 1,049 | 4,388 | (18,828) | 275,386 |
| Gross margin | 39.39% | 16.03% | 82.09% | 94.85% | 29.08% | - | 33.90% |
| Selling expenses | (24,760) | (1,502) | (2,372) | - | (380) | - | (29,014) |
| Other operating expenses | - | - | - | - | - | (46,174) | (46,174) |
| Operating income | 172,365 | 35,797 | 51,981 | 1,049 | 4,008 | (65,002) | 200,198 |
| Operating margin | 34.44% | 15.38% | 78.51% | 94.85% | 26.56% | - | 24.65% |
| Other income and expenses not by segment | - | - | - | - | - | (83,325) | (83,325) |
| Net income for the year | 172,365 | 35,797 | 51,981 | 1,049 | 4,008 | (148,327) | 116,873 |

## Consolidated operating assets by segment

The main operating assets of São Martinho were segregated by segment based on the cost centers into which they are allocated and/or the apportionment criterion that takes into consideration the production of each product in relation to total production. This allocation could, therefore, vary from one period to another.

| | Sugar | Ethanol | Electricity | Real estate ventures | Not by segment | Total |
|---|---|---|---|---|---|---|
| | | | | | | June 30, 2018 |
| Trade accounts receivable | 85,160 | 34,967 | 34,062 | 34,635 | 51,713 | 240,537 |
| Inventories | 207,126 | 634,200 | - | 5,762 | 5,282 | 852,370 |
| Biological assets | 181,854 | 390,866 | - | - | - | 572,720 |
| Property, plant and equipment | 1,862,669 | 3,314,691 | 131,075 | - | 11,280 | 5,319,715 |
| Intangible assets | 236,076 | 169,342 | 57,829 | - | - | 463,247 |
| Total assets allocated | 2,572,885 | 4,544,066 | 222,966 | 40,397 | 68,275 | 7,448,589 |
| Other unallocated assets | - | - | - | - | 2,058,025 | 2,058,025 |
| Total | 2,572,885 | 4,544,066 | 222,966 | 40,397 | 2,126,300 | 9,506,614 |

In thousands of reais, unless otherwise stated

| | | | | | | March 31, 2018 |
|---|---|---|---|---|---|---|
| | Sugar | Ethanol | Electricity | Real estate ventures | Not by segment | Total |
| Trade accounts receivable | 17,543 | 116,920 | 32,695 | 34,109 | 1,495 | 202,762 |
| Inventories | 175,109 | 259,191 | - | 5,820 | 5,669 | 445,789 |
| Biological assets | 210,838 | 370,887 | - | - | - | 581,725 |
| Property, plant and equipment | 2,125,566 | 3,177,537 | 134,485 | - | 12,324 | 5,449,912 |
| Intangible assets | 237,612 | 169,019 | 63,400 | 126 | - | 470,157 |
| Total assets allocated | 2,766,668 | 4,093,554 | 230,580 | 40,055 | 19,488 | 7,150,345 |
| Other unallocated assets | - | - | - | - | 1,964,367 | 1,964,367 |
| Total | 2,766,668 | 4,093,554 | 230,580 | 40,055 | 1,983,855 | 9,114,712 |

Since the decision-makers analyze liabilities on a consolidated basis, information on liabilities is not reported by segment.

## 25. Revenues

The Company adopted IFRS 15 (CPC 47) Revenue from contract with customers. The new standard sets forth the principles that an entity will apply to determine the measurement of revenue and when it should be recognized, requiring recognition of the amount of revenue to reflect the consideration it expects to receive in return for control of those goods or services. This standard supersedes all current revenue recognition requirements in accordance with IFRS.

In relation to sales in the sugar and alcohol market and other derivative products, representing substantially the Company's revenues, there were no impacts with the adoption of the standard, since all performance obligations are concluded at the time of delivery of the final product, which is also the recognition of revenue.

The Company maintains the application of OCPC 04 - Application of Technical Interpretation 02, as directed by the CVM, recognizing revenue over time (POC).

Revenue comprises the fair value of the consideration received or receivable for the sale of products and services rendered in the normal course of the São Martinho's activities.

### *(a)* Sales of products and rendering of services

São Martinho sells sugar, ethanol, electricity, ribonucleic acid, sugarcane bagasse, among others. Sales of products are recognized whenever the Company has delivered products to the customer. The delivery is not made until: (i) the products have been sent to a local specified; (ii) the loss risks have been transferred to the customer; (iii) the customer has accepted the products according to the sale contract; and (iv) the acceptance provisions have been agreed to, or São Martinho has objective evidence that all criteria for acceptance have been met.

In thousands of reais, unless otherwise stated

São Martinho's renders planting, mechanization and logistics services. These services are priced according to the time incurred and materials used, and are recognized as they occur.

As of June 30, 2018, the Company had clients representing more than 10% of its net revenues. The Company's three largest customers of sugar sales account for about 29% of net revenue; while for the ethanol sold, the three largest customers account for 39%.

### *(b)* Sale of plots of land and subdivisions (real estate)

Sales revenues and land costs inherent to the projects are appropriated to income as the infrastructure works advance, as directed by the CVM and detailed above.

In term sales of land with infrastructure works completed, the result is appropriate at the time the sale is made, regardless of the term of receipt of the contractual value, and the revenues are measured at the fair value of the consideration received and receivable. The Company considers the adjustment to present value for the amounts receivable recorded.

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Gross sales revenue | | | | |
| Domestic market | 518,382 | 292,956 | 555,706 | 463,834 |
| Foreign market | 262,500 | 434,770 | 262,500 | 434,770 |
| Gain/loss on derivatives | 17,442 | 37,123 | 17,442 | 37,123 |
| | 798,324 | 764,849 | 835,648 | 935,727 |
| Amortization of electric power supply agreement (i) | - | - | (3,676) | (3,289) |
| | 798,324 | 764,849 | 831,972 | 932,438 |
| Taxes, contributions and deductions on sales | (72,219) | (105,563) | (74,788) | (120,172) |
| | 726,105 | 659,286 | 757,184 | 812,266 |

*(i)* Amortization of BIO's energy supply contracts.

In thousands of reais, unless otherwise stated

## 26. Costs and expenses by nature

Reconciliation of expenses by nature is as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Raw material and consumer and in-use materials | 200,634 | 196,238 | 191,278 | 206,273 |
| Personnel expenses | 91,778 | 85,765 | 92,482 | 99,196 |
| Depreciation and amortization (including biological assets harvested) | 198,473 | 159,749 | 199,589 | 202,055 |
| Third-party services | 31,195 | 38,074 | 30,316 | 38,534 |
| Maintenance services and parts | 24,083 | 21,384 | 24,180 | 26,579 |
| Litigation | 1,543 | 2,932 | 1,543 | 3,086 |
| Change in fair value of biological assets | (5,431) | 28,162 | (5,431) | 15,539 |
| Materials for resale | 4,818 | 2,732 | 6,473 | 5,158 |
| Cost of land sold | - | - | 46 | - |
| Other expenses | 26,861 | 3,512 | 27,709 | 14,440 |
| | 573,954 | 538,548 | 568,185 | 610,860 |
| Classified as: | | | | |
| Cost of sales | 507,382 | 474,484 | 500,153 | 536,880 |
| Selling expenses | 23,268 | 26,518 | 23,830 | 29,014 |
| General and administrative expenses | 43,304 | 37,546 | 44,202 | 44,966 |
| | 573,954 | 538,548 | 568,185 | 610,860 |

In thousands of reais, unless otherwise stated

## 27. Finance income (costs)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Finance income | | | | |
| Interest received and earned | 22,009 | 32,836 | 24,328 | 44,851 |
| PIS/COFINS on finance income | (1,136) | (2,268) | (1,191) | (2,727) |
| Other revenues | 2,429 | 2,648 | 4,002 | 2,670 |
| | 23,302 | 33,216 | 27,139 | 44,794 |
| Finance costs | | | | |
| Present value adjustment | (616) | (937) | (616) | (937) |
| Interest on borrowings | (64,563) | (65,530) | (64,785) | (76,608) |
| Interest paid and earned | (5,666) | (7,344) | (5,668) | (7,867) |
| Bank surety commission | (416) | (4,843) | (416) | (4,905) |
| Copersucar bonds | (2,195) | (1,287) | (2,195) | (1,287) |
| Monetary correction of contingencies | (1,772) | (835) | (1,782) | (1,579) |
| Other costs | (3,101) | (1,559) | (3,109) | (1,757) |
| | (78,329) | (82,335) | (78,571) | (94,940) |
| Monetary variation and foreign exchange differences, net | | | | |
| Cash and cash equivalents | 23,483 | 10,633 | 23,483 | 10,633 |
| Trade accounts receivable/payable | 6,569 | 193 | 6,569 | 193 |
| Borrowings | (1,300) | (6,008) | (1,300) | (8,307) |
| | 28,752 | 4,818 | 28,752 | 2,519 |
| Derivatives - not designated for hedge accounting | | | | |
| Gain (loss) on sugarcane transactions | (1,659) | (838) | (1,659) | (838) |
| Gain (loss) on ethanol transactions | - | (51) | - | (51) |
| Income from foreign exchange transactions | (7,508) | (1,567) | (7,508) | (1,567) |
| Gain (loss) on swap | (6,789) | 11,226 | (6,789) | 11,226 |
| Cost of stock exchange transactions | (58) | (202) | (58) | (202) |
| Foreign exchange differences, net | 118 | (228) | 118 | (228) |
| | (15,896) | 8,340 | (15,896) | 8,340 |
| Finance income (costs) | (42,171) | (35,961) | (38,576) | (39,287) |

In thousands of reais, unless otherwise stated

## 28. Earnings per share

| | June 30, 2018 | June 30, 2017 | |
|---|---|---|---|
| | Basic and diluted profit | Basic profit | Diluted profit |
| Income for the period attributed to Company shareholders | 103,959 | 116,873 | 116,873 |
| Weighted average number of common shares for the period - in thousand (i) | 326,779 | 334,556 | 335,425 |
| Earnings per share (in reais) | 0.3181 | 0.3493 | 0.3484 |

*(i)* Weighted average of 2017 included stock options with dilution potential.

## 29. Insurance coverage

São Martinho maintains a standard safety, training and quality program in its units, which aims, among other things, to reduce the risk of accidents. Furthermore, it maintains insurance contracts at amounts considered sufficient to cover significant losses, if any, on its assets and liabilities. The amounts covered by the current insurance policies at June 30, 2018 are as follows:

| Company and Consolidated<br>Covered perils | Maximum coverage (i) |
|---|---|
| Civil liability | 4,349,616 |
| Loss of profits | 3,646,632 |
| Other insurance coverage | 2,858,239 |
| Fire, lightning and explosion of any nature | 2,020,000 |
| Electric damages | 1,900,052 |
| Theft or larceny | 371,766 |
| Natural phenomena, vehicle or aircraft crash, etc. | 192,000 |

*(i)* Corresponds to the maximum coverage amount for the various assets and locations insured.

The vehicle coverage, mainly civil liability, is also included above, except for property damage, which has as reference, on average, 100% of the Economic Research Institute (FIPE) table.

In thousands of reais, unless otherwise stated

## 30. Acquisition and divestiture – payable and receivables

Net balance payable refers to the acquisition and disposal of equity investment and is as follows:

| Company and Consolidated | Acquisition of ownership interest<br>Santa Cruz | Divestiture<br>Agro Pecuária Boa Vista | Net balance |
|---|---|---|---|
| Balance at March 31, 2018 | (187,730) | 137,474 | (50,256) |
| Monetary restatement | (2,907) | 2,129 | (778) |
| Amortization (interest) | 2,916 | (2,135) | 781 |
| Balance at June 30, 2018 | (187,721) | 137,468 | (50,253) |
| | | | |
| | | Current liabilities | (11,743) |
| | | Noncurrent liabilities | (38,510) |
| | | | (50,253) |

These amounts are restated by reference to the CDI, paid on an annual basis and maturing until 2025.

## 31. Subsequent events

According to the relevant fact released on July 5, 2018, the Company performed the partial acquisition of biological assets of the Usina Açucareira Furlan S.A. together with Raizen Energia S.A. ( "Raizen") for the Santa Barbara D'Oeste plant ( "Transaction ")..

The Company and Raízen participated in the bidding process and, by contracting the Transaction, will assume agricultural and supply contracts totaling approximately 1 million tons of sugar cane in the region. The contracts predict that the Company will assume 1/3 of this volume, leaving 2/3 remaining with Raízen.

The amount of the Transaction will be R$ 118,000, to be disbursed proportionally by the Company and Raízen.

The Transaction was approved by the Board of Directors on July 2, 2018 and by the Administrative Council for Economic Defense (CADE) on July 26, 2018 its closing is subject to compliance with the conditions set forth in the agreement.

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