



**Quarterly Information (ITR) at  
June 30, 2019 and  
independent auditor's review report on  
quarterly information**

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

The  
Shareholders, Board of Directors and Officers  
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, 2019, which comprise the balance sheet as of June 30, 2019, 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.



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## **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, 2019, 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 12, 2019

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

A handwritten signature in black ink, appearing to read 'J. Navarrete', enclosed within a hand-drawn oval.

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

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# Statement of financial position

## At June 30 and March 31, 2019

In thousands of reais

ASSETS	Note	Company		Consolidated	
		June 30, 2019	March 31, 2019	June 30, 2019	March 31, 2019
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	4	76,102	197,170	76,415	197,607
Short-term investments	4	1,979,023	1,790,855	2,065,201	1,838,261
Trade accounts receivable	5	143,362	145,134	171,093	163,412
Derivative financial instruments	22	53,713	53,967	53,713	53,967
Inventories and advances to suppliers	6	651,964	224,170	650,933	232,322
Biological assets	10	654,035	657,057	654,035	657,057
Taxes recoverable	7	35,322	19,150	35,322	20,124
Income and social contribution taxes (IRPJ e CSLL)	19	89,933	79,759	89,934	79,759
Dividends receivable		-	-	294	-
Other assets		21,671	9,276	22,329	10,191
<b>TOTAL CURRENT ASSETS</b>		<b>3,705,125</b>	<b>3,176,538</b>	<b>3,819,269</b>	<b>3,252,700</b>
<b>NONCURRENT ASSETS</b>					
Short-term investments	4	50,510	49,681	54,249	53,345
Inventories and advances to suppliers	6	155,203	131,881	155,203	131,881
Transactions with related parties	8	9	9	-	-
Derivative financial instruments	22	48	229	48	229
Trade accounts receivable	5	-	-	21,939	22,488
Receivables from Copersucar		10,017	10,017	10,017	10,017
Taxes recoverable	7	90,673	79,790	91,652	79,790
Judicial deposits	21	87,772	27,035	87,946	27,210
Other assets		14,366	14,366	14,366	14,366
		408,598	313,008	435,420	339,326
Investments	9	1,381,105	1,345,290	33,651	33,537
Property, plant and equipment	11	3,852,387	3,979,304	5,516,418	5,644,660
Intangible assets	12	416,578	417,845	473,059	478,499
Use Rights	13	2,162,815	-	2,111,941	-
		7,812,885	5,742,439	8,135,069	6,156,696
<b>TOTAL NONCURRENT ASSETS</b>		<b>8,221,483</b>	<b>6,055,447</b>	<b>8,570,489</b>	<b>6,496,022</b>
<b>TOTAL ASSETS</b>		<b>11,926,608</b>	<b>9,231,985</b>	<b>12,389,758</b>	<b>9,748,722</b>

LIABILITIES AND EQUITY	Note	Company		Consolidated	
		June 30, 2019	March 31, 2019	June 30, 2019	March 31, 2019
<b>CURRENT LIABILITIES</b>					
Borrowings	14	1,007,469	754,999	1,007,469	754,999
Lease	13	55,356	-	55,356	-
Land partnership payable	13	265,614	-	217,703	-
Derivative financial instruments	22	17,680	37,369	17,680	37,369
Trade accounts payables	15	270,345	155,492	261,067	152,713
Payables to Copersucar	16	9,094	9,094	9,094	9,094
Salaries and social charges		179,960	133,598	180,911	134,372
Taxes payable		16,457	38,907	18,967	40,833
Income and social contribution taxes (IRPJ e CSLL)	19	-	-	5,918	4,178
Dividends payable		81,077	81,077	81,077	81,077
Advances from customers		6,006	4,246	6,069	4,295
Acquisition of ownership interests	8 e 30	11,696	11,715	11,696	11,715
Other liabilities		12,724	21,216	18,671	27,020
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,933,478</b>	<b>1,247,713</b>	<b>1,891,678</b>	<b>1,257,665</b>
<b>NONCURRENT LIABILITIES</b>					
Borrowings	14	3,706,191	3,697,601	3,706,191	3,697,601
Lease	13	433,111	-	433,111	-
Land partnership payable	13	1,411,668	-	1,411,668	-
Derivative financial instruments	22	20,400	13,520	20,400	13,520
Payables to Copersucar	16	198,795	201,498	198,795	201,498
Taxes in installments		2,885	2,998	2,885	2,998
Deferred income and social contribution taxes	19	504,064	482,442	1,008,531	988,760
Provision for contingencies	21	105,628	103,350	106,111	103,817
Acquisition of ownership interests	8 e 30	26,890	26,890	26,890	26,890
Taxes with suspended eligibility	16	58,313	58,313	58,313	58,313
Other liabilities		6,650	6,650	6,650	6,650
<b>TOTAL NONCURRENT LIABILITIES</b>		<b>6,474,595</b>	<b>4,593,262</b>	<b>6,979,545</b>	<b>5,100,047</b>
<b>EQUITY</b>					
Capital	17				
Capital Reserve		1,696,652	1,696,652	1,696,652	1,696,652
Treasury Shares		9,418	9,418	9,418	9,418
Equity adjustments		(56,868)	(234,100)	(56,868)	(234,100)
Income reserves		1,048,162	1,016,355	1,048,162	1,016,355
Retained earnings		748,168	902,685	748,168	902,685
<b>TOTAL EQUITY</b>		<b>3,518,535</b>	<b>3,391,010</b>	<b>3,518,535</b>	<b>3,391,010</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>11,926,608</b>	<b>9,231,985</b>	<b>12,389,758</b>	<b>9,748,722</b>

See accompanying notes.

**Statement of income**  
**Periods ending at June 30, 2019 and 2018**  
**In thousands of reais**

	Note	Company		Consolidated	
		June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenues	25	724,511	726,105	751,729	757,184
Cost of sales	26	(560,843)	(507,382)	(553,031)	(500,153)
Gross profit		163,668	218,723	198,698	257,031
Operating income (expenses)					
Selling expenses	26	(24,896)	(23,268)	(25,472)	(23,830)
General and administrative expenses	26	(51,045)	(43,304)	(51,931)	(44,202)
Equity pickup in subsidiaries	9	35,815	37,928	408	(849)
Other revenues, net		9,779	3,773	10,698	4,251
		(30,347)	(24,871)	(66,297)	(64,630)
Operating income		133,321	193,852	132,401	192,401
Finance income (costs)	27				
Finance income		44,687	23,302	47,363	27,139
Finance costs		(95,315)	(78,329)	(94,704)	(78,571)
Monetary variations and foreign exchange differences, net		(16,017)	28,752	(16,017)	28,752
Derivatives		(158)	(15,896)	(158)	(15,896)
		(66,803)	(42,171)	(63,516)	(38,576)
Income before income and social contribution taxes		66,518	151,681	68,885	153,825
Income and social contribution taxes (IRPJ and CSLL)	19 (b)				
Current		27,991	15,888	25,213	13,299
Deferred		(3,046)	(63,610)	(2,635)	(63,165)
Net income for the period		91,463	103,959	91,463	103,959
Basic and diluted earnings per share (in reais)	28	0.2584	0.3181	0.2584	0.3181

See accompanying notes.

**Statements of comprehensive income**  
**Periods ending at June 30, 2019 and 2018**  
**In thousands of reais**

<b>Company and Consolidated</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>
Net income for the period	91,463	103,959
Items that will be reclassified subsequently to P&L		
Changes for the period:		
Changes in fair value:		
Commodity derivatives - Future, options and forward contracts	9,522	29,483
Foreign exchange derivatives - Options / NDF	14,363	(69,045)
Foreign exchange differences on borrowing agreements (Trade Finance)	29,674	(167,252)
	<u>53,559</u>	<u>(206,814)</u>
Recognition in operating income		
Commodity derivatives - Future, options and forward contracts	(775)	(34,541)
Foreign exchange derivatives - Options / NDF	1,385	6,794
Foreign exchange differences on borrowing agreements (Trade Finance)	442	10,305
	<u>1,052</u>	<u>(17,442)</u>
Write-off due to ineffectiveness		
Commodity derivatives - Future, options and forward contracts	27	-
	<u>27</u>	<u>-</u>
Total changes for the year		
Commodity derivatives - Future, options and forward contracts	8,774	(5,058)
Foreign exchange derivatives - Options / NDF	15,748	(62,251)
Foreign exchange differences on borrowing agreements (Trade Finance)	30,116	(156,947)
Deferred taxes on the items above	(18,576)	76,247
	<u>36,062</u>	<u>(148,009)</u>
Comprehensive income for the period	<u>127,525</u>	<u>(44,050)</u>

See accompanying notes.

# Statement of changes in equity in periods ending at June 30, 2019 and 2018

In thousand of reais

	Note	Equity adjustments											Retained earnings	Total	
		Capital	Capital Reserve	Treasury shares	Options granted	Deemed cost		Hedge accounting	Income reserve						
						Own	Of investees		Legal	Capital budget	Unrealized income reserve	Tax incentive reserve			Additional dividends
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. i)	-	-	-	-	(2,854)	(195)	-	-	-	-	-	-	3,049	-
Gain (loss) on derivate transactions - hedge accounting	17 (c. ii)	-	-	-	-	-	-	(148,009)	-	-	-	-	-	-	(148,009)
Constitution of tax incentive reserve	-	-	-	-	-	-	-	-	-	-	-	17,636	-	(17,636)	-
CPC 48 (IFRS 9) initial adoption	-	-	-	-	-	-	-	-	-	-	-	-	-	(620)	(620)
Change Options Plan	8 (d)	-	-	-	(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
Balance at March 31, 2019	17	1,696,652	9,418	(234,100)	-	172,822	989,265	(145,732)	110,427	357,124	40,463	365,748	28,923	-	3,391,010
Realization of deemed cost surplus	17 (c. i)	-	-	-	-	(3,905)	(350)	-	-	-	-	-	-	4,255	-
Gain (loss) on derivate transactions - hedge accounting	17 (c. ii)	-	-	-	-	-	-	36,062	-	-	-	-	-	-	36,062
Cancellation of treasury shares	17 b	-	-	177,232	-	-	-	-	-	(177,232)	-	-	-	-	-
Tax incentive reserve constitution	17 (d. iv)	-	-	-	-	-	-	-	-	-	-	22,715	-	(22,715)	-
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	91,463	91,463
At June 30, 2019	17	1,696,652	9,418	(56,868)	-	168,917	988,915	(109,670)	110,427	179,892	40,463	388,463	28,923	73,003	3,518,535

See accompanying notes.



**Statement of cash flows**  
**Periods ending at June 30, 2019 and 2018**  
**In thousands of reais**

	Note	Company		Consolidated	
		June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<b>Cash flow from operating activities</b>					
Net income for the period		91,463	103,959	91,463	103,959
Adjustments					
Depreciation and amortization	26	159,877	69,778	149,244	70,894
Biological assets harvested	26	129,409	128,695	129,409	128,695
Change in fair value of biological assets	26	(9,274)	(5,431)	(9,274)	(5,431)
Amortization of energy contracts	25	-	-	2,763	3,677
Equity pickup in subsidiaries	9	(35,815)	(37,928)	(408)	849
Income (loss) from investment and PPE written off	11	1,298	1,908	279	1,908
Interest, monetary variations and foreign exchanges differences, net		57,032	43,265	55,360	41,182
Derivative financial instruments		1,210	(1,547)	1,210	(1,547)
Setup of provision for contingences, net	21.1	4,333	2,149	4,350	2,149
Income and social contribution taxes (IRPJ e CSLL)	19 (b)	(24,945)	47,722	(22,578)	49,866
Present value adjustment and other		3,325	6,890	2,013	5,925
		377,913	359,460	403,831	402,126
<b>Changes in assets and liabilities</b>					
Trade accounts receivables		(5,432)	(15,371)	(13,054)	(30,726)
Inventories		(250,789)	(267,448)	(250,626)	(255,446)
Taxes recoverable		(26,369)	2,609	(26,371)	2,603
Derivative financial instruments		11,380	12,981	11,380	12,981
Other assets		(72,504)	(626)	(72,249)	(473)
Trade accounts payable		117,003	86,192	110,503	86,735
Salaries and social contributions		46,362	36,590	46,539	36,814
Taxes Payable		5,412	23,600	5,836	24,359
Payables to Copersucar		(3,676)	(3,302)	(3,676)	(3,302)
Provision for contingences - settlements	21.1	(4,896)	(4,171)	(4,913)	(4,171)
Other liabilities		(3,284)	(30,002)	(3,124)	(33,094)
Cash from operations		191,120	200,512	204,076	238,406
Payment of interest on loans and financing	14	(62,427)	(60,832)	(62,427)	(61,051)
Income and social contribution taxes paid		-	-	(879)	(872)
Cash from operating activities		128,693	139,680	140,770	176,483
<b>Cash flow from investing activities</b>					
Investment of funds	30	(608)	(781)	(608)	(781)
Additions to PPE and intangible assets		(57,029)	(43,478)	(57,059)	(45,409)
Additions to PPE (planting and cultivation)	10 e 11	(180,393)	(166,484)	(180,393)	(166,484)
Short-term investments		(159,825)	121,869	(197,585)	88,020
Funds from the sale of PPE	11	1,961	1,569	3,191	1,569
Cash and cash equivalents of subsidiary		-	156	-	-
Future capital contribution		-	(333)	-	(333)
Net cash used in investing activities		(395,894)	(87,482)	(432,454)	(123,418)
<b>Cash flow from financing activities</b>					
Amortizations of lease	13	(129,361)	-	(105,002)	-
Fundraising - third parties	14	416,087	981,355	416,087	981,355
Amortizations of financing - third parties	14	(140,593)	(860,599)	(140,593)	(861,477)
Net cash from financing activities		146,133	120,756	170,492	119,878
Net increase in cash and cash equivalents		(121,068)	172,954	(121,192)	172,943
Cash and cash equivalents at beginning of period	4	197,170	139,622	197,607	140,865
Cash and cash equivalents at end of period	4	76,102	312,576	76,415	313,808
<b>Additional information</b>					
Balances in short-term investments	4	1,979,023	1,157,507	2,065,201	1,255,489
Total available funds	4	2,055,125	1,470,083	2,141,616	1,569,297

See accompanying notes.

**Statement of value added**  
**Periods ending at June 30, 2019 and 2018**  
**In thousands of reais**

	Company		Consolidated	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenues				
Gross sales of goods and products	796,434	797,785	831,094	824,611
Revenue related to construction of own assets	179,578	164,055	179,578	164,055
Other revenues	644	10,537	1,540	10,985
	<u>976,656</u>	<u>972,377</u>	<u>1,012,212</u>	<u>999,651</u>
Inputs acquired from third parties				
Costs of sales	(210,491)	(248,908)	(211,511)	(228,367)
Materials, energy, third-party services and other operating expenses	(161,091)	(178,833)	(168,788)	(186,276)
	<u>(371,582)</u>	<u>(427,741)</u>	<u>(380,299)</u>	<u>(414,643)</u>
Gross value added	605,074	544,636	631,913	585,008
Depreciation and amortization	(159,877)	(69,778)	(149,244)	(70,894)
Biological assets harvested	(129,409)	(128,695)	(129,409)	(128,695)
Net value added produced by the entity	315,788	346,163	353,260	385,419
Value added received in transfer				
Equity pickup in subsidiaries	35,815	37,928	408	(849)
Finance income	94,775	55,969	97,452	59,798
Other	9,306	(20)	9,331	12
Total value added to be distributed	<u>455,684</u>	<u>440,040</u>	<u>460,451</u>	<u>444,380</u>
Distribution of value added				
Personnel and charges				
Direct compensation	115,107	111,053	115,164	111,103
Benefits	40,675	35,040	40,879	35,236
Unemployment Compensation Fund (FGTS)	11,580	10,282	11,584	10,286
Management compensation	8,270	10,008	8,546	10,280
Taxes, charges and contributions				
Federal	(3,199)	67,418	832	70,858
State	29,901	4,930	30,069	5,057
Municipal	617	483	627	483
Creditors				
Interest	89,916	70,632	89,916	70,856
Leases	607	615	607	615
Foreign exchange differences	59,515	2,680	59,515	2,680
Other	11,232	22,940	11,249	22,967
Retained profits for the period	<u>91,463</u>	<u>103,959</u>	<u>91,463</u>	<u>103,959</u>
Value added distributed	<u>455,684</u>	<u>440,040</u>	<u>460,451</u>	<u>444,380</u>

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 B3 S.A. – Brasil, Bolsa e Balção. The Company, its subsidiaries and jointly-controlled subsidiaries (together, the “Group”) 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 LJM Participações S.A. (“LJM”), which holds controlling interest of 53.74% in its voting capital. In turn, the owners of LJM are the following family holding companies: Luiz Ometto Participações S.A., João Ometto Participações S.A. and Nelson Ometto Participações Ltda.

Issue of this interim financial information was approved by the Company’s Board of Directors on August 12, 2019.

## 2. Summary of significant accounting practices

### 2.1 Statement of compliance and basis of preparation

The Company’s interim and consolidated financial information was 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

## Notes to the Financial Statements

June 30, 2019

In thousands of reais, unless otherwise stated

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.

The consolidated balances in the current interim financial information represent 100% of the equity interest of the following companies:

Company	Main Activities
São Martinho Terras Imobiliárias S.A. ("SM Terras Imobiliárias") (i)	Exploitation of land through agricultural lease and partnership, rental and sale of real estate.
Bioenergética São Martinho S.A. ("Bio SM") (ii)	Cogeneration of electricity.
Bioenergética Santa Cruz S.A. ("Bio SC") (ii)	Cogeneration of electricity.
São Martinho Inova S.A. ("SM Inova")	Hold interest in companies.
São Martinho Terras Agrícolas S.A. ("SM Terras Agrícolas")	Exploitation of land through agricultural lease and partnership, rental and sale of real estate.
São Martinho Logística e Participações S.A. ("SM Logística")	General product storage

(i) São Martinho Terras Imobiliárias ("SM Terras Imobiliárias"): includes its subsidiaries that have merger and exploitation of real estate venture, constituted by SPE's (Special-Purpose Entity).

(ii) Formerly called São Martinho Energia S.A. and Cia Bioenergética Santa Cruz 1, respectively. Names changed at the Annual General Meeting held on July 25, 2019.

### 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 adopts IFRS 9 (CPC 48) Financial Instruments (except for items related to hedge accounting), which classifies its financial assets as: measured at amortized cost, at fair value through other comprehensive income and at fair value through of the result.

Impairment calculations of financial instruments are performed using the prospective concept of “expected credit losses”, requiring a relevant judgment as how changes in economic factors affect expected credit losses. These provisions will be measured in: 12-month expected credit losses and lifetime expected credit losses, i.e. credit losses that result from all possible default events over the expected life of a financial instrument.

For hedge accounting, the Company continues 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, the Group'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, the Group 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 Group'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**

As of April 1, 2019, the Company adopted IFRS 16 (CPC 06 (R2)) - Leasing Operations that introduces a single accounting model for leases and agricultural partnerships in the balance sheet. The right to use the asset was recognized as an asset and the obligation to pay as a liability. The comparative information presented for March 31, 2019 follows CPC 06 / IAS 17 and related interpretations, following the modified retrospective approach. Following are the details of changes in accounting policies:

##### **a) Leasing. IFRS 16 Definition (CPC 06 R2)**

The Company adopted the definition of lease in accordance with ICPC 03 / IFRIC 4 - Complementary Aspects of Leasing Operations. Now, under IFRS 16, it considers lease to be any contract that, upon consideration, transfers to it the right to control the use of an asset for a certain period. The agricultural partnership agreements were accounted for as leases, although they have a different legal nature.

##### **b) Lessee**

The Company adopted the modified retrospective approach and the following criteria: (i) liabilities: remaining balances of the contracts in force on the date of initial adoption, discounted from the real interest rate on São Martinho loans (weighted average rate of 4.02%); and (ii) asset: amount equivalent to the liability adjusted to present value.

No assets and liabilities were recognized for low value contracts (computers, telephones and computer equipment in general) and / or term limited to 12 months. Payments associated with these contracts were recorded as expenses under the straight-line method.

#### **c) Lessor**

There was no change in the way of accounting for contracts in which the Company is a lessor.

The impacts of adopting the standard are detailed in note 13.

### **3. 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**

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 due. 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. At the date of the current interim financial information, no Business Combinations occurred.

#### **g) ICMS tax benefits**

As described in Note 17 (d), the Company 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 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.

## Notes to the Financial Statements

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### 4. 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		
	Yield	June 30, 2019	March 31, 2019	Yield	June 30, 2019	March 31, 2019
Cash and banks (in Brazil)		303	156		616	593
Cash and banks - abroad (US Dollar)	2,3% p.y.	75,799	197,014	2,3% p.y.	75,799	197,014
Total cash and cash equivalents		76,102	197,170		76,415	197,607
Short-term investments						
. Investment fund						
. Funds - Financial Treasury Bills (LFT) (i)	103,88% CDI	1,979,023	1,790,855	103,68% CDI	2,065,201	1,838,261
. Bank Deposit Certificate (CDB)	100% SELIC	26,316	25,917	100% SELIC	26,316	25,917
. Other (i)	98,11% CDI	24,194	23,764	98,11% CDI	24,195	23,765
	100% CDI	-	-	100% CDI	3,738	3,663
Total financial investments		2,029,533	1,840,536		2,119,450	1,891,606
In noncurrent assets		50,510	49,681		54,249	53,345
Total available funds		2,055,125	1,988,025		2,141,616	2,035,868

(i) Resources given as guarantee for financing operations with the BNDES and brokers with redemption restriction until the maturity of the contracts.

### 5. 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:

	Company		Consolidated	
	June 30, 2019	March 31, 2019	June 30, 2019	March 31, 2019
Domestic Customers	80,626	118,229	130,796	159,603
Foreign market customers	62,736	26,905	62,736	26,905
Expected loss on doubtful accounts	-	-	(500)	(608)
	143,362	145,134	193,032	185,900
Current assets	143,362	145,134	171,093	163,412
Noncurrent assets	-	-	21,939	22,488

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

	Company		Consolidated	
	June 30, 2019	March 31, 2019	June 30, 2019	March 31, 2019
Falling due:	142,849	144,282	192,117	184,857
Overdue and not provisioned:				
Within 30 days	46	12	328	82
Over 31 days	467	840	587	961
	143,362	145,134	193,032	185,900

## Notes to the Financial Statements

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Out of the amount receivable, R\$ 3,805 and R\$ 84 Company and Consolidated, respectively (R\$ 5,130 and R\$ 109, Company and Consolidated, respectively, at March 31, 2018), refer to related parties, as detailed in Note 8.

### 6. Inventories and advances to suppliers

	Company		Consolidated	
	June 30, 2019	March 31, 2019	June 30, 2019	March 31, 2019
Current				
Finished products and work-in-process	441,335	47,825	432,189	47,825
Advances - purchases of sugarcane	85,917	52,413	85,917	52,413
Advances - purchases of inputs	56,835	55,746	56,835	55,746
Land subdivisions	-	-	8,115	8,152
Inputs, ancillary materials for maintenance and other	67,877	68,186	67,877	68,186
	<u>651,964</u>	<u>224,170</u>	<u>650,933</u>	<u>232,322</u>
Noncurrent				
Advances - purchases of sugarcane	155,203	131,881	155,203	131,881
	<u>155,203</u>	<u>131,881</u>	<u>155,203</u>	<u>131,881</u>
	<u>807,167</u>	<u>356,051</u>	<u>806,136</u>	<u>364,203</u>

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) refers to real estate developments and is stated at acquisition cost, increased by the deemed cost surplus of land.

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.

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### 7. Taxes recoverable

Breakdown of taxes recoverable is as follows:

	Company		Consolidated	
	June 30, 2019	March 31, 2019	June 30, 2019	March 31, 2019
Current				
PIS / COFINS	25,452	12,139	25,445	12,164
ICMS	8,947	6,129	8,947	7,071
Other	923	882	930	889
	<u>35,322</u>	<u>19,150</u>	<u>35,322</u>	<u>20,124</u>
Noncurrent				
PIS / COFINS	44,876	46,419	44,908	46,419
Brazilian Special Regime for Reinstatement of Taxes for Exporters (REINTEGRA)	4,776	4,495	4,776	4,495
IOF on derivatives	8,530	8,388	8,530	8,388
ICMS	26,018	13,616	26,965	13,616
Social Security Tax (INSS)	6,473	6,369	6,473	6,369
Other	-	503	-	503
	<u>90,673</u>	<u>79,790</u>	<u>91,652</u>	<u>79,790</u>
	<u>125,995</u>	<u>98,940</u>	<u>126,974</u>	<u>99,914</u>

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	Consolidated
From 01/07/2020 to 30/06/2021	41,735	50,007
From 01/07/2021 to 30/06/2022	8,227	8,227
From 01/07/2022 to 30/06/2023	7,294	7,294
From 01/07/2023 to 30/06/2024	7,294	6,846
From 01/07/2024 to 30/06/2025	6,846	3,736
From 01/07/2025 onwards	19,277	15,542
	<u>90,673</u>	<u>91,652</u>



## Notes to the Financial Statements

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## 8. Related parties

### a) Company and consolidated balances:

	Company		Consolidated	
	June 30, 2019	March 31, 2019	June 30, 2019	March 31, 2019
<b>Current assets</b>				
Trade accounts receivable (i)				
São Martinho Terras Imobiliárias S.A.	15	329	-	-
Cia Bioenergética Santa Cruz 1	797	7	-	-
São Martinho Energia S.A.	2,895	4,661	-	-
São Martinho Terras Agrícolas S.A.	10	14	-	-
Other	88	119	84	109
	3,805	5,130	84	109
Inventories - purchase of sugarcane				
From shareholders / related parties	9,310	6,545	9,310	6,616
Dividends receivable				
CTC - Centro de Tecnologia Canavieira S.A.	-	-	294	-
	-	-	294	-
<b>Noncurrent assets</b>				
Advance for future capital increase				
São Martinho Inova S.A.	9	9	-	-
	9	9	-	-
<b>Current liabilities</b>				
Trade account payables				
Luiz Ometto Participações S.A. (ii)	-	3,313	-	3,313
São Martinho Terras Imobiliárias S.A.	2,091	47	-	-
Cia Bioenergética Santa Cruz 1	632	634	-	-
São Martinho Terras Agrícolas S.A.	45,820	4,544	-	-
Other	167	167	167	167
	48,710	8,705	167	3,480
Rental of lands				
From shareholders / related parties	3,385	824	3,385	824
<b>Current liabilities and noncurrent liabilities</b>				
Acquisition of equity interest				
Luiz Ometto Participações S.A. (note 30)	38,586	38,605	38,586	38,605

(i) Refers to expenses with the Shared Services Center and purchase of products and services.

(ii) Refers to the transfer of the indemnity proceeding conf. detailed in Note 16 (b).

Additionally, in Leases and Agricultural Partnership payable there are amounts recorded with related parties, arising from agreements of the respective nature.

## Notes to the Financial Statements

### June 30, 2019

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

	Company		Consolidated	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Sales revenue				
Cia Bioenergética Santa Cruz I	1,974	2,494	-	-
São Martinho Energia S.A.	1,748	2,012	-	-
	<u>3,722</u>	<u>4,506</u>	<u>-</u>	<u>-</u>
Reimbursed expenses/(purchase of products and services)				
São Martinho Terras Imobiliárias S.A.	(1,233)	(1,096)	-	-
São Martinho Terras Agrícolas S.A.	(23,090)	(20,143)	-	-
Cia Bioenergética Santa Cruz I	(820)	(970)	-	-
São Martinho Energia S.A.	82	73	-	-
Agro Pecuária Boa Vista S/A	49	33	49	33
	<u>(25,012)</u>	<u>(22,103)</u>	<u>49</u>	<u>33</u>
Shareholders and Related Parties				
Sugarcane purchases / agricultural partnership and land lease				
Agro Pecuária Boa Vista S/A	(7,789)	(6,569)	(7,789)	(6,569)
Others	(4,360)	(3,929)	(4,360)	(3,929)
	<u>(12,149)</u>	<u>(10,498)</u>	<u>(12,149)</u>	<u>(10,498)</u>

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, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Salaries, fees and bonus	6,202	5,571	6,616	5,978
Social security and social contributions	1,317	1,224	1,400	1,305
Other	444	412	494	462
	<u>7,963</u>	<u>7,207</u>	<u>8,510</u>	<u>7,745</u>

#### d) Stock Option Plan (virtual options)

During the fiscal year ended March 31<sup>st</sup>, 2019, the change in the balances of the current Stock Option Plan, which was approved at a Board of Directors' meeting held on May 2<sup>nd</sup>, 2018, was defined. The referred plan will rule by the cash liquidation 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 by the previously agreed contracts. Therefore, the comparability of the current period's results with the same prior period is significantly affected.

In accordance with IFRS 2 (CPC 10), due to the change in the form of liquidation of the plans, which were previously settled with equity instruments

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and are now settled in cash, the balance provisioned on March 31st, 2018 referring to the Virtual Options was transferred to item of "Salaries and Charges payable", in current liabilities.

The carrying amount of the liability in the current interim financial information relating to the new fair value calculation of the Virtual Options Plan is R \$ 7,444 and R \$ 3,501 as of March 31, 2019.

At the Board of Directors meeting held on December 10th, 2018, the 10th Stock Option Plan was approved. The regulation of the new plan will govern all of the characteristics of the other plans already existing in the Company.

The balances of the virtual options plans issued and their movement during the current financial statements are shown below:

Plan	6th Plan	7th Plan	8th Plan	9th Plan	10th Plan	Total
Plan issue date	15/12/2014	14/12/2015	12/12/2016	02/05/2018	10/12/2018	
Deadline for exercise (i)	2021	2022	2023	2024	2025	
Options granted	835,725	696,465	727,273	882,074	1,133,513	4,275,050
Options exercised (ii)	(616,923)	(241,071)	(57,447)	-	-	(915,441)
Outstanding stock options	218,802	455,394	669,826	882,074	1,133,513	3,359,609
Year Price	12.04	15.87	17.70	17.76	19.07	

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

## 9. Investments

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

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

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

Company	% ownership interest (current)	Adjusted equity of investee		Book value of investments		Consolidated Equity pickup	
		June 30, 2019	March 31, 2019	June 30, 2019	March 31, 2019	June 30, 2019	June 30, 2018
<b>Classified in investment</b>							
São Martinho Terras Imobiliárias S.A.	100.00%	149,233	147,924	149,264	147,925	1,339	3,469
São Martinho Energia S.A.	100.00%	33,813	25,387	33,813	25,387	8,426	9,259
São Martinho Inova S.A.	100.00%	26,319	25,911	26,319	25,911	408	(544)
São Martinho Terras Agrícolas S.A.	100.00%	1,055,420	1,044,247	1,056,014	1,044,247	11,767	8,667
São Martinho Logística e Participações S.A.	100.00%	2,799	2,828	2,799	2,828	(29)	(29)
Companhia Bioenergética Santa Cruz 1	100.00%	111,037	97,133	111,037	97,133	13,904	17,411
Others		-	-	1,859	1,859	-	-
<b>Total classified in investment</b>		1,378,621	1,343,430	1,381,105	1,345,290	35,815	38,233
<b>Classified in noncurrent liabilities</b>							
Usina Santa Luiza S.A. (i)		-	-	-	-	-	(305)
<b>Total classified in noncurrent liabilities</b>		-	-	-	-	-	(305)
<b>Closing balance</b>		1,378,621	1,343,430	1,381,105	1,345,290	35,815	37,928

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Company	% ownership interest (current)	Adjusted equity of investee		Book value of investments		Consolidated Equity pickup	
		June 30, 2019	March 31, 2019	June 30, 2019	March 31, 2019	June 30, 2019	June 30, 2018
		<b>Classified in investment</b>					
CTC - Centro de Tecnologia Canavieira S.A. (ii)	5.41%	587,157	579,620	31,792	31,678	408	(544)
Others		-	-	1,859	1,859	-	-
<b>Total classified in investment</b>		<b>587,157</b>	<b>579,620</b>	<b>33,651</b>	<b>33,537</b>	<b>408</b>	<b>(544)</b>
<b>Classified in noncurrent liabilities</b>							
Usina Santa Luiza S.A. (i)		-	-	-	-	-	(305)
<b>Total classified in noncurrent liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(305)</b>
<b>Closing balance</b>		<b>587,157</b>	<b>579,620</b>	<b>33,651</b>	<b>33,537</b>	<b>408</b>	<b>(849)</b>

(i) Merged investee, as detailed in note 10.4 of the financial statements for the year ended March 31, 2019.

(ii) Unconsolidated investees, being valued by the equity method in the quarterly information.

### 10. 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;

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:

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Company and Consolidated	June 30, 2019	March 31, 2019
Estimated harvest total area (ha)	238,096	237,080
Expected productivity (ton/ha)	84.08	85.74
Number of Total Recoverable Sugar (ATR) per sugar cane tc	137.29	133.50
Projected average price of ATR (R\$)	0.6285	0.6171

In the current interim financial information, the discount rate used to calculate the fair value of biological assets is 7.36% a.a. (7.88% a.a. at March 31, 2019).

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:

	Company		Consolidated	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Historical cost	742,524	518,751	742,524	686,591
Fair value	(85,467)	(99,018)	(85,467)	(104,866)
Biological assets at March 31	657,057	419,733	657,057	581,725
Changes:				
Increase resulting from cultivation	117,056	106,142	117,056	106,142
Transfers from property, plant and equipment	73,352	99,973	73,352	99,973
Change in fair value	25,794	31,178	25,794	31,178
Usina Boa Vista Incorporation	-	161,994	-	-
Reductions resulting from harvest	(219,224)	(246,300)	(219,224)	(246,298)
Closing balance of biological assets:	654,035	572,720	654,035	572,720
Represented by:				
Historical cost	713,708	640,559	713,708	646,408
Fair value	(59,673)	(67,839)	(59,673)	(73,688)
Closing balance of biological assets:	654,035	572,720	654,035	572,720

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.

### 11. 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.

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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.



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Company	Land	Buildings and outbuildings	Equipment and manufacturing facilities	Inter-crop maintenance	Vehicles	Agricultural machinery and farming implements	Leasehold improvements and other PPE	Construction in Progress	Sugarcane plantation	Total
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
Acquisition	4,297	1,044	10,062	303,863	24,031	16,710	1,051	137,410	303,215	801,683
Transfer to biological assets	-	-	-	-	-	-	-	-	(167,925)	(167,925)
Cost of sale	(64)	(2,097)	(1,297)	-	(2,634)	(3,384)	(194)	-	(290)	(9,960)
Usina Boa Vista S/A Incorporation	49,198	161,880	413,287	60,568	61,980	80,845	38,537	4,044	222,663	1,093,002
Usina Santa Luiza S/A Incorporation	57	1,021	92	-	-	1	-	-	-	1,171
Pulisc Incorporation	-	-	-	-	-	-	-	-	10,742	10,742
Transfers between groups	-	8,591	44,304	4,098	886	(10,419)	2,031	(66,041)	16,550	-
Depreciation	-	(11,361)	(77,705)	(280,151)	(20,654)	(28,298)	(10,354)	-	-	(428,523)
Balances at March 31, 2019	209,296	401,832	1,179,860	306,422	229,566	287,476	53,460	120,764	1,190,628	3,979,304
Total cost	209,296	490,357	1,775,974	306,422	363,639	565,861	170,003	120,764	1,190,628	5,192,944
Accumulated depreciation	-	(88,525)	(596,114)	-	(134,073)	(278,385)	(116,543)	-	-	(1,213,640)
Residual value	209,296	401,832	1,179,860	306,422	229,566	287,476	53,460	120,764	1,190,628	3,979,304
Acquisition	-	260	1,798	6,285	5,779	31,438	456	5,721	63,337	115,074
Transfer to biological assets	-	-	-	-	-	-	-	-	(73,352)	(73,352)
Cost of sale	-	-	(5)	-	(747)	(2,101)	(370)	-	(36)	(3,259)
Transfers between groups	-	3,297	8,350	-	377	(427)	1,282	(14,434)	1,555	-
Depreciation	-	(3,636)	(27,378)	(111,421)	(6,401)	(13,374)	(3,170)	-	-	(165,380)
Balances at June 30, 2019	209,296	401,753	1,162,625	201,286	228,574	303,012	51,658	112,051	1,182,132	3,852,387
Total cost	209,296	493,914	1,786,106	313,646	368,503	592,015	171,119	112,051	1,182,132	5,228,782
Accumulated depreciation	-	(92,161)	(623,481)	(112,360)	(139,929)	(289,003)	(119,461)	-	-	(1,376,395)
Residual value	209,296	401,753	1,162,625	201,286	228,574	303,012	51,658	112,051	1,182,132	3,852,387
Residual values:										
Historical cost	51,091	331,882	939,694	201,286	201,043	253,548	51,658	112,051	1,182,132	3,324,385
Surplus	158,205	69,871	222,931	-	27,531	49,464	-	-	-	528,002
Annual average depreciation rates	-	3%	5%	100%	7%	9%	14%	-	14%	-

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Consolidated	Land	Buildings and outbuildings	Equipment and manufacturing facilities	Inter-crop maintenance	Vehicles	Agricultural machinery and farming implements	Leasehold improvements and other PPE	Construction in Progress	Sugarcane plantation	Total
Balances at March 31, 2018	1,807,778	408,526	1,264,994	278,974	227,935	312,867	60,933	49,393	1,038,512	5,449,912
Acquisition	8,388	1,044	10,062	304,430	24,031	16,710	1,051	137,410	304,250	807,376
Cost of sale	(1,342)	(2,097)	(1,297)	-	(2,634)	(3,384)	(193)	-	(290)	(11,237)
Pulísic Incorporation	-	-	-	-	-	-	-	-	15,984	15,984
Usina Santa Luíza S/A Incorporation	57	1,021	92	-	-	1	-	-	-	1,171
Transfer to inventories for sale	(2,542)	-	-	-	-	-	-	-	-	(2,542)
Transfer to biological assets	-	-	-	-	-	-	-	-	(184,379)	(184,379)
Transfers between groups	-	8,591	44,292	4,110	886	(10,419)	2,031	(66,041)	16,550	-
Depreciation	-	(11,542)	(80,263)	(280,512)	(20,654)	(28,298)	(10,356)	-	-	(431,625)
Balances at March 31, 2019	1,812,339	405,543	1,237,880	307,002	229,564	287,477	53,466	120,762	1,190,627	5,644,660
Total cost	1,812,339	496,594	1,857,960	307,158	363,637	565,861	170,003	120,762	1,190,627	6,884,941
Accumulated depreciation	-	(91,051)	(620,080)	(156)	(134,073)	(278,384)	(116,537)	-	-	(1,240,281)
Residual value	1,812,339	405,543	1,237,880	307,002	229,564	287,477	53,466	120,762	1,190,627	5,644,660
Acquisition	-	260	1,798	6,302	5,779	31,438	456	5,721	63,337	115,091
Cost of sale	(334)	-	(5)	-	(747)	(2,101)	(370)	-	(36)	(3,593)
Transfer to biological assets	-	-	-	-	-	-	-	-	(73,352)	(73,352)
Transfers between groups	-	3,297	8,350	-	377	(427)	1,282	(14,434)	1,555	-
Depreciation	-	(3,685)	(28,180)	(111,578)	(6,401)	(13,374)	(3,170)	-	-	(166,388)
Balances at June 30, 2019	1,812,005	405,415	1,219,843	201,726	228,572	303,013	51,664	112,049	1,182,131	5,516,418
Total cost	1,812,005	500,150	1,868,091	314,243	368,503	592,014	171,124	112,049	1,182,131	6,920,310
Accumulated depreciation	-	(94,735)	(648,248)	(112,517)	(139,931)	(289,001)	(119,460)	-	-	(1,403,892)
Residual value	1,812,005	405,415	1,219,843	201,726	228,572	303,013	51,664	112,049	1,182,131	5,516,418
Residual values:										
Historical cost	158,765	334,552	982,163	201,726	201,041	253,548	51,664	112,049	1,182,131	3,477,639
Surplus	1,653,240	70,863	237,680	-	27,531	49,465	-	-	-	2,038,779
Annual average depreciation rates	-	3%	5%	100%	7%	9%	14%	-	14%	

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Under the terms of certain borrowing agreements of the Group, property, plant and equipment totaling R\$ 672,388 were pledged as collateral, of which R\$ 64,503 refers to rural properties (2,097 hectares of land).

The Group capitalized financial charges amounting to R\$ 418 for the period ended June 30, 2019 (March 31, 2019 - R\$ 2.338).

### 12. 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, 2019	March 31, 2019	June 30, 2019	March 31, 2019
Goodwill on future profitability (i)	374,633	374,633	374,633	374,633
Software	37,359	37,359	37,359	37,359
Accumulated amortization	(27,070)	(26,398)	(27,070)	(26,398)
Rights on sugarcane contracts (ii)	42,442	42,443	42,442	42,443
Amortization rights on sugarcane contracts (ii)	(14,822)	(13,500)	(14,822)	(13,500)
Rights on electricity agreements (iii)	-	-	103,401	103,401
Rights on electricity agreements - amortization (iii)	-	-	(56,540)	(52,354)
Other assets	4,036	3,308	13,656	12,915
	<u>416,578</u>	<u>417,845</u>	<u>473,059</u>	<u>478,499</u>

(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;

(iii) Refers to the fair value of Bio's agreements for electricity supply, effective up to 2025 (business combination).

### 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.

At March 3, 2019, the Company has tested noncurrent assets for impairment. The assessment was based on calculations of the value in use of each cash-

## Notes to the Financial Statements

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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 (March 31, 2019):

Cash Generating Units	Average growth rate of net operating income	Nominal growth rate for perpetuity	Discount rate
São Martinho and Itacema production unit	9.8%	5.0%	8.6%
Santa Cruz production unit	8.9%	5.0%	8.6%

### 13. Use right and Lease agreements and Land partnership payable

As described in note 2.7, São Martinho recognized IFRS 16 (CPC 06 (R2)) on April 1, 2019.

The movement of the use right and lease agreements and land partnership payable during the current interim financial information was as follows:

	Company				
	Vehicles	Buildings	Land Partnership	Lease agreements	Use right asset
Adoption in April 1, 2019	18,569	4,538	1,777,074	481,983	2,282,164
Adjusts	(107)	-	-	-	(107)
Amortization	(3,676)	(124)	(100,877)	(14,565)	(119,242)
Balance on June 30, 2019	14,786	4,414	1,676,197	467,418	2,162,815
Useful life (years)	1.25	9 a 14	1 a 30	1 a 20	

	Consolidated				
	Vehicles	Buildings	Land Partnership	Lease agreements	Use right asset
Adoption in April 1, 2019	18,569	4,538	1,705,430	481,983	2,210,520
Adjusts	(107)	-	-	-	(107)
Amortization	(3,676)	(124)	(80,107)	(14,565)	(98,472)
Balance on June 30, 2019	14,786	4,414	1,625,323	467,418	2,111,941
Useful life (years)	1.25	9 a 14	1 a 30	1 a 20	

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	Company		
	Balance of lease agreements	Present value of the lease	Lease Liability
Adoption in April 1, 2019	2,815,206	(533,042)	2,282,164
Contract update	(109)	2	(107)
Payments made	(129,361)	-	(129,361)
Financial charges	-	13,053	13,053
Balance on June 30, 2019	<u>2,685,736</u>	<u>(519,987)</u>	<u>2,165,749</u>
Current			320,970
Noncurrent			<u>1,844,779</u>
			<u>2,165,749</u>

	Consolidated		
	Balance of lease agreements	Present value of the lease	Lease Liability
Adoption in April 1, 2019	2,741,663	(531,143)	2,210,520
Contract update	(109)	2	(107)
Payments made	(105,002)	-	(105,002)
Financial charges	-	12,427	12,427
Balance on June 30, 2019	<u>2,636,552</u>	<u>(518,714)</u>	<u>2,117,838</u>
Current			273,059
Noncurrent			<u>1,844,779</u>
			<u>2,117,838</u>

The estimated long-term lease agreements and land partnership payable balances are as follows:

Company and Consolidated	Maturity
From 1º/07/2020 to 30/06/2021	244,478
From 1º/07/2021 to 30/06/2022	230,868
From 1º/07/2022 to 30/06/2023	211,558
From 1º/07/2023 to 30/06/2024	195,233
From 1º/07/2024 to 30/06/2025	178,311
From 1º/07/2025 to 30/06/2026	157,949
From 1º/07/2026 to 30/06/2027	133,097
From 1º/07/2027 onwards	493,285
	<u>1,844,779</u>

## 14. Borrowings

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

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Modality	Annual charges		Company		Consolidated	
	Rate	Index	June 30, 2019	March 31, 2019	June 30, 2019	March 31, 2019
<b>Local currency</b>						
Export credit notes	105.19%	CDI	161,985	264,793	161,985	264,793
BNDES credit facilities	2.46%	+TJLP	202,439	207,172	202,439	207,172
BNDES credit facilities	5.75%	+IPCA	1,700	1,697	1,700	1,697
BNDES credit facilities	3.76%	-	213,174	233,738	213,174	233,738
BNDES credit facilities	3.97%	+SELIC	223	242	223	242
Rural credit (ii)	6.63%	-	371,934	369,542	371,934	369,542
FINEP	4.00%	-	99,621	104,697	99,621	104,697
Agribusiness Receivables Certificate (CRA) (a)	98.24%	CDI	1,797,889	1,363,353	1,797,889	1,363,353
Agribusiness Receivables Certificate (CRA) (a)	4.88%	+IPCA	431,716	431,343	431,716	431,343
Other securitized credits	4.32%	+IGP-M/PRE	10,504	16,496	10,504	16,496
<b>Total in local currency</b>	<b>97.63%</b>	<b>CDI</b>	<b>3,291,185</b>	<b>2,993,073</b>	<b>3,291,185</b>	<b>2,993,073</b>
<b>In foreign currency</b>						
Pre-export financing (PPE)	4.15%	Exchange Variation	771,403	787,160	771,403	787,160
Pre-export financing (PPE)	1.35%	Libor 6M	289,053	297,087	289,053	297,087
International Finance Corporation (IFC)	1.70%	Libor 6M	346,788	356,738	346,788	356,738
FINEM	2.74%	Currency basket	15,231	18,542	15,231	18,542
<b>Total in foreign currency</b>	<b>4.37%</b>	<b>-</b>	<b>1,422,475</b>	<b>1,459,527</b>	<b>1,422,475</b>	<b>1,459,527</b>
<b>TOTAL</b>			<b>4,713,660</b>	<b>4,452,600</b>	<b>4,713,660</b>	<b>4,452,600</b>
Current			1,007,469	754,999	1,007,469	754,999
Noncurrent			3,706,191	3,697,601	3,706,191	3,697,601

(i) Total costs of liabilities in national and international currency are calculated on the basis of the portfolios duration and DI and LIBOR charts at the present financial statements.

(ii) 71% of the rural credit amount is indexed to 95.70% DI via SWAP contract.

### a) Agribusiness Receivables Certificate (CRA)

During the year ended March 31, 2019, the Company made a new fundraising through the capital market, through the issuance of Agribusiness Receivables Certificates - CRA with distribution through continued offering, in the amount of R\$ 842,123. annual interest payments, equivalent to 98.5% of the cumulative CDI rate variation and repayment of principal in two equal installments in April 2025 and April 2026. Subscriptions began on March 25, 2019, and ended in 60 calendar days exercising the supplementary offer lot.

The following table shows the changes in loans and financing in the year:

Changes in debt	Company and Consolidated	Company	Consolidated
	June 30, 2019	June 30, 2018	
Previous balance	4,452,600	3,620,568	3,924,897
Financing taken out	416,087	981,355	981,355
Amortization of principal	(140,593)	(860,599)	(861,477)
Amortization of taxes	(62,427)	(60,832)	(61,051)
Monetary restatement	71,799	115,942	116,165
Foreign exchange differences	(23,806)	116,941	116,941
Usina Boa Vista Incorporation	-	291,199	-
	<b>4,713,660</b>	<b>4,204,574</b>	<b>4,216,830</b>



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Noncurrent borrowings mature as follows:

Company and Consolidated	Maturity
From 1º/07/2020 to 30/06/2021	607,729
From 1º/07/2021 to 30/06/2022	416,037
From 1º/07/2022 to 30/06/2023	798,027
From 1º/07/2023 to 30/06/2024	329,440
From 1º/07/2024 to 30/06/2025	943,557
From 1º/07/2025 to 30/06/2026	536,619
From 1º/07/2026 to 30/06/2027	21,127
From 01/07/2027 onwards	53,655
	<u>3,706,191</u>

In the current interim financial information, R\$ 672,388,140 of São Martinho's debt is charged, of which 86% are equipment, buildings and buildings, 10% land and 4% receivables from electricity trading and corporate endorsement.

### Covenants

The Company covenants amounting to R\$ 1,688,402, which are required and determined annually, in accordance with the current interim financial information.

## 15. Trade accounts payable

	Company		Consolidated	
	June 30, 2019	March 31, 2019	June 30, 2019	March 31, 2019
Sugarcane	199,171	62,142	188,294	57,482
Materials, services and others	71,174	93,350	72,773	95,231
	<u>270,345</u>	<u>155,492</u>	<u>261,067</u>	<u>152,713</u>

Out of the total trade accounts payable, R\$ 15,061 Company and R\$ 3,552 Consolidated (March 31, 2019 - R\$ 9,529 Company and R\$ 4,304 Consolidated) refer to related parties, as detailed in Note 8.

## 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:

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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, 2019	March 31, 2019
REFIS - Copersucar - Restated by reference to SELIC	73,975	77,036
Exchange Bill (LC) - Restated by reference to SELIC	70,163	69,805
Exchange Bill (LC) - Transfer of funds without incurring losses	52,356	52,356
Expenses with tax proceedings	9,094	9,094
Other	2,301	2,301
Total	207,889	210,592
Current liabilities	9,094	9,094
Noncurrent liabilities	198,795	201,498

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.

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\$ 273,188 (estimated amount and updated up to June 30, 2019). 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.

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Copersucar's Financial Statements as of March 31, 2019 state that it has calculated and transferred to Cooperative Members the first installment (R\$906 million) of the registered warrant (precatory) issued in June 2017, in the aggregate amount of R\$5.6 billion (Company's share R\$730.5 million), under the court ruling that ordered the federal government to pay damages arising from the lagged setting of sugar and ethanol sales prices in the 1980s. Upon transferring the funds, Copersucar withheld a portion for litigation seeking damages and for payment of PIS and COFINS taxes, while undertaking to transfer them in the event of a successful ruling.

The lawsuit also claims the payment of a complementary balance of R\$12.8 billion (Company's share R\$1.7 billion), with the federal government claiming an excess of R\$2.2 billion (Company's share R\$286.3 million). In this context, in June 2018, a complementary registered warrant was issued in the amount of R\$10.6 billion (Company's share R\$1.4 billion).

On April 29, 2019, the second installment of the first registered warrant and the first installment of the complementary registered warrant were deposited into court by the federal government. The release of these funds is pending court procedures and the balance of the registered warrants already issued is following the procedure for judicial registered warrants.

The Company, in coordination with Copersucar's actions, also filed a lawsuit involving IRPJ/CSLL/PIS/COFINS taxes with a judicial deposit for suspending the enforceability of these taxes. Furthermore, it transferred R\$3,313 thousand to Luiz Ometto Participações S.A. ("LOP"), in accordance with the Agreement for Purchase and Sale of Shares in Santa Cruz S.A. Açúcar e Alcool ("USC"). After the transfer and withholding of court expenses and the taxes in litigation, the balance of R\$106,499 thousand was recorded under "other expenses (income), net". The remainder of this credit continues to be classified by the Company's Management as probable, but not under its control, which is why it remains unrecorded.

### 17. Equity

#### a) Capital

In the current interim financial information and as of March 31, 2019, the share capital is R \$ 1,696,652 and is divided into 354,011,329 shares (364,011,329 shares as of March 31, 2019) 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.

#### b) Treasury shares

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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.

On June 24, 2019, a meeting of the Board of Directors approved the cancellation of 10 million shares in treasury, and the opening of the 6th Share Repurchase Program limited to 10 million shares. Below the movement in the quarter:

	March 31, 2019	Sale of shares	June 30, 2019
Quantity	13,208,663	(10,000,000)	3,208,663
Average price	17.72	17.72	17.72
Total amount	234,100	(177,232)	56,868

### 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 Agro Pecuária Boa Vista S/A, sale of properties arising from real estate developments gain results due to change in equity interest.

#### **Tax incentive reserve**

The Company benefits from a state tax incentive program, effective until 2033, 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 is conditional upon compliance with all obligations set forth in the program, whose conditions refer to factors under the Company's control.

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 the incentive that impacted the result in the current interim financial information was R\$ 22,715, in Company and Consolidated. (R\$ 17,637 as of June 30, 2018).

#### **e) Stock option plan**

During the year ended March 31, 2019, as detailed in Note 8 (d), the change in the balances of the current Stock Option Plans, which was approved at the Board of Directors meeting held on 2 May 2018. This balance was transferred to current liabilities.

#### **f) 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.

#### **g) 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 General Meeting held on July 26, 2019, the shareholders ratified the payment of additional dividends in the amount of R \$ 28,923, as proposed by management in the year ended March 31, 2019.

#### **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 in the current period and on June 30, 2018, recorded as operating costs or expenses in the income statement was R\$ 12,139 and R\$ 12,318 (Consolidated - R\$ 12,145 and R\$ 12,324), respectively.

#### **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.

The Company has adopted IFRIC 23 / ICPC 22 - Uncertainty About Tax Treatments. The Interpretation addresses the accounting of income taxes in cases where tax treatments involve uncertainty that affects the application of IAS 12 (CPC 32). The entity shall determine whether it considers each uncertain tax treatment separately or in conjunction with one or more uncertain tax treatments. The approach that best predicts the resolution of uncertainty should be followed. The Company did not identify impacts on its adoption.

#### **a) Changes in deferred income tax and social contribution**

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Company	March 31, 2019	Recognized in P&L	Recognized in Other Comprehensive Results	June 30, 2019
Income and social contribution tax losses	37,333	(279)	-	37,054
Derivative financial instruments	80,673	2,760	(18,576)	64,857
Provision for contingencies	39,035	774	-	39,809
Biological assets and agricultural product (change in fair value)	35,340	(3,153)	-	32,187
Provision for other obligations	8,001	4,574	-	12,575
Foreign exchange differences	53,357	2,045	-	55,402
Rental and agricultural partnership	-	997	-	997
Other assets	4,004	(206)	-	3,798
Total income and social contribution tax assets	257,743	7,512	(18,576)	246,679
Surplus of PPE (Deemed cost)	(183,539)	3,831	-	(179,708)
Accelerated depreciation incentive	(319,571)	(12,595)	-	(332,166)
Tax benefit on merged goodwill	(160,177)	(5,537)	-	(165,714)
Gain on bargain purchase/surplus value - PPA	(26,271)	1,642	-	(24,629)
Foreign exchange differences	(25,391)	-	-	(25,391)
Divestiture with deferred taxation	(16,262)	-	-	(16,262)
Securitized financing	(8,761)	1,920	-	(6,841)
Present value adjustment	(213)	181	-	(32)
Total income and social contribution tax liabilities	(740,185)	(10,558)	-	(750,743)
Deferred income and social contribution taxes	(482,442)	(3,046)	(18,576)	(504,064)

Consolidated	March 31, 2019	Recognized in P&L	Recognized in Other Comprehensive Results	Consolidation adjustment - energy contracts rights	June 30, 2019
Income and social contribution tax losses	37,332	(279)	-	-	37,053
Derivative financial instruments	80,674	2,760	(18,577)	-	64,857
Provision for contingencies	39,036	774	-	-	39,810
Biological assets and agricultural product (change in fair value)	35,342	(3,153)	-	-	32,189
Provision for other obligations	8,490	4,574	-	-	13,064
Foreign exchange differences	53,357	2,045	-	-	55,402
Rental and agricultural partnership	-	997	-	-	997
Other assets	3,358	75	-	-	3,433
Total income and social contribution tax assets	257,589	7,793	(18,577)	-	246,805
Surplus of PPE (Deemed cost)	(665,336)	3,961	-	-	(661,375)
Accelerated depreciation incentive	(319,571)	(12,595)	-	-	(332,166)
Tax benefit on merged goodwill	(160,177)	(5,537)	-	-	(165,714)
Gain on bargain purchase/surplus value - PPA	(26,271)	1,642	-	-	(24,629)
Foreign exchange differences	(25,391)	-	-	-	(25,391)
Divestiture with deferred taxation	(16,262)	-	-	-	(16,262)
Securitized financing	(8,761)	1,920	-	-	(6,841)
Present value adjustment	(212)	181	-	-	(31)
Intangible assets	(18,761)	-	-	1,441	(17,320)
Gain by CTC relative participation change	(5,068)	-	-	-	(5,068)
Total income and social contribution tax liabilities	(1,245,810)	(10,428)	-	1,441	(1,254,797)
Deferred income and social contribution taxes	(988,221)	(2,635)	(18,577)	1,441	(1,007,992)
Others taxes deferred	(539)	-	-	-	(539)

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.

São Martinho 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



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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.

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

	Company		Consolidated	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Pretax income	66,518	151,681	68,885	153,825
Income and social contribution taxes at nominal rates (34%)	(22,616)	(51,572)	(23,421)	(52,301)
Adjustments for calculation of effective tax rate:				
. Equity	12,177	12,896	139	(289)
. Exclusion/(Additions) net	(330)	6,499	(330)	6,499
. State subvention	7,723	-	7,723	-
. Adjustment of subsidiary calculation taxed by deemed income	-	-	10,476	11,770
. IRPJ and CSLL previously unused credits recorded (i)	27,991	(15,215)	27,991	(15,215)
. Others	-	(330)	-	(330)
Income and social contribution taxes expense	24,945	(47,722)	22,578	(49,866)
Income and social contribution tax effective rate	-37.5%	31.5%	-32.8%	32.4%
Current income and social contribution taxes	27,991	15,888	25,213	13,299
Deferred income and social contribution taxes	(3,046)	(63,610)	(2,635)	(63,165)

- (i) After the publication of Complementary Law No. 160/2017 that amended Law No. 12,973 / 2014, the Company revised the accounting of the credit granted by the State of Goiás to an investment subsidy, which resulted in an extemporaneous IRPJ / CSLL credit for the period ended June 30, 2019.

## 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.

São Martinho's commitment to the best environmental practices and sustainable action is evident in its full respect for the Forest Code and other environmental legislation regarding the Permanent Preservation Areas (PPA) and Legal Reserve (LR).

São Martinho has already provided for the registry of its properties with the Environmental Rural Registry ("CAR") and will join the Program for Environmental Regularization ("PRA").

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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.

### **Ethanol supply agreement**

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

### **Electricity supply**

The Company, Bio SC and Bio SM 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	Civil and environmental	Labor	TOTAL	Judicial deposits
Balance as of March 31, 2019	15,370	27,173	60,807	103,350	27,035
Additions	87	914	5,730	6,731	62,003
Reversals	(173)	(11)	(2,214)	(2,398)	-
Use	(12)	(442)	(4,442)	(4,896)	(1,562)
Restatements	163	1,451	1,227	2,841	296
Balance at June 30, 2019	15,435	29,085	61,108	105,628	87,772

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	Consolidated				
	Tax	Civil and environmental	Labor	TOTAL	Judicial deposits
Balance as of March 31, 2019	15,371	27,640	60,806	103,817	27,210
Additions	87	931	5,730	6,748	62,003
Reversals	(173)	(11)	(2,214)	(2,398)	-
Use	(12)	(459)	(4,442)	(4,913)	(1,563)
Restatements	163	1,465	1,229	2,857	296
Balance at June 30, 2019	15,436	29,566	61,109	106,111	87,946

Judicial deposits are monetarily restated and reported in noncurrent assets.

At the date of the current interim financial information, the nature of the main lawsuits 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; (iii) environmental issues and (iv) success fees to be paid to lawyers hired to defend the company in civil and environmental proceedings.

### **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:

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Nature	Company				Consolidated				
	June 30, 2019		March 31, 2019		June 30, 2019		March 31, 2019		
	Number of proceedings	Amount	Number of proceedings	Amount	Number of proceedings	Amount	Number of proceedings	Amount	
Environmental	57	7,631	59	8,485	57	7,631	59	8,485	
Civil									
Indemnities	38	25,898	40	25,811	36	25,898	40	25,811	
Review of contracts	11	2,326	11	7,385	12	2,346	12	7,404	
Other civil proceedings	22	173	21	160	25	199	21	160	
Labor	44	1,436	47	1,582	44	1,436	47	1,582	
Tax									
Social security contribution	(i)	16	218,932	16	215,618	16	218,932	16	215,618
Calculation of IRPJ/CSLL	(ii)	5	281,533	5	277,268	5	281,533	5	277,268
Offset of federal taxes	(iii)	62	96,041	61	93,590	63	100,026	61	93,590
ICMS	(iv)	13	27,472	13	27,834	13	27,472	13	27,834
Other tax proceedings	(v)	14	1,859	15	2,456	14	1,859	15	2,456
<b>TOTAL</b>		<b>282</b>	<b>663,301</b>	<b>288</b>	<b>660,189</b>	<b>285</b>	<b>667,332</b>	<b>289</b>	<b>660,208</b>

### 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).

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

The environmental lawsuits 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 imposed by the aforementioned entities.

The labor lawsuits have as main motive the Acts of Infringement drawn up 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.

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 Group 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. The Group'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 the present financial statement:

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Consolidated	June 30, 2019	Thousands of US\$ equivalent
Current and noncurrent assets		
Cash and cash equivalents (banks - demand deposits)	75,799	19,783
Trade accounts receivable	62,736	16,373
Derivative financial instruments	53,761	14,031
Total assets	192,296	50,187
Current and noncurrent liabilities:		
Loans and financing	1,422,475	371,190
Derivative financial instruments	38,080	9,937
Total liabilities	1,460,555	381,127
Subtotal assets (liabilities)	(1,268,259)	(330,940)
( - ) Borrowings linked to exports - ACC and PPE	635,841	165,921
Net exposure - assets	(632,418)	(165,019)

These assets and liabilities were restated and recorded in the present financial statements at the exchange rate in effect on that date, of R\$ 3.8316 per US\$ 1.00 for assets and R\$ 3.8322 per US\$ 1.00 for liabilities.

### b) Commodity price volatility risk

São Martinho is exposed to the risk of changes in commodity price of manufactured products such as sugar and ethanol. At the present financial statement, the prices of 555,118 tons of sugar had been determined with commercial partners for delivery in 19/20 crop, priced at an average of 13.65 ¢/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.

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In thousands of reais, unless otherwise stated

Consolidated	Risk factor	Impacts on P&L		
		Probable scenarios - 5%	Possible scenarios - 25%	Possible scenarios - 50%
Cash and cash equivalents	Decrease in exchange rate - R\$/US\$	(3,777)	(18,887)	(37,774)
Trade accounts receivable	Decrease in exchange rate - R\$/US\$	(3,137)	(15,686)	(31,373)
Borrowings	Increase in exchange rate - R\$/US\$	(278)	(1,391)	(2,782)
Derivative financial instruments				
Term currency contracts	Increase in exchange rate - R\$/US\$	(144)	(718)	(1,436)
Swap contracts	Decrease in exchange rate - R\$/US\$ and increase in yield curve	(260)	(650)	(1,300)
Net exposure		<u>(7,596)</u>	<u>(37,332)</u>	<u>(74,665)</u>

(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.

### e) Financial instruments

São Martinho 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 2018/2019 to 2024/2025 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 the current interim financial information and as of March 31, 2019, the balances of assets and liabilities related to transactions involving derivative financial instruments and their due maturities are as follows:

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## June 30, 2019

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Company and Consolidated	June 30, 2019			
	Contracted amount/volume	Average price/rate	Notional value - R\$	Fair value - R\$
<u>In current assets - Gain</u>				
Margin deposit				14,698
Merchandise futures contracts - Sugar #11 - Commodities Exchange				
. Sale commitment	111,867	13.56	128,157	4,495
. Purchase commitment	17,070	12.33	17,782	575
Merchandise futures contracts - Ethanol				
. Sale commitment				
. Purchase commitment	1,200	1,666.25	2,000	14
Merchandise forward contracts - Sugar #11				
. Sale commitment	24,385	13.26	27,318	1,122
Merchandise forward currency contracts (NDF) - Dollar - OTC				
. Sale commitment	100,268	4.0677	407,860	18,327
. Purchase commitment	3,057	3.8404	11,740	22
Merchandise options contracts - Sugar #11 - Commodities Exchange				
. Bidding position in puts options	104,145	13.65	120,103	8,951
Merchandise flexive options contracts - Dollar - OTC				
. Bidding position in call options	613	3.9061	2,394	117
. Bidding position in puts options	25,286	3.8307	96,863	2,663
Swap contracts - interest - OTC				2,729
<u>Total derivative financial instruments in current assets</u>				<u>53,713</u>
<u>In noncurrent assets - Gain</u>				
Merchandise futures contracts - Sugar #11 - Commodities Exchange				
. Sale commitment	9348	14.04	11088	48
<u>Total derivative financial instruments in noncurrent assets</u>				<u>48</u>
<u>In current liabilities - Loss</u>				
Merchandise futures contracts - Sugar #11 - Commodities Exchange				
. Sale commitment	83,062	12.30	86,316	4,083
. Purchase commitment	6,503	12.71	6,983	52
Merchandise futures contracts - Ethanol				
. Sale commitment	11,250	1,801.6000	20,268	113
Merchandise forward currency contracts (NDF) - Dollar - OTC				
. Sale commitment	92,365	3.8486	355,476	3,726
. Purchase commitment	57	3.8900	222	1
Merchandise options contracts - Sugar #11 - Commodities Exchange				
. Bidding position in call options	104,145	14.86	130,749	3,125
Merchandise flexive options contracts - Dollar - OTC				
. Bidding position in call options	25,899	3.9683	102,775	2,666
Swap contracts - interest - OTC				3,914
<u>Total derivative financial instruments in current liabilities</u>				<u>17,680</u>
<u>In noncurrent liabilities - Loss</u>				
Swap contracts - interest - OTC				20,305
Merchandise forward currency contracts (NDF) - Dollar - OTC				
. Sale commitment	7,923	4.0045	31,728	95
<u>Total derivative financial instruments in noncurrent liabilities</u>				<u>20,400</u>



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June 30, 2019

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Consolidated	March 31, 2019			
	Contracted amount/volume	Average price/rate	Notional value - R\$	Fair value - R\$
<u>In current assets - Gain</u>				
Margin deposit				17,383
Merchandise futures contracts - Sugar #11 - Commodities Exchange				
. Sale commitment	225,207	13.25	256,347	8,769
. Purchase commitment	21,439	12.08	22,249	877
Merchandise forward contracts - Sugar #11				
. Sale commitment	58,423	13.08	65,648	1,591
Non-Deliverable Forward (NDF) - Dollar - OTC				
. Sale commitment	51,615	4.2462	219,168	13,514
. Purchase commitment	166	3.7403	621	30
Merchandise options contracts - Sugar #11 - Commodities Exchange				
. Bidding position in puts options	97,287	13.53	113,079	8,471
Merchandise flexive options contracts - Dollar - OTC				
. Bidding position in call options	613	3.9061	2,394	177
. Bidding position in puts options	26,586	3.8293	101,806	3,155
<u>Total derivative financial instruments in current assets</u>				<u>53,967</u>
<u>In noncurrent assets - Gain</u>				
Swap contracts - interest - OTC				229
<u>Total derivative financial instruments in noncurrent assets</u>				<u>229</u>
<u>In current liabilities - Loss</u>				
Merchandise futures contracts - Sugar #11 - Commodities Exchange				
. Sale commitment	125,380	12.09	130,222	9,047
. Purchase commitment	1,575	12.82	1,735	29
Merchandise forward contracts - Sugar #11				
. Sale commitment	2,032	13.7900	2,407	2
Non-Deliverable Forward (NDF) - Dollar - OTC				
. Sale commitment	131,240	3.8425	504,290	15,511
Merchandise options contracts - Sugar #11 - Commodities Exchange				
. Bidding position in call options	97,287	14.83	123,944	3,693
Merchandise flexive options contracts - Dollar - OTC				
. Bidding position in call options	27,198	3.9651	107,843	5,335
Swap contracts - interest - OTC				3,752
<u>Total derivative financial instruments in current liabilities</u>				<u>37,369</u>
<u>In noncurrent liabilities - Loss</u>				
Swap contracts - interest - OTC				13,520
<u>Total derivative financial instruments in noncurrent liabilities</u>				<u>13,520</u>

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 the present financial statement date, financial instruments designated for hedge accounting are broken down as follows:

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Company and Consolidated	Assets	Liabilities	TOTAL in other comprehensive income
Financial instruments:			
Commodity derivatives - Futures, options and forward contracts	20,542	6,448	14,094
Foreign exchange derivatives - Options / NDF	16,225	3,720	12,505
Foreign exchange differences on borrowing agreements (Trade Finance)	4,838	197,603	(192,765)
	41,605	207,771	(166,166)
Deferred taxes on the items above	(14,146)	(70,642)	56,496
	27,459	137,129	(109,670)

### f) Estimated realization

In the current interim financial information, the impacts recorded in the Company's shareholders' equity and the estimated realization in profit or loss are as follows:

Company and Consolidated	19/20 Crop	Crops 20/21 and 21/22	Crops 22/23 and 23/24	From 24/25 crops to 25/26	TOTAL
Derivative financial instruments:					
Commodity derivatives - Futures, options and forward contracts	13,982	112	-	-	14,094
Foreign exchange derivatives - Options / NDF	12,624	(119)	-	-	12,505
Foreign exchange differences on borrowing agreements (Trade Finance)	(75,111)	(28,622)	(51,291)	(37,741)	(192,765)
	(48,505)	(28,629)	(51,291)	(37,741)	(166,166)
Deferred taxes on the items above	16,491	9,734	17,439	12,832	56,496
	(32,014)	(18,895)	(33,852)	(24,909)	(109,670)

## 22.2 Credit risk

Credit risk management consists of contracting only with top-tier financial institutions which meet the Group'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 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 Group'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.

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

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

Company	Within 1 year	From 1 to 3 years	Above 3 years	Total
At June 30, 2019				
Loans and financing	1,007,469	1,023,766	2,682,425	4,713,660
Derivative financial instruments	17,680	20,400	-	38,080
Trade accounts payable	270,345	-	-	270,345
Acquisition of ownership interest	11,696	23,240	3,650	38,586
Other liabilities	12,724	390	6,260	19,374
	<u>1,319,914</u>	<u>1,067,796</u>	<u>2,692,335</u>	<u>5,080,045</u>
At March 31, 2019				
Loans and financing	754,999	1,202,101	2,495,500	4,452,600
Derivative financial instruments	37,369	13,520	-	50,889
Trade accounts payable	155,492	-	-	155,492
Acquisition of ownership interest	11,715	23,240	3,650	38,605
Other liabilities	21,216	390	6,260	27,866
	<u>980,791</u>	<u>1,239,251</u>	<u>2,505,410</u>	<u>4,725,452</u>
Consolidated	Within 1 year	From 1 to 3 years	Above 3 years	Total
At June 30, 2019				
Loans and financing	1,007,469	1,023,766	2,682,425	4,713,660
Derivative financial instruments	17,680	20,400	-	38,080
Trade accounts payable	261,067	-	-	261,067
Acquisition of ownership interest	11,696	23,240	3,650	38,586
Other liabilities	18,671	390	6,260	25,321
	<u>1,316,583</u>	<u>1,067,796</u>	<u>2,692,335</u>	<u>5,076,714</u>
At March 31, 2019				
Loans and financing	754,999	1,202,101	2,495,500	4,452,600
Derivative financial instruments	37,369	13,520	-	50,889
Trade accounts payable	152,713	-	-	152,713
Acquisition of ownership interest	11,715	23,240	3,650	38,605
Other liabilities	27,020	390	6,260	33,670
	<u>983,816</u>	<u>1,239,251</u>	<u>2,505,410</u>	<u>4,728,477</u>

### 22.4 Capital management

The Company'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.

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### 23. Financial instrument classification and fair value

#### 23.1 Classification

Financial assets and liabilities are classified as follows:

			Company	
	Classification	June 30, 2019	March 31, 2019	
Financial assets				
Cash and cash equivalents	Amortized Cost	76,102	197,170	
Short-term investments	Fair value through profit or loss	2,029,533	1,840,536	
Trade accounts receivable	Amortized Cost	143,362	145,134	
	Fair value through Other			
Derivative financial instruments	comprehensive income	143,371	145,143	
Derivative financial instruments	Fair value through profit or loss	53,761	54,196	
Transactions with related parties	Loans and receivables	9	9	
Other assets, except for prepayments	Loans and receivables	24,789	18,268	
		<u>2,470,927</u>	<u>2,400,456</u>	
Financial liabilities				
Borrowings	Fair value through profit or loss	10,504	16,496	
Borrowings	Amortized Cost	4,703,156	4,436,104	
	Fair value through Other			
Derivative financial instruments	comprehensive income	13,766	33,617	
Derivative financial instruments	Fair value through profit or loss	24,314	17,272	
Trade accounts payable	Amortized Cost	270,345	155,492	
Acquisition of ownership interests	Amortized Cost	38,586	38,605	
Other liabilities	Amortized Cost	19,374	27,866	
		<u>5,069,541</u>	<u>4,725,452</u>	

			Consolidated	
	Classification	June 30, 2019	March 31, 2019	
Financial assets				
Cash and cash equivalents	Amortized Cost	76,415	197,607	
Short-term investments	Fair value through profit or loss	2,119,450	1,891,606	
Trade accounts receivable	Amortized Cost	193,032	185,900	
	Fair value through Other			
Derivative financial instruments	comprehensive income	171,093	163,412	
Derivative financial instruments	Fair value through profit or loss	53,761	54,196	
Other assets, except for prepayments	Amortized Cost	25,447	19,183	
		<u>2,639,198</u>	<u>2,511,904</u>	
Financial liabilities				
Borrowings	Fair value through profit or loss	10,504	16,496	
Borrowings	Amortized Cost	4,703,156	4,436,104	
	Fair value through Other			
Derivative financial instruments	comprehensive income	13,766	33,617	
Derivative financial instruments	Fair value through profit or loss	24,314	17,272	
Trade accounts payable	Amortized Cost	261,067	152,713	
Acquisition of ownership interests	Amortized Cost	38,586	38,605	
Other liabilities	Amortized Cost	25,321	33,670	
		<u>5,076,714</u>	<u>4,728,477</u>	

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 the Group.

#### 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

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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.

During the current interim financial information period, there was no reclassification of assets and liabilities to fair value to or from level 1, 2 or 3.

As per statement of financial position - Consolidated	June 30, 2019			March 31, 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Short-term investments	-	2,119,450	-	-	1,891,606	-
Derivative financial instruments	14,035	39,726	-	18,117	36,079	-
Biological assets	-	-	654,035	-	-	657,057
	<u>14,035</u>	<u>2,159,176</u>	<u>654,035</u>	<u>18,117</u>	<u>1,927,685</u>	<u>657,057</u>
Liabilities - Derivative financial instruments	<u>7,373</u>	<u>30,707</u>	<u>-</u>	<u>12,769</u>	<u>38,120</u>	<u>-</u>

### Futures and Options in the ICE

The fair value of futures negotiated in the New York - Intercontinental Exchange (ICE Futures US) and in B3 -Brazil, Stock Exchange and Over-the-Counter Market 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.

### Foreign exchange options

The fair value of foreign exchange options is obtained using the Black-76 Model, 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.

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### 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)

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, and 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.

### Consolidated income statement by segment

	June 30, 2019						
Consolidated	Sugar	Ethanol	Electricity	Real estate ventures	Other products	Not by segment	Total
Gross revenue							
Domestic market	32,124	414,619	73,584	699	27,805	-	548,831
Foreign market	224,702	56,269	-	-	-	-	280,971
Gain/loss on derivatives	1,432	(2,484)	-	-	-	-	(1,052)
Amortization of electric power supply agreement	-	-	-	-	-	(2,763)	(2,763)
(-) Taxes, contributions and deductions on sales	(1,983)	(61,953)	(6,023)	(224)	(4,075)	-	(74,258)
Net revenue	256,275	406,451	67,561	475	23,730	(2,763)	751,729
Cost of sales	(207,474)	(322,998)	(14,436)	(38)	(17,359)	-	(562,305)
Change in market value of biological assets	-	-	-	-	-	9,274	9,274
Gross profit	48,801	83,453	53,125	437	6,371	6,511	198,698
Gross margin	19.04%	20.53%	78.63%	92.00%	26.85%	-	26.43%
Selling expenses	(17,455)	(5,377)	(2,640)	-	-	-	(25,472)
Other operating expenses	-	-	-	-	-	(40,825)	(40,825)
Operating income	31,346	78,076	50,485	437	6,371	(34,314)	132,401
Operating margin	12.23%	19.21%	74.73%	92.00%	26.85%	-	17.61%
Other income and expenses not by segment	-	-	-	-	-	(40,938)	(40,938)
Net income for the year	-	-	-	-	-	-	91,463

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							June 30, 2018
Consolidated	Sugar	Ethanol	Electricity	Real estate ventures	Other products	Not by segment	Total
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 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.

							June 30, 2019
	Sugar	Ethanol	Electricity	Real estate ventures	Not by segment	Total	
Trade accounts receivable	55,845	22,668	59,523	30,647	24,349	193,032	
Inventories	378,223	412,499	-	8,115	7,299	806,136	
Biological assets	373,381	280,654	-	-	-	654,035	
Property, plant and equipment	2,416,928	2,913,700	182,187	-	3,603	5,516,418	
Intangible assets	250,177	176,021	46,861	-	-	473,059	
Use Rights	946,424	1,161,103	-	-	4,414	2,111,941	
Total assets allocated	4,420,978	4,966,645	288,571	38,762	39,665	9,754,621	
Other unallocated assets	-	-	-	-	2,635,137	2,635,137	
Total	4,420,978	4,966,645	288,571	38,762	2,674,802	12,389,758	

							March 31, 2019
	Sugar	Ethanol	Electricity	Real estate ventures	Not by segment	Total	
Trade accounts receivable	40,482	72,055	36,354	31,221	5,788	185,900	
Inventories	157,256	189,932	-	8,153	8,862	364,203	
Biological assets	222,024	435,033	-	-	-	657,057	
Property, plant and equipment	2,211,348	3,291,965	130,163	-	11,184	5,644,660	
Intangible assets	249,864	177,587	51,048	-	-	478,499	
Total assets allocated	2,880,974	4,166,572	217,565	39,374	25,834	7,330,319	
Other unallocated assets	-	-	-	-	2,418,403	2,418,403	
Total	2,880,974	4,166,572	217,565	39,374	2,444,237	9,748,722	

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

## 25. Revenues

São Martinho recognizes the amount of its revenues reflecting the consideration it expects to receive in exchange for control of goods and services.

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In relation to sales in the sugar and alcohol market and other derivative products, which substantially represent the Company's revenues, there were no impacts with the adoption of IFRS 15, since all performance obligations are concluded upon delivery of the final product, which is also the recognition of revenue.

Regarding the real estate development segment, the Company maintains the application of OCPC 04 - Application of Technical Interpretation 02, in accordance with CVM guidance, recognizing revenue over time (POC).

Revenue comprises the fair value of the consideration received or receivable for the sale of products and services in the ordinary course of 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. In order for revenue to be recognized, the Company follows the conceptual framework of the standard practice, with the following steps: identification of contracts with customers, identification of performance obligations under contracts, transaction price determination and transaction price allocation.

São Martinho 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 the present financial statement date, the Company had clients representing more than 10% of its net revenues. The Company's three largest customers of sugar sales account for about 26% of net revenue; while for the ethanol sold, the three largest customers account for 21%.

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

Sales revenues and cost of land inherent in the development are allocated in the income statement to the extent that infrastructure work progresses as directed by CVM and detailed above.

In time sales of land with completed infrastructure projects, revenue is recognized when the sale is made, regardless of the receipt of the contractual amount, with revenues measured at the fair value of the consideration received and receivable. The Company takes into consideration the present value adjustment to the amounts receivable recorded.



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	Company		Consolidated	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Gross sales revenue				
Domestic market	516,575	518,382	548,831	555,706
Foreign market	280,971	262,500	280,971	262,500
Gain/loss on derivatives	(1,052)	17,442	(1,052)	17,442
	<u>796,494</u>	<u>798,324</u>	<u>828,750</u>	<u>835,648</u>
Amortization of electric power supply agreement (i)	-	-	(2,763)	(3,676)
	<u>796,494</u>	<u>798,324</u>	<u>825,987</u>	<u>831,972</u>
Taxes, contributions and deductions on sales	(71,983)	(72,219)	(74,258)	(74,788)
	<u>724,511</u>	<u>726,105</u>	<u>751,729</u>	<u>757,184</u>

(i) Amortization of the energy supply contracts of BIO and UBV.

## 26. Costs and expenses by nature

Reconciliation of expenses by nature is as follows:

	Company		Consolidated	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Raw material and consumer and in-use materials	154,835	200,634	154,839	191,278
Personnel expenses	103,990	91,778	104,704	92,482
Depreciation and amortization (including biological assets harvested)	289,286	198,473	278,653	199,589
Third-party services	29,684	31,195	28,984	30,316
Maintenance services and parts	27,134	24,083	27,174	24,180
Litigation	4,117	1,543	4,134	1,543
Change in fair value of biological assets	(9,274)	(5,431)	(9,274)	(5,431)
Materials for resale	5,078	4,818	8,367	6,473
Realization of inventory surplus	-	-	38	-
Cost with land sales	-	-	-	46
Other expenses	31,934	26,861	32,815	27,709
	<u>636,784</u>	<u>573,954</u>	<u>630,434</u>	<u>568,185</u>
<u>Classified as:</u>				
Cost of sales	560,843	507,382	553,031	500,153
Selling expenses	24,896	23,268	25,472	23,830
General and administrative expenses	51,045	43,304	51,931	44,202
	<u>636,784</u>	<u>573,954</u>	<u>630,434</u>	<u>568,185</u>

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### 27. Finance income

	Company		Consolidated	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Finance income				
Interest received and earned	32,833	22,009	34,643	24,328
PIS/COFINS on finance income	(1,655)	(1,136)	(1,674)	(1,191)
Adjustment to present value	9,862	-	9,862	-
Other revenues	3,647	2,429	4,532	4,002
	<u>44,687</u>	<u>23,302</u>	<u>47,363</u>	<u>27,139</u>
Finance costs				
Present value adjustment	(13,584)	(616)	(12,957)	(616)
Interest on borrowings	(69,771)	(64,563)	(69,771)	(64,785)
Interest paid and earned	(6,625)	(5,666)	(6,625)	(5,668)
Bank surety commission	(119)	(416)	(119)	(416)
Copersucar bonds	(1,812)	(2,195)	(1,812)	(2,195)
Other costs	(3,404)	(4,873)	(3,420)	(4,891)
	<u>(95,315)</u>	<u>(78,329)</u>	<u>(94,704)</u>	<u>(78,571)</u>
Exchange and monetary variation, net				
Availability	(4,342)	23,483	(4,342)	23,483
Costumers and Providers	(5,806)	6,569	(5,806)	6,569
Borrowings	(5,869)	(1,300)	(5,869)	(1,300)
	<u>(16,017)</u>	<u>28,752</u>	<u>(16,017)</u>	<u>28,752</u>
Derivatives - not designated for hedge accounting				
Gain (loss) on sugar transactions	(204)	(1,659)	(204)	(1,659)
Gain (loss) on ethanol transactions	31	-	31	-
Income from foreign exchange transactions	5,997	(7,508)	5,997	(7,508)
Gain (loss) on swap	(5,222)	(6,789)	(5,222)	(6,789)
Cost of stock exchange transactions	(301)	(58)	(301)	(58)
Foreign exchange differences, net	(459)	118	(459)	118
	<u>(158)</u>	<u>(15,896)</u>	<u>(158)</u>	<u>(15,896)</u>
Finance income (costs)	<u>(66,803)</u>	<u>(42,171)</u>	<u>(63,516)</u>	<u>(38,576)</u>

### 28. Earnings per share

	Basic and diluted profit	
	June 30, 2019	June 30, 2018
Income for the period attributed to Company shareholders	91,463	103,959
Weighted average number of common shares for the period - in thousand (i)	354,011	326,779
Earnings per share (in reais)	<u>0.2584</u>	<u>0.3181</u>

### 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 any significant losses, if any, on its assets and liabilities. The amounts covered by the insurance policies in effect at the date of the current interim financial information are:

## Notes to the Financial Statements

June 30, 2019

In thousands of reais, unless otherwise stated

Company and Consolidated	Maximum coverage (i)
<b>Covered risks</b>	
Civil liability	4,612,148
Fire, lightning strike and explosion	2,020,000
Robbery or theft	430,263
Other coverage	2,584,848
Electrics damages	1,733,920
Natural phenomena, impacts of air or ground vehicles, etc	192,000
Lost profits	3,303,561

(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.

### 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	Divestiture	Net balance
	Santa Cruz	Agro Pecuária Boa Vista	
Balance at March 31, 2019	(156,434)	117,829	(38,605)
Monetary restatement	(2,388)	1,799	(589)
Amortization (interest)	2,465	(1,857)	608
<b>Balance at June 30, 2019</b>	<b>(156,357)</b>	<b>117,771</b>	<b>(38,586)</b>
		Current Liabilities	(11,696)
		Noncurrent Liabilities	(26,890)
			<b>(38,586)</b>

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

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