



SHAREHOLDER REMUNERATION POLICY (DIVIDENDS)

Approved by the Board of Directors Meeting held on December 9, 2019

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SHAREHOLDER REMUNERATION POLICY (DIVIDENDS)

1. PURPOSE:

To establish guidelines for shareholder remuneration, in accordance with the Bylaws and the applicable legislation.

2. SCOPE

Applicable to São Martinho S.A. ("Company").

3. CONCEPTS

Dividends: portion of net income distributed to shareholders.

Adjusted EBITDA: earnings before interest, tax, depreciation and amortization, adjusted for non-recurring effects and biological assets.

Interest on Equity ("IOE"): interest paid or credited by the legal entity, as remuneration of capital, which may be calculated towards the amount of dividends referred to in Article 202 of Federal Law 6,404/76.

Cash Net Income: net income for the year adjusted for cash effects, to provide a better representation of the availability of resources of the Company.

Standard & Poor's Global Ratings ("S&P"): international risk rating agency.

4. ASSOCIATED DOCUMENTS

- Bylaws
- Brazilian Corporation Law (Lei das S.A.)
- Audited Financial Statements

5. GUIDELINES

5.1. As remuneration of shareholders, the Company will distribute annually through dividends and/or IOE at minimum: (i) twenty-five percent (25%) of net income for the fiscal year, as defined in the Bylaws or (ii) 40% of Cash Net Income, whichever is greater.

5.2. The practice adopted by São Martinho for the payment of dividends and IOE provides for the distribution of a minimum of 40% of Cash Net Income for the fiscal year, with the total amount to be distributed for each fiscal year determined by the Board of Directors.

The minimum distribution of 40% of Cash Net Income may not be adopted, by recommendations of the Board of Directors, in the following situations:

- the use of relevant capital in any business investments, share buyback programs and/or mergers or acquisitions;

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- leverage indicators, such as a ratio of net debt to adjusted EBITDA, greater than 2 times, determined at the close of the fiscal year, seeking to maintain the investment grade rating assigned by S&P;
- changes in tax legislation; and
- the allocation of mandatory reserves or restrictions on the distribution of a portion of these reserves that could affect the capacity to distribute net income.

5.3. If the Company opts to pay IOE, the amount paid, net of withholding income tax, under the applicable legislation, will be deducted from the dividends for the fiscal year owed to shareholders.

5.4. São Martinho may, in exceptional cases, distribute extraordinary dividends and/or IOE in excess of the annual amount established in item 5.1.

6. MISCELLANEOUS

6.1. This Policy was approved by the Board of Directors of São Martinho S.A. in at meeting held on December 9, 2019, and any amendment or revision must be submitted to said board.

6.2. Any cases of omission are decided by the Board of Directors, when applicable.

6.3. This Policy is valid as from the date of its approval.

Pradópolis, December 9, 2019