The Management of Marfrig Global Foods ("Marfrig") presents the Management Report and Financial Statements, accompanied by the reports of the Audit Board and Independent Auditors, for the fiscal year ended December 31, 2016.

1. MESSAGE FROM MANAGEMENT

According to the latest report from the International Monetary Fund (IMF), the world economy is expected to end the year with growth of 3.1%. The stronger growth in more mature economies was partially offset by slower growth in certain emerging economies. The World Bank defined 2016 as a year a stagnation in global trade, timid investment and high political uncertainty in various economies.

In Brazil, the 3.5% contraction in GDP growth in the year, coupled with the turbulent political scenario, symbolize the challenges faced by the local economy.

In a year that remained challenging, Marfrig's strategy was based on its strategic plan "Focus to Win," in which financial discipline and operating performance figure prominently.

As a simpler and leaner corporation focused on the Keystone and Beef divisions, the Company has consolidated its position as a leading supplier of proteins to the global food service industry. Keystone's product portfolio and operational footprint in better-performing markets, such as the United States, which reached full employment in the second half of the year, and China, whose economy continued to be driven by expansionary monetary policy, supported record-high results by the division in 2016.

In the Beef Division, the presence in key South American markets, the focus on serving the more resilient channels in each local market and the capacity to export to various consumer markets partially mitigated the negative cattle cycle in Brazil, the effects from volatile exchange rates and the lower average beef prices in the international market.

In its capital structure, Marfrig continued to advance its liability management process, which aims to lengthen the debt maturity profile and reduce the average debt cost, by placing US$1 billion in a 7-year bond in the international market. The proceeds were used to repurchase and settle shorter-term and higher-cost senior notes with aggregate principal of around US$950 million.

In October 2016, the risk-rating agency Fitch upgraded Marfrig's credit rating to "BB-", with a stable outlook. In early 2017, Moody's revised its rating outlook from stable to positive, following the mandatory conversion of debentures by the BNDES.

Turning to Marfrig's main financial indicators, gross revenue came to R$20 billion, virtually stable in relation to 2015, influenced by the average depreciation in the Brazilian real and the higher sales volumes at the Keystone Division, which offset the lower international commodity prices and the lower sales volumes at the Beef Division.

Company´s consolidated adjusted EBITDA came to R$1.6 billion, down 8.5% from 2015. EBITDA margin contracted 70 bps to 8.2%. The lower margin at the Beef Division, which followed the downward trend in industry margins (export spreads, based on the average price from Secex and the average fed cattle price from ESALQ, fell 20%), was partially offset by the continued solid performance at Keystone, a leading global supplier of higher-value protein products to the food service industry mainly in the United States and Asia, which posted record-high adjusted EBITDA in 2016.

In mid-2016, and in keeping with the strategy to grow via higher-value products, the Keystone Division began construction on a new plant in Thailand. With investment of around US$34.5 million and annual processed food production capacity of 30,000 tons, the new plant will serve the regional market as well as other export markets, such as Europe and Japan.

After years of negotiation, the trade agreement between Brazil and the United States authorizing fresh beef exports from Brazil was finally signed in August 2016. The authorization of meatpackers by the Ministry of Agriculture was completed in record time, with Marfrig Global Foods becoming the first company to export products to the United States, from its unit in Bataguassu, Mato Grosso. This opening not only creates an important opportunity for Brazilian exports, but also should lead to the opening of other markets that follow the standards of the U.S. Department of Agriculture (USDA), such as Canada and Mexico.

Marfrig's commitment to sustainable development once again yielded important recognition. According to the annual audit report of the Greenpeace Pact for sourcing cattle in the Amazon biome, Marfrig was the only company in the industry to register no incidents of non-compliance in all audits.

Another highlight was the recognition of the Company's leadership in Latin America by CDP Forest (Carbon Disclosure Program), which addresses climate change, the environment and water resources in the value chain. The commitment undertaken by the Company not to source animals from areas that have been banned by the environmental agency IBAMA, coupled with our efforts to monitor suppliers, ensured us a score of "A," attesting to our industry leadership.

Acknowledgements

Despite Brazil's recession and the adverse global scenario, Marfrig and its team remained committed to delivering results. I express my sincere gratitude to everyone for their commitment during the year.

To our Clients, Suppliers, the Financial Markets and Shareholders, thank you for your trust and partnership. We will continue to pursue service excellence to create a leading global food company.

Marfrig's long-term strategy will remain focused on becoming more efficient and innovating more, supported by a solid capital structure and the consistent generation of profits and free cash flow.

I wish all of us an excellent 2017, and am certain that Marfrig will grow stronger with each passing year!

Marcos Antonio Molina dos Santos
Chairman of the Board

The year 2016 was a period of consolidation for the organization. Today, Marfrig is leaner and more focused, while maintaining its highly globalized and diversified operations.

Our actions have been guided by operational and financial discipline, and, despite a scenario marked by instability, we remained committed to generating positive free cash flow and maintaining our investments.

We are pleased to serve our clients with quality and innovation, and will continue to strengthen our leadership in sustainability and animal welfare.

I thank everyone who supported Marfrig and reaffirm our commitment to the strategy outlined and our focus on creating a solid and profitable company.

Martin Arias Secco
Chief Executive Officer

2. MARFRIG GLOBAL FOODS

Marfrig Global Foods is a Brazilian multinational company with a broad international footprint, with operations in 12 countries, and is one of the most diversified and largest companies in the global protein industry. Its business model is formed by 48 production units, distribution centers and offices located in South America, North America, Europe, Oceania and Asia. Its activities include the production, processing, further processing, sale and distribution of foods made from animal proteins, as well as a variety of other food products, such as frozen vegetables and desserts.

With around 30,000 employees, the Company operates in the food service, retail and food processing segments offering innovative, safe and healthy solutions. It has a diversified and comprehensive portfolio of products that can be found in major restaurant and supermarket chains, reaching the tables of millions of consumers in some 100 countries. Its business model comprises two divisions, both of which have global operations:

Keystone: one of the largest global suppliers of higher-value protein products to the fast food (quick service restaurants or QSRs), retail and food processing industries. Headquartered in the United States, Keystone's operating platform and footprint span over seven U.S. states and five countries in Asia and Oceania. Committed to innovation and the highest food safety and quality standards, it combines vast expertise in the food industry with a strong focus on clients to offer a complete mix of fresh and frozen products.

Beef: one of the main beef producers in the world, with vast expertise in Brazil's food service segment, it also has a strong presence in foreign markets, where it is equally recognized for the quality of its products. Marfrig's international operations in South America focus on exporting premium beef and lamb cuts and on leveraging the strategic position it enjoys in Uruguay, Chile and Argentina, which gives its access to major consumer markets around the world.

3. PERFORMANCE

According to the USDA, the global consumption of proteins (beef, poultry and pork) in 2016 amounted to 254.4 million tons. Emerging markets (Latin America, Asia and Africa) accounted for 56% of this amount, with China accounting for 52% of these markets. The continuation of China's policy to stimulate domestic growth and to expand the middle class has had a positive influence on protein consumption in both emerging and global markets.

Industry Scenario – Poultry and Food Service segment

United States

In the United States, after margins were affected by an outbreak of avian flu in 2015, the industry's profitability improved throughout 2016. The reopening of export markets to U.S. products and falling raw material costs were some of the key factors. The average price of corn and soybean meal based on CBOT fell 10.5% and 4%, respectively, from 2015.

In the food service segment, the U.S. National Restaurant Association (NRA) estimates restaurant industry sales of US$783 billion in 2016, for the seventh consecutive year of real sales growth. The restaurant industry segments posting the best performances in same-store sales and store traffic were Quick Service, Fine Dining and Upscale Casual, according to a report by Black Box Intelligence.

McDonald's reported same-store sales growth of 1.7% in its 2016 annual report, despite the decline in store traffic.

APMEA

In the APMEA region, global food service chains continued to expand. McDonald's, for example, reported growth in store numbers in markets such as China, South Korea and Australia, which combined had 3,782 stores, or 170 more than in 2015 (with growth concentrated in China).

China

Despite the country's slower growth, various trends have sustained growth in China's food service industry, such as rising incomes, urbanization and growing demand for more-convenient foods and for high-quality processed foods. And as China's population continues to migrate to urban areas, where consumers require packaged foods, the processed food industry should continue to expand over the coming years.

Thailand

The USDA estimates that Thai chicken exports grew by 8% in 2016, to 670,000 tons, supported in part by the product's competitiveness improving in relation to Brazilian chicken and by the lower supply from China. Of total chicken volume exported in 2016, the USDA estimates that 70% consisted of processed poultry products.

The USDA also estimates that domestic consumption grew by 3% in 2016. Thailand's domestic market still consumes primarily fresh chicken (60% to 70% of all chicken sold domestically). However, the expectation is that the ready-to-eat meal and QSR segments will grow by around 4% to 5% p.a. over the next few years.

Malaysia

In Malaysia, growing urbanization, a shift in lifestyles and the higher participation of women in the labor force should lead consumers to eat more away from home, which should drive both the country's demand for chicken and its food service industry.

Industry Scenario – Beef

Brazil

Brazilian beef export volume was stable in relation to 2015. Export revenue, however, fell 7%, due to the lower average price in U.S. dollar in the international market. On the other hand, after more than 15 years of negotiation, the United States, one of the world's largest consumer markets, opened up its market to Brazilian fresh beef imports.

Meanwhile, the scenario in the domestic market remained challenging. Brazil's recession, along with mounting unemployment and higher inflation, has adversely affected domestic consumption. On the other hand, Brazil's food service industry, one of Marfrig's focal points, posted sales of R$154 billion in 2016, up 7.1% from 2015, according to data from the Brazilian Association of Food Companies (ABIA).

On the supply side, the current moment in the country's beef cycle has limited the availability of fed cattle, which has helped to keep the market relatively balanced. In this scenario, the average cattle price increased 5.1%, according to the ESALQ index.

Uruguay

On the other hand, Uruguay registered gradual margin expansion throughout 2016. The higher cattle supply led to lower costs, which were partially neutralized by lower export prices, which accompanied the dynamics of the international market.

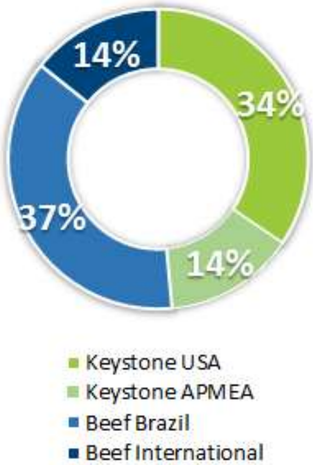
3.1 Consolidated Results

- **Net Revenue**

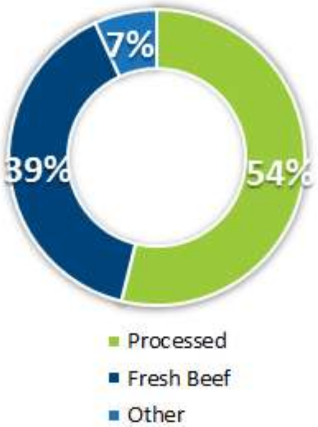
Marfrig Global posted consolidated net revenue of R$19 billion in 2016, down slightly (-1.1%) on the prior year. Despite the positive impacts from (i) the 4.8% appreciation in the U.S. dollar against the Brazilian real; and (ii) the 5% growth in Keystone's sales volume; revenue was adversely affected by (iii) the lower average price at the Keystone Division, influenced by falling grain and meat prices, given its pricing model, in which sales prices are pegged to commodity prices; and (iv) the 8% drop in sales volume at the Beef Division.

Marfrig remains a highly globalized company and one of the protein industry's largest and most diversified companies, as the following charts show. The international operations (Keystone and Beef International) accounted for 62.8% of total revenue in 2016. Considering the exports from the Brazilian operation, the international market accounted for 78% of the Company's total sales. Meanwhile, sales in Brazil's domestic market accounted for 22% of the total.

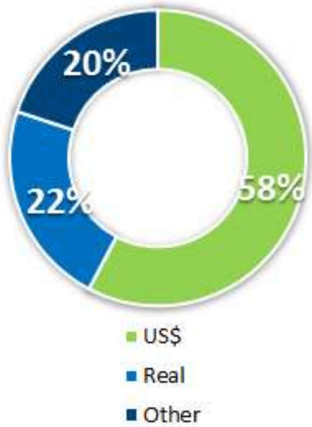
By Operation



By product



By currency



- **Cost of Goods Sold**

In 2016, COGS amounted to R$17 billion, in line with the previous year, which is explained by (i) the depreciation in the average price of the Brazilian real against the U.S. dollar; and (ii) the higher average price of fed cattle in Brazil, which rose 5.1%, according to ESALQ; with these factors offset by (iii) lower grain costs at Keystone, following the trend in the market, where corn and soy meal prices fell by 10.5% and 4%, respectively (source CBOT).

COGS (R$ Million)	2016	2015	Chg. (%)
Raw Material	12,752.6	12,624.6	1.0%
Labor	1,991.5	1,908.7	4.3%
Production Costs	2,413.3	2,716.7	-11.2%
TOTAL	**17,157.4**	**17,249.9**	**-0.5%**
Beef	*8,649.9*	*8,995.7*	*-3.8%*
Keystone	*8,507.4*	*8,254.2*	*3.1%*

The shift in the contributions to COGS between divisions is explained by the lower volumes at the Beef Division and the higher volumes at Keystone.

- **Gross Profit and Gross Margin**

In 2016, gross profit amounted to R$2.2 billion, down 5.4% from 2015. However, the contribution by Keystone increased 80 bps to 40% or R$873 million of consolidated gross profit.

Gross margin was 11.3%, down 50 bps compared to 2015, due to margin contraction in the beef operation, which was partially offset by significant margin expansion at the Keystone Division.

- **Selling, General and Administrative Expenses**

SG&A expenses amounted to R$1 billion, increasing 5.6% on the prior year, reflecting the effects from the translation into Brazilian real of amounts in the international operations. Note that the total increase in these expenses lagged IPCA inflation in the year, of 6.3%.

Selling expenses increased by R$28 million, which is explained by higher logistics expenses with exports on higher fuel prices, reflecting the rise in crude oil prices in international markets, and by the effects from the weaker Brazilian real in the period.

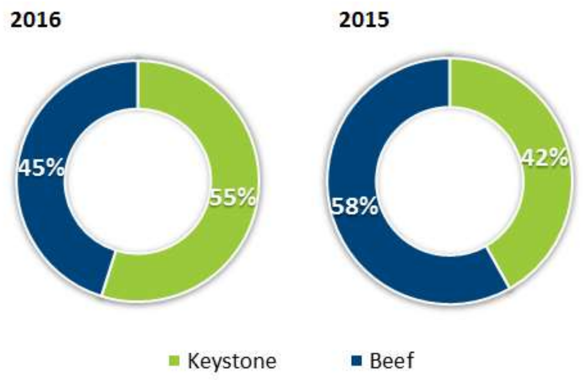
General and administrative expenses increased 6.5% from 2015, mainly due to the effect from currency translation on international expenses, which was partially offset by the decrease with personnel expenses at the Beef Division, reflecting the efforts to improve productivity.

SG&A (R$ Million)	2016	2015	Chg. (%)
Sales Expenses	599.7	571.7	4.9%
% of Net Revenues	*3.1%*	*2.9%*	
General & Administrative Expenses	447.7	420.3	6.5%
% of Net Revenues	*2.3%*	*2.2%*	
TOTAL DVG&A	**1,047.5**	**992.0**	**5.6%**
% of Net Revenues	***5.4%***	***5.1%***	

- **Adjusted EBITDA and Adjusted EBITDA Margin**

In 2016, consolidated adjusted EBITDA amounted to R$1.6 billion, down 8.5% on the prior year. In 2016, Adjusted EBITDA margin was 8.2%, down 70 bps from the 8.9% margin in 2015. The main factors explaining this performance were (i) lower spreads in the Beef Division; and (ii) lower sales volume in the Beef Division; with these factors partially offset by (ii) the 16% growth at the Keystone Division; and (iii) the depreciation in the Brazilian real against the U.S. dollar.

In 2016, Keystone accounted for 55% of Adjusted EBITDA, compared to 42% in 2015.



3.1.1. Keystone Division

The Keystone Division posted sales volume growth of 5% in 2016. Net revenue in 2016 came to US$2.7 billion, in line with the previous year. The stability is explained by the lower costs with outside meat and grains, resulting in a lower average sales price (since most sales contracts are linked to commodity-price variation), which was partially offset by (i) the continued successful strategy to expand through Key Accounts, which posted growth of 17% at the global level; and (ii) the recovery in leg quarter prices, following the reopening of the international market to U.S. exports, which was affected by avian flu until mid-2015. In Brazilian real, the unit's net revenue amounted to R$9.4 billion, accounting for 49% of the Company's consolidated net revenue.

In the United States (which accounts for 70% of the operation), net revenue came to US$1.9 billion, growing by around 1.0% on 2015. In the case of APMEA (which accounts for 30% of Keystone's operation), net revenue was US$781 million, down 1% from the US$792 million registered in the previous year.

In summary, the higher sales volume (+5%) was partially offset by the lower average price, which was influenced by lower raw material costs, as mentioned above.

Gross profit advanced 16.3% on 2015 to US$251 million. Gross margin expanded by 130 bps to 9.3%, due to (i) the continued successful strategy to grow through Key Accounts, with a solid contribution from No Antibiotic Ever (NAE) products; and (ii) lower grain prices in the United States, which reduced the cost of animal feed.

In 2016, selling, general and administrative (SG&A) expenses amounted to US$69 million, down 0.9% from 2015. SG&A expenses as a ratio of net revenue stood at 2.6%, in line with the previous year (2.6%).

Consequently, adjusted EBITDA was US$252 million, growing 16.3% from 2015 to set a new record. EBITDA margin was 9.3%, expanding 130 bps on the prior year. In Brazilian real, adjusted EBITDA in 2016 was R$875 million, increasing 19.9% from 2015.

3.1.2. Beef Division

The Beef Division posted net revenue of R$9.9 billion in 2016, down 5.8% from the prior year to account for 51% of the Company's consolidated revenue. The lower sales volume was partially offset by the higher average price, which was influenced by the depreciation in the Brazilian real against the U.S. dollar. In 2015, exports accounted for 45% of the Beef Division's revenue, reflecting the Company's competitive positioning in the global beef industry.

A highlight in the year was the opening of the U.S. market to fresh beef imports from Brazil. Today, the Company has 4 plants in Brazil certified to export to the United States. Including Uruguay, this increases to 8 plants.

Also worthy of note the priorization of exports from the Beef Division to more profitable destinations. China, after opening its market to Brazilian fresh beef in 2015, accounted for 23% of the Company's total export volume (includes exports from Uruguay), which represents growth of 74% on the previous year.

Gross profit in 2016 was R$1.3 billion, down from R$1.6 billion in 2015, with adjusted gross margin contracting 170 bps to 13.1%. This result is explained by (i) the lower sales volumes in Brazil and Argentina (asset divestments); (ii) lower spreads in the brazilian operation, due to 5.1% increase in the average price for fed cattle compared to 2015, based on the ESALQ index, given the lower supply of fed cattle (cattle cycle); which were partially offset by (iii) the recovery in sales volume in Uruguay; and (iv) the priority given to serving more profitable channels in Brazil, with a focus on the food service and small retailers.

Selling, general and administrative expenses amounted to R$806 million in the year, increasing 6.5% from 2015 to account for 8.1% of the unit's net revenue. This increase was mainly concentrated in expenses with export logistics, as noted earlier, which were partially offset by the lower costs with administrative personnel.

In this context, the Beef Division posted adjusted EBITDA of R$719 million, down from R$1.0 billion in the prior year. EBITDA margin was 7.2%, down 240 bps from the 9.6% margin in 2015.

3.2. Financial Result

The net financial result in 2016 was an expense of R$2.0 billion, compared to an expense of R$3.1 billion in 2015.

Excluding the effects from exchange variation, the net financial expense declined by R$91 million. The highlights in the period were (i) the decline in net interest income (expenses) of R$158 million, reflecting the liability management actions; and (ii) the net gain of R$292 million from the mark-to-market adjustment of derivatives (market operations); partially offset by (iii) the non-recurring results with the repurchase of senior notes in 2015 and 2016, with a net negative effect of around R$170 million; and (iv) the increase in other expenses related to working capital operations.

	2016	2015	Chg.	
	R$	R$	R$	%
FINANCIALS REVENUES	**483.8**	**596.2**	**(112.4)**	**-18.9%**
Interest income, income from marketable securities	147.0	99.3	47.7	
Market transactions	292.0	325.5	(33.5)	
Other revenues	44.8	171.4	(126.6)	
FINANCIALS EXPENSES	**(2,439.5)**	**(2,642.8)**	**203.2**	**-7.7%**
Interests provisioned, debentures and lease	(1,222.9)	(1,333.6)	110.7	
Market transactions	(257.5)	(582.6)	325.1	
Bank fees, commissions, finance. disc. and other	(959.2)	(726.6)	(232.6)	
FINANCIAL RESULT EX-EXCHANGE VAR.	**(1,955.7)**	**(2,046.6)**	**90.8**	**-4.4%**
Exchange Variation	**(79.0)**	**(1,052.9)**	**973.9**	
NET FINANCIAL RESULT	**(2,034.7)**	**(3,099.4)**	**1,064.7**	**-34.4%**

3.3. Net Result

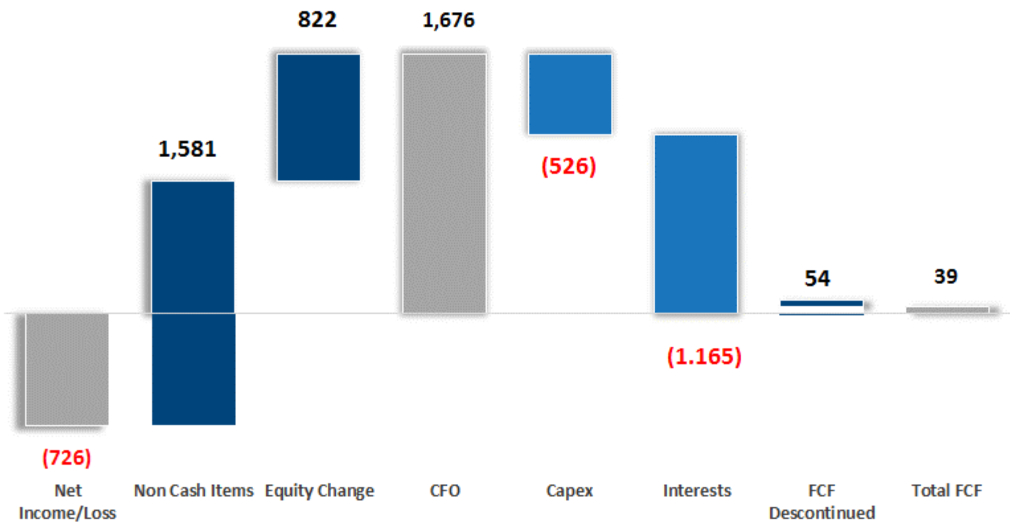
For comparison purposes and due to the asset divestment process, the following analysis considers only the net result from continuing operations, i.e., excluding any gains from asset divestments.

Marfrig posted a net loss of R$726 million in 2016, which represents improvement of 49% from the net loss of R$1,424 million in 2015.

3.4. Cash Flow

In 2016, the Company's free cash flow was R$39 million. Cash flow benefitted from the results generated by the Keystone Division, the decline in interest expenses resulting from the liability management actions in the year, cost discipline and working capital improvements. Nevertheless, the challenges faced by the Beef Division, the still-high debt costs and interest expenses with the mandatorily convertible debentures, which were converted in January 2017, had a substantial impact on the closing cash position.

Free Cash Flow 2016 (R$ million)



3.5. Capital Structure, Liquidity and Rating

Indebtedness and Debt Profile

Net debt in U.S. dollar remained stable to end the year at US$1.8 billion. In Brazilian real, net debt stood at R$5.9 billion, down 17.5%.

Consolidated gross debt was US$3.4 billion, which is US$340 million or 10% lower than in 2015, which is basically explained by the capital raised during 2016 through credit facilities at the Keystone Division and by the outstanding balance of the 2023 bond issue.

The balance of cash and marketable securities stood at US$1.6 billion, increasing by US$270 million or 26.4% from the prior year, which is explained by the same reasons above.

In line with the goal to lengthen the maturity profile and reduce the cost of its debt, the Company issued US$1 billion in 2023 senior notes (bonds) in the year, whose proceeds were allocated primarily to repaying shorter-dated, higher-cost debt.

Liquidity and Debt

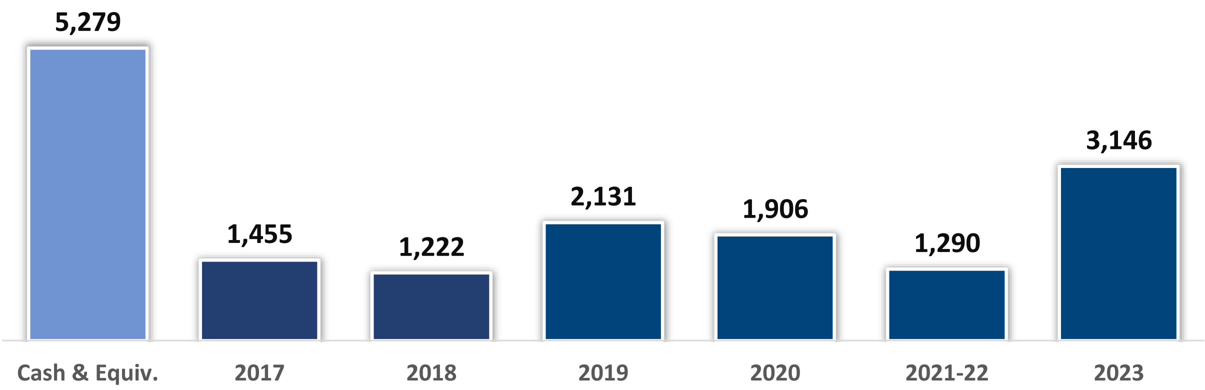
In Management's opinion, the ratio that best reflects the Company's current leverage is the ratio of net debt to adjusted LTM EBITDA from continued operations. This ratio stood at 3.69x, improving 40 bps from 4.09x at the end of the previous year.

It is important to note that bank and market funding transactions include contractual provisions that allow for excluding currency translation effects from the leverage ratio calculation. Accordingly, the ratio for this purpose ended 4Q16 at 2.40x (for more information, see Note 35.6 to the 2016 financial statements).

Debt Maturity Schedule (R$ million)

At December 31, 2016, the average duration of outstanding debt was 3.9 years (versus 4.1 years in 2015), with only 13% of debt maturing in the short term. At the end of the year, the average cost of the Company's debt was 7.3% p.a., down 60 bps from 7.9% p.a. in 2015.

Debt Maturity Schedule (R$ million)



Financial Indicators

	2016	2015
Net Debt / EBITDA LTM - Excl. FX Variation	2.40	0.54
Net Debt / adj. EBITDA LTM – Cont.	3.69	4.09
Average Cost of Debt (p.a.)	7.26%	7.88%
Duration (months)	47	50

	2016	2015
Short Term Debt (%)	13.05%	16.57%
Long Term Debt (%)	86.95%	83.43%
Debt in R$ (%)	6.0%	6.7%
Debt in other currencies (%)	94.0%	93.3%

Credit Risk Rating – Global Scale

In 2016, Marfrig remained focused on improving its operating and financial performance by executing its business strategy and its Liability Management plan.

Credit rating agencies have been tracking the Company's efforts and continually improving their ratings.

In October 2016, Fitch Rating published a report upgrading Marfrig's corporate rating to "BB-", with a "stable" outlook. The main factors leading to the upgrade were Company's liability management actions, which have lengthened its debt maturity profile, reduced its debt cost, liquidity and leverage improvement, as well as the expectation of higher free cash flow stemming from its lower financial expenses, the continued solid performance of its Keystone Division and the positive scenario for the beef industry in Brazil.

In the same period, S&P reaffirmed Marfrig's corporate rating of "B+", with a "positive" outlook.

In early 2017, Moody's updated its report, which reaffirmed Marfrig's "B2" rating and upgraded the outlook from "stable" to "positive."

Agency	National Scale	Int´l Scale	Perspective
S&P	br BBB	B+	Positive
FitchRatings	A bra	BB-	Stable
Moody´s	-	B2	Positive

3.6. Investments

(R$ Millions)	2016	2015
	R$	R$
Investments	**61.3**	**42.4**
Investments in Fixed Assets	**453.9**	**400.1**
Fixed Assets	374.6	328.2
Breeding Stock	79.3	71.9
Investment in Intangigle Assets	**10.9**	**4.7**
TOTAL	**526.1**	**447.2**

In 2016, investments came to R$526 million, increasing approximately R$79 million from 2015, influenced mainly by the investments made at the Keystone Division and to the effects from the translation of amounts at the international units to Brazilian real, which is the Company's functional currency. The increase in its investments demonstrates its commitment to continually improving its plants and preparing its businesses for growth, especially in the United States and Asia.

4. GUIDANCE

In November 2016, given the better visibility of the macroeconomic and industry scenarios, the Company opted to revise its guidance announced in February. As explained at the time, the main factors leading to this revision were (i) the appreciation in the Brazilian real against the U.S. dollar; (ii) the reduction in commodity prices in the international market; (iii) the contraction in beef spreads; and (iv) the continued operation of a plant in Argentina. All actual results were in line with guidance announced.

	Guidance 2016 (1)	Actual 2016
Net Revenue	R$ 19 to R$ 20 billion	R$ 19 billion
Adjusted EBITDA Margin (2)	8.5% – 9.0%	8.2%
Investment (Capex)	R$450 to R$550 million	R$526 million
Free Cash Flow to shareholders (3)	R$0 to R$100 million	R$ 39 million

(1) Assumptions based on the exchange rate of R$3.47/US$1.00 (average exchange rate: 1Q16 - R$3.91; 2Q16 - R$3.51; 3Q16 - R$3.25; 4T16e - R$3.20/US$1.00).
(2) Excludes non-recurring items.
(3) Operating cash flow after capital expenditure, interest expenses and income tax.

5. CORPORATE GOVERNANCE

Marfrig Global Foods S.A. has a business management model that complies with the rules of the Securities and Exchange Commission of Brazil (CVM), the "Novo Mercado" Regulations of the São Paulo Stock Exchange

(BM&FBovespa) and the recommendations of the Brazilian Code of Corporate Governance Best Practices of the Brazilian Corporate Governance Institute (IBGC). The Group conducts its business based on transparency in the reporting of information to its various stakeholders (shareholders, investors, clients, consumers, suppliers, employees and society) and adopts corporate governance practices that exceed legal recommendations and obligations.

In addition to a Board of Directors and a permanent Audit Board, the Company has three Advisory Committees to its Board of Directors, whose main function is ensuring that its activities are conducted to protect and increase the value of its assets and to optimize return on investment in the long term. These committees are the Audit Committee, Financial & Risk Management Committee, Compensation, Corporate Governance & Human Resources Committee and Management Committee.

Other instruments and policies supporting Marfrig's corporate governance activities include:

- **Code of Ethics:** establishes the ethical foundation for compliance and strengthens governance by defining the values, principles and practices that guide good corporate conduct, in line with best practices and legal requirements.
- **Anticorruption Manual:** based on Brazilian anticorruption legislation, the manual informs how the Company's integrity policies translate into processes and practical procedures to be followed.
- **Whistleblowing Channel:** called HELPLINE, the channel is made available to all employees, clients, suppliers, service providers, investors, government officials and partners to receive reports on any activity in violation of the Company's standards and policies as well as of governing law, in particular Brazil's Federal Law 12,846/13, which combats corruption.
- **Securities Trading Policy:** establishes the rules and procedures to be adopted by the Company and its related persons regarding trading in securities issued by it, assuring to all stakeholders that ethical conduct is adopted by those with access to material information.
- **Disclosure Policy:** establishes practices for the disclosure and use of information to be observed by the Controlling Shareholder, Managers and members of the Audit Board, as well as by anyone who, due to their position, function or duties at the Company's, may come to acquire knowledge of a Material Act or Fact of the Company, in accordance with CVM Instruction 358 of January 3, 2002 and with CVM Instruction 369 of June 11, 2002. The Company's material facts are published on the news portal of Valor Econômico (http://www.valor.com.br/valor-ri), on its Investor Relations website, and on the Regular and Special Information (IPE) system of the Securities and Exchange Commission of Brazil (CVM).
- **Dividend Policy:** in accordance with Brazilian Company Law and Marfrig's bylaws, an Annual Shareholders' Meeting must be held within the first four months of each year to decide on the distribution of annual dividends. In dividend distributions, all shareholders are entitled to receive a minimum dividend corresponding to 25% of adjusted net income calculated based on the financial statements.

Submission to Market Arbitration Chamber

The Company, its shareholders, Managers and Audit Board members undertake to resolve, through arbitration at the Market Arbitration Chamber, any and all disputes or controversies that arise between them related to or arising from, in particular, the application, validity, effectiveness, interpretation, violation (and its effects) of the provisions of Brazilian Company Law, the Company's Bylaws, the rules issued by the National Monetary Council, by the Central Bank of Brazil and by the Securities and Exchange Commission of Brazil and the other rules applicable to the capital markets in general, as well as those in the Novo Mercado Regulations, the Arbitration Regulations, the Sanctions Regulations and the "Novo Mercado" Listing Agreement.

Relationship with the independent auditors

Pursuant to CVM Instruction 381/2003, which refers to the rendering of services by our independent auditors, BDO RCS Auditores Independentes SS, we hereby declare that the total fees related to services other than those associated with the independent audit represented less than 5% of the total fees paid to the group of auditors by Marfrig Global Foods S.A. and its subsidiaries, and none of the work affected the independence of the auditors.

6. CAPITAL MARKETS and INVESTOR RELATIONS

Marfrig's stock traded on the "Novo Mercado" segment of the BM&FBovespa (MRFG3) ended the year quoted at R$6.61 per share, for a gain of 4% from end-2015.

Average daily financial trading volume in the stock increased 10%, from R$15.0 million to R$16.5 million.

The ADRs traded on the over-the-counter market (MRRTY) ended the year quoted at US$1.98 per share, up 29% from 2015. In the same period, the S&P Index declined by 10% to 2,239 points.

In the composition of the Bovespa Index valid from September to December 2016, Marfrig ranked 56th in terms of liquidity, which is four places down from the previous portfolio, and had a weighting of 0.19% in the index.

The above figures show that we are on the right path. They are the result of the Company's efforts to improve its relations with investors and regularly participate in all market events to create opportunities for explaining our strategy, fundamentals, commitment to transparency and respect for those who support and understand the business. It also reflects the accomplishments of various areas of Marfrig, which is working to create a company focused more on value creation, financial discipline and teamwork at the global level.

7. SOCIAL and ENVIRONMENTAL PERFORMANCE

Since 2013, when it implemented its "Focus to Win" strategy, Marfrig has consistently strengthened the strategic pillars of Sustainable Development, which permeate all business units and are a reference for developing local actions that together foster and ensure the sustainability of the entire production system. The Company is committed to always balancing the economic, social and environmental aspects of its business in order to contribute to the development of society and help preserve the planet. The pillars forming the Company's Sustainability strategy are (1) Clients, (2) Suppliers, (3) the Environment, (4) Workplace, (5) Economic and (6) Social.

Given its leading position in promoting sustainable production and preserving biodiversity, the Company upholds, and continues to uphold and strengthen, various public commitments in partnership with major organizations.

The highlights in 2016 include:

- **Greenpeace Pact:** public commitment signed by Marfrig in October 2009, through which it undertakes not to source animals from deforested areas and/or areas that violate indigenous land rights and/or conservation units, with the Company subjected to annual audits by independent audit companies to verify compliance with the requirements of the agreement. In 2016, Marfrig once again achieved an excellent result by becoming the industry's only company to achieve 100% for the third straight year. It is also the only company with geo-referenced maps for 100% of its suppliers in the Amazon Biome.
- **Rainforest Alliance Certified:** after launching in 2015, in partnership with a European client, the first Rainforest Alliance certified hamburger, which will serve retail chains in Europe with beef produced in accordance with the highest environmental, social, economic, animal welfare and production management standards, in 2016, Brazilian consumers also were able to buy products with this seal.
- **The Nature Conservancy (TNC):** partnership signed in 2013 with NGO TNC and Walmart to foster sustainable cattle raising in southeastern Pará state. In 2016, beef from the project was introduced in the market through two Walmart stores in Brasília. The project will be highlighted in TNC's global annual report, which is distributed to thousands of representatives of companies, foundations, governments and NGOs around the world.
- **CDP Forest:** Marfrig Global Foods was recognized for its leadership in Latin America by the Forest Program of the Carbon Disclosure Program (CDP), which addresses climate change, the environment and water resources in the value chain. The recognition is for the Company's efforts to reduce deforestation in the value chain, i.e., reducing Scope 3 carbon emissions. The commitment undertaken by the Company in 2009 not to source animals from areas that have been banned by IBAMA, coupled with efforts to monitor suppliers, ensured a score of "A," attesting to its industry leadership.
- **Animal Welfare:** the Beef Division has a department dedicated exclusively to promoting animal welfare and good management practices in the production chain. The team is formed by highly trained zootechnicians and veterinarians, who monitor the evolution in indicators, assess the decision-making process and develop training programs. In 2016, Marfrig created the Animal Welfare Committee, which works to share the lessons learned and the results achieved by teams at each plant, with a focus on the industry's overall development.

  The pursuit and maintenance of dignified treatment is essential to preserving the quality and safety of the brand's products. It is the only way to guarantee customer satisfaction and continuous improvement in all animal management stages. As a result of these efforts, the Beef Division has become a reference in animal welfare.

  Meanwhile, the Keystone Division has maintained its leadership in animal welfare by participating on the animal welfare committees of the National Chicken Council and the American Association of Avian Pathologists, and becoming involved in the Poultry Welfare Alliance. We also worked with one of our main clients, McDonald's, to develop and implement guidelines on bird welfare in slaughter operations.
- **San José Unit:** located in Uruguay, the unit concluded and started operating a new wastewater treatment plant, for investment of US$2million. The unit is a reference in the country, since the plant eliminates all nitrogen and phosphorus in wastewater. The plant also has its own laboratory for conducting routine controls.

A reference and pioneer in its market segments, Marfrig adopts the principle of guaranteeing transparency and advancing sustainability. For this reason, it publishes an annual report in accordance with the framework of the Global Reporting Initiative (GRI), which features the major achievements and challenges on the work fronts established by its sustainability pillars. A full version of the document is available on the Company's Investor Relations website: www.marfrig.com.br/ri.

8. SOCIAL RESPONSIBILITY

Grounded in the principles of social responsibility, the units of Marfrig Global Foods develop important programs to support local communities. These include:

- **Social Campaigns**
  - ✓ Back to School: drive for collecting school materials;
  - ✓ Winter Clothing: drive for collecting winter clothing;
  - ✓ Food Drive;
  - ✓ Blue November: awareness campaign focusing on the prevention and diagnosis of prostate cancer;
  - ✓ Pink October: awareness campaign focusing on the importance of the prevention and early diagnosis of breast cancer;
  - ✓ Combatting Discrimination.
- **KEYSTAR**

  In June 2015, Marfrig launched the global philanthropic program Keystone Cares, which works to focus and expand the local impact of the Company's contributions through pre-established guidelines and a policy for food donations. Keystone Cares focuses on three areas: Public Nutrition, Support for Local Communities and Mitigating the Impacts from Environmental Disasters. For more information, go to: http://www.keystonefoods.com/corporate-social-responsibility/keystar

9. PEOPLE MANAGEMENT

The business performance of Marfrig Global Foods is the product of the efforts of its 29,203 employees located in the various countries where it operates. Accordingly, the Company strives to support its professionals in their career development through good practices in attracting, retaining and developing talent, while also encouraging diversity in the workplace.

Number of Employees by Business Unit

	2016	2015	Change (%)
Holding company	51	77	-33.7%
Beef	17,464	18,207	-4.0%
Keystone	11,688	11,992	-2.5%
Total	**29,203**	**30,276**	**-3.5%**
Net revenue per employee	**R$ 662,000**	**R$ 624,000**	

In 2016, the people management area focused on improving processes, such as social restructuring, access and time clock control, managing employees during leave, improving benefits and implementing the federal government project eSocial. As a result, we obtained significant gains such as reduction in turnover and in overtime.

Yet in 2016, the Company launched a 12-month trainee program where 26 people joined the Beef division with the objective of developing inovative and talented team. Each of the participants was assigned with a project, and by the conclusion of the program, the 3 best ones were awarded by the leadership team.

In 2016, an engagement survey was conducted by Keystone. The results show an engagement score of 71%, for improvement of 5 percentage points from the last survey conducted in 2014. Dedicated groups were created to implement improvement plans in the areas of communication and recognition.

Furthermore, as part of the talent development plan, Keystone offered development programs to 35 leaders in the United States and APMEA.

10. OUTLOOK

The outlook for 2017 is positive, with forecasts pointing to moderate growth in comparison with 2016. The IMF projects world GDP growth of 3.4%, driven by better prospects for the United States, China, Europe and Japan. The recovery in oil and commodity prices should relieve some of the pressure on commodity export markets, also contributing to this scenario.

In the United States, promises of fiscal stimulus and infrastructure investments support GDP growth forecasts of 2.3%, according to the latest IMF report. In China, the expectation is for a continuation of the stimulus measures approved by the government. In Brazil, after two years of recession, forecasts point to GDP growth of 0.5% in the year.

In this context, the expectation is for growth in per-capita income and consequently in per-capita consumption of animal proteins at the global level.

In the global beef industry, the expectation is for a favorable scenario. In the United States, the outlook is for a more balanced market with better margins, reflecting the better supply. Meanwhile, Australia should continue to reduce its presence in global markets to rebuild its herd. In China, the combination of stable domestic supply and growing demand should support higher beef imports.

In Brazil's beef industry, the expectation of a higher supply of fed cattle should support a recovery in domestic beef consumption and also boost exports. The Brazilian Association of Meat Exporters (ABIEC) forecasts growth in beef exports of 11% in 2017.

In the poultry industry, the consensus is that the current level of commodity prices will support industry margins. At the global level, production is projected to increase in leading producer countries, such as the United States and Brazil. In China, supply should remain stable with growing demand from the food service industry and from home consumption.

The risk factors to this scenario are associated with a slowdown in world economic growth and sharper depreciations in the currencies of emerging countries, which could lead to contraction in household consumption. Specifically in relation to the protein industry, disease remains a key risk factor for the business.

Marfrig's strategy will remain focused on capturing potential growth in the global protein industry and on creating value for shareholders by maintaining its commitment to strengthening its business through:

1. Operational improvements, productivity and margin expansion.
2. Diversifying the customer base and organic growth projects at the Keystone Division.
3. Capturing market share gains in value-added channels in the Beef Division.
4. Accelerating growth in the Asian market by expanding Keystone's operations in the food service channel and growing exports from the Beef Division.
5. Financial discipline, with a permanent focus on deleveraging and increasing free cash flow.

APPENDIX

RECONCILIATION OF ADJUSTED EBITDA (R$ million)	2016	2015
Net Profit / Loss	**(726.4)**	**(1,424.1)**
(+) Provision for income and social contribution taxes	(341.5)	(688.2)
(+) Non-controlling Interest	46.4	47.1
(+) Net Exchange Variation	79.0	1,052.9
(+) Net Financial Charges	1,955.7	2,046.6
(+) Depreciation & Amortization	464.8	434.4
(+) Equity Income	6.4	23.8
EBITDA	**1,484.4**	**1,492.3**
(+) Other Operacional Revenues/Expenses	109.0	249.5
Adj. EBITDA	**1,593.4**	**1,741.8**

Note: the consolidated result of Marfrig reflects the Company's decision to maintain one primary processing plant in Argentina, which led to the requirement to restate the 2015 financial statements for comparison purposes. The results from discontinued operations in 2016 reflect: (i) the divestment of the beef jerky business (Marfood, in the USA); (ii) the asset divestments in Argentina, and (iii) the divestment of the feedlot business in Brazil (MFG Agropecuária).