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**ANNUAL SUSTAINABILITY  
REPORT 2018**

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# HIGHLIGHTS

## IN 2018



### JAN

#### COMPLETION OF THE OVERSEAS

bond offer, maturing in 2025, in the amount of US\$ 1 billion. Demand for the issue, mainly by investors in Europe, the United States and Asia, outnumbered the initial allocation by four times.



### FEB

#### EXPANSION OF THE BASSI

product line portfolio. The Pampeano (RS) unit in Brazil begins production and sales of ready-made sauces for meat and rice products in pouches and cans, initially earmarked for Europe, North America and the Caribbean.



### MAR

#### CREATION OF THE AGRO

against Cancer program in Brazil, through which Marfrig cattle rancher partners can donate to Hospital de Amor, a center of excellence in oncology located in Barretos (SP).

### APR

**ACQUISITION AGREEMENT OF CONTROL** of National Beef, the fourth largest and most efficient beef company in the United States.

### JUN

**INAUGURATION IN BRAZIL** of Casa Montana, a concept store that brings together Montana Premium Beef, Bassi and Steakhouse products, in Itupeva (SP).



### AGO

**PARTNERSHIP AGREEMENT** with the Empresa Brasileira de Pesquisa Agropecuária (Embrapa), which covers the Carbon Neutral Meat (CCN) and Low Carbon Meat (CBC) production concepts.

### SEP

#### REORGANIZATION OF THE CORPORATE STRUCTURE,

simpler and more focused, with the creation of CEO positions in North and South America, as well as the Financial, Legal and Planning Vice Presidencies.



### NOV

**CONCLUSION OF THE SALE** of Keystone Foods, in the United States, whose main activity is the chicken meat processing.

### DEC

#### SIGNING OF AN AGREEMENT

for the purchase of Quickfood, a leader in the production of beef derived products in Argentina, and the hamburger, meatball and kibe plant in Várzea Grande (MT), Brazil.





# HIGHLIGHTS

## IN 2018

### ENVIRONMENTAL

#### PARTNERSHIP WITH

**EMBRAPA:** an unprecedented initiative, seeks to encourage the adoption of more sustainable livestock raising practices aimed at certifying meat produced in systems that neutralize or reduce the emission of methane emitted by animals



#### 100% COMPLIANCE WITH AMAZON PRESERVATION PRACTICES:

for the seventh consecutive year, the livestock acquisition processes adopted by Marfrig from ranches located in the Amazon biome presented 100% compliance with the Public Commitment of Livestock in the Amazon program.

#### THE ONLY COMPANY IN BRAZIL WITH 100% GEO-REFERENCED MAPS OF ITS SUPPLIERS IN THE AMAZON BIOME:

result achieved through the responsible purchasing practices adopted by the Company.

**MARFRIG CLUB:** 83% of its supplier's ranches already inserted in some level of the program, which seeks to encourage Brazilian producers to adopt good animal, environmental and social welfare practices.

**WIND FARM IN URUGUAY:** the Tacuarembó slaughterhouse located in the north-central region of the country, put its own wind farm on line. With capacity to generate 215 MW/hour per month, it meets 13% of the unit's electricity consumption requirements.

### SOCIAL

**MARFRIG INSTITUTE:** promotes social assistance for employees and communities near its operations, as well as initiatives relating to culture, education, health, food safety and sports.

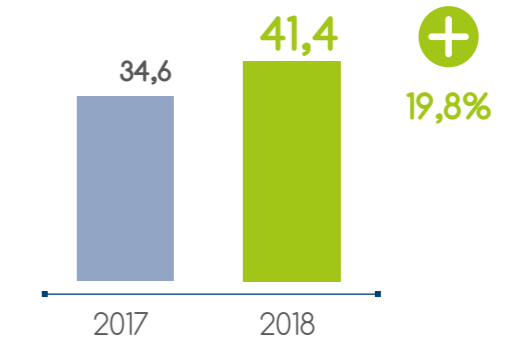
**PARTNERSHIP WITH HOSPITAL DE AMOR:** Since December 2017, Marfrig has supplied the meat necessary for the hospital's daily consumption, which serves meals to about 16,000 people per month. In 2018, 96 tons of Montana brand meats were donated

**NEW JOBS:** with the reopening of plants in Brazil, Marfrig created, created 842 new jobs in 2018, contributing to the economic and social development of the localities where its operations are present.

### ECONOMICS

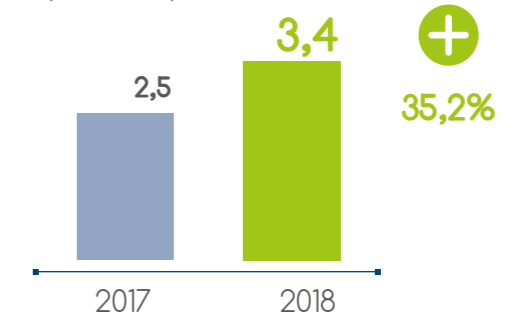
#### NET REVENUE

(US\$ billion)



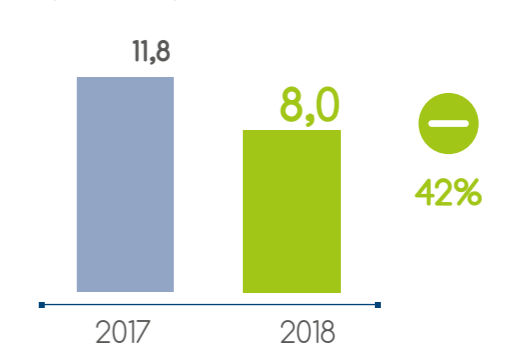
#### ADJUSTED EBITDA

(US\$ billion)



#### NET DEBT

(US\$ billion)



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**MESSAGE FROM  
THE EXECUTIVE  
BOARD**

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In 2018, Marfrig became the second largest beef company in the world, in terms of capacity, and the largest global hamburger producer. The achievement of this position is a result of the strategic business restructuring undertaken during the period, when we decided to focus on beef protein and higher value-added products derived from it, and to achieve a low-leverage capital structure, policies which have shaped a Company even more sustainable than ever.

The steps taken in 2018, in relation to both the re-positioning and expansion of our business as well as the enhancement of our management structure, serve to re-inforce our vision of the future. Internally, we have revised our Compliance policies and have created a new division specifically aimed at dealing with this question. We have also instituted a Sustainability Division as well as a separate Committee on Sustainability, reporting directly to the Board of Directors.

The Company is expanding, but without giving up anything when it comes to sustainable



growth, a principle which will always be part of any Marfrig strategy and which was re-affirmed in 2018 through our commitment to furnishing sustainable value to the communities we serve. The adoption of practices aimed at preservation of the environment, as well as programs underpinning social responsibility and financial stability are, therefore, of crucial importance to us.

When it comes to environmental initiatives, we are pioneers. We are the only company in our industry with geo-referenced maps for 100% of our Amazon region suppliers, the result of procedures we adopted to guarantee responsible buying. Such conduct led to our obtaining, at the beginning of 2019 and for the seventh year in a row, the seal of 100% conformity with the Amazon Public Cattle Ranching Commitment, a philosophy aimed at preserving the biosphere. Also this year, we established a new partnership with the Brazilian Agricultural Research Corp. (Embrapa). In our joint efforts, we will seek to encourage adoption of practices leading to sustainable cattle ranching, in-

corporating concepts such as Carbon Neutral Meat (CNM) and Low-Carbon Meat (LCM).

In the realm of social responsibility, we can point to the Marfrig Institute, which is dedicated to the promotion, among our partners and within the communities bordering our operations, activities related to culture, education, health, food security and sports. In addition, we maintain a partnership with the Hospital de Amor, in Barretos, which includes meat donations helping support the daily consumption needs of the institution. In 2018, we expanded this project, supporting the Agro Program Against Cancer, through which ranchers associated with Marfrig can also make such donations.

On yet another front, we are advancing when it comes to innovation and development of new products such as meat based on vegetable protein. These efforts show the Company's focus on the evolution of the market, including the need to serve the public with new protein options.

**THE SECOND LARGEST BEEF COMPANY IN THE WORLD, A POSITION THAT REFLECTS THE STRATEGIC REDIRECTION OF THE BUSINESS, CONCENTRATED IN BEEF PROTEIN AND HIGHER ADDED-VALUE PRODUCTS.**

We want to continue producing meat in a sustainable fashion, to reach new heights in this endeavor, and to offer protein alternatives to consumers while continuing to meet global supply commitments for our most demanding clients.

I would like to thank all those who have trusted and supported us in this strategy.

**Marcos Antonio Molina dos Santos**  
*Chairman of the Board of Directors*

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**MESSAGE FROM  
THE EXECUTIVE  
BOARD**

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For Marfrig, 2018 was a challenging and transformational year. With a new direction in the business strategy, now focused on beef protein and higher value-added products, we have made adjustments to our management path. We have made a change in the Company's operating structure, now represented by two platforms: North and South America. This new design favors maximization of the Company's operational footprint marked by its presence in the best producing regions. Another important factor is that it is internationally recognized for product excellence and quality. One of the key attributes that distinguish Marfrig from its competitors is the ability to supply the most qualified customers, such as the main foodservice chains.

In North America, we formed a set of assets that are very well positioned to respond to the growing demand for beef. This also included incorporating foodservice at National Beef, which was very strong at Keystone, the company we sold in the period but from which we retained the Ohio burgers business. We already under-

stood the quality of National Beef's assets at the time of the acquisition — but the results were better than the projections, boosted by the excellent cycle at this moment in the United States, by the wide availability of animals and that country's good economic performance.

In South America, we made important acquisitions in Argentina and Brazil, aligned with the strategy of growth in higher value-added products. These assets will produce hamburgers and other products, and in addition to meeting the demands of traditional foodservice customers, they also balance a major challenge for the beef industry — which is to add value to certain beef cattle parts. We also signed a long-term contract with BRF, a company that sold us assets in Brazil, to supply products such as hamburgers, kibes and meatballs. Manufactured in Várzea Grande (MT) to Marfrig's quality standards, they will be marketed through the traditional Sadia and Perdigão brands.

Regarding results, the South America operation performed well, even in the face of important challenges — mainly in Brazil — such as a truck

drivers' strike and the incident in October at the Mineiros, Goiás plant; and at the Uruguay plant, where adverse weather conditions reduced the availability of animals for slaughter. We boosted our sales volume due to the decision to expand and revamp our manufacturing facilities, mainly in Brazil, to better position the company and capture the benefits of a scenario presenting higher demand for beef protein coupled with local currency devaluations in the region.

Hence, we achieved consistent results in the period. Consolidated net revenues, on a pro forma basis, totaled US\$ 41.4 billion, an increase of 19.8% over 2017. Adjusted EBITDA of US\$ 3.4 billion was a record, up 35.2% in comparison with the previous period. The adjusted EBITDA margin was 8.2%, an increase of 100 bps over 2017. Net income of US\$ 1.4 billion, for its part, demonstrated a significant improvement over the previous year, explained by the record result of Operation North America and the positive impact of the gain through the selloff of Keystone in the last quarter of the year. We also pursued an adequate capital structure in 2018 and ended the year with the lowest leverage in the sector, a result that we had been pursuing since 2013. To achieve this, sale of Keystone in the United States was of fundamental importance.

In our administration, from an economic point of view, the leverage ratio and positive cash generation are priorities, with earnings for all shareholders. In the environmental area, we will progress and strengthen the actions that already have been taken, giving greater visibility

to the pioneering activities, such as low carbon or neutral carbon meat, as well as maintaining and expanding those with a preventive impact, such as commitment to the Amazon biome and all others that preserve the environment and the ecosystems into which we are inserted.

In the social context, several points deserve highlighting: this includes our work with the Hospital do Amor in Barretos, a point of reference for the treatment of cancer in Brazil; and the non-profit Marfrig Institute, which helps children in socially vulnerable situations. Through it, a series of physical and intellectual development programs are offered, with sports and leisure activities that are aimed at encouraging good citizenship practices and respect for the environment.

We will continue to focus our efforts to maximize the value of operations in North and South America, with more profitable channels and higher value-added products. We also will seek to implement even greater operational efficiencies, without neglecting our non-negotiable commitment to financial discipline and sustainability. I wish to thank all who have contributed, participated and supported the execution of the Company's strategies.

**José Eduardo de Oliveira Miron**  
CEO



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## ABOUT THE REPORT

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Marfrig Global Foods presents, in the following pages, a summary of its business performance in 2018 in the<sup>1</sup> economic, financial, environmental and social spheres. The information is organized according to the methodology of the Global Reporting Initiative (GRI), Standard format, Essential option. It is the 13th consecutive year that Marfrig has gathered the information about its businesses and presents the results achieved in an annual report. It is in line with the transparency pursued for the purpose of accountability to its stakeholders (customers, consumers, investors, suppliers, employees and society). In this edition, it releases for the first time a version of the report in Spanish, in addition to the traditional publications in Portuguese and English.

Throughout the document, the Company's business strategy is shown in detail, redefined during the period and, as a reflection, the operational reorganization, which was divided between North America and South America. Also presented are advances in the practices

related to sustainability and how they are inserted into and contribute to the Company's businesses. This includes data and information on compliance, risk management and corporate governance, among others. The contents of this publication also include the most significant topics for the Company and its stakeholders as expressed in a new Materiality Matrix, revised in December 2018.

Furthermore, the content is accompanied by the economic-financial information prepared according to the *International Financial Reporting Standards* (IFRS), and is reported based on the 2018 financial statements audited by Grant Thornton Auditores Independentes. The full figures are available on the Company's Investor Relations website (<http://ri.marfrig.com.br/>).

**ENJOY YOUR READING!**

QUESTIONS, SUGGESTIONS OR REQUESTS FOR ADDITIONAL INFORMATION ABOUT THOSE PRESENTED HERE CAN BE SENT THROUGH THE FOLLOWING CHANNELS:

**SUSTAINABILITY**

[HTTP://MARFRIG.COM.BR/PT/FALE-CONOSCO](http://marfrig.com.br/pt/FALE-CONOSCO)  
+55 11 4593 7400

**INVESTOR RELATIONS**

[HTTP://RI.MARFRIG.COM.BR/PT/SERVICOS-AOSINVESTIDORES/FALE-COM-RI](http://ri.marfrig.com.br/pt/SERVICOS-AOSINVESTIDORES/FALE-COM-RI)  
+55 11 3792 8600  
[RI@MARFRIG.COM.BR](mailto:RI@MARFRIG.COM.BR)

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<sup>1</sup> Period between January 1 and December 31

## MATERIALITY MATRIX

### PORTFOLIO



### WATER



### COMPLIANCE AND ANTI-CORRUPTION



### HEALTH AND SAFETY



### ANIMAL WELLNESS



### FINANCIAL RESULTS



In line with the continuous improvement efforts adopted by the Company, the Materiality Matrix that guides this GRI report was revised in December 2018. The update's objective was to identify the issues that, for Marfrig Global Foods' stakeholders, are seen as being the most relevant to them. The survey also contributes to a more appropriate overview of how the Company's actions affect or are being impacted by the economic, environmental and social environments of these stakeholders. The information gathered was supplemented by the opinions of Marfrig Global Foods, represented by the Company's senior management.

The stakeholders' contributions were through a questionnaire based on the GRI guidelines and the Company's strategic concepts. The questions covered 28 subjects, divided into four topics: product excellence; the environment; social; and economic/governance. Some 340 persons were consulted, including customers, employees, suppliers, financial institutions, civil society and government agencies. There was 30% participation of those invited to answer the questionnaire.

This survey pointed to six issues that are cur-

## MATERIALITY AND ITS LIMITS

TOPIC	DESCRIPTION	WHERE IT OCCURS	RELATED GRI TOPICS
PORTFOLIO	Brands, products and services; impacts on customer health and safety; information and labeling	Operational Units; Administrative Units; Suppliers; Clients	102-2; 416-1; 416-2; 417-1; 417-2; 103-1; 103-2; 103-3
WATER	Water management	Operational Units; Administrative Units; Suppliers; Communities	303-1; 303-2; 303-3; 103-1; 103-2; 103-3
COMPLIANCE AND ANTI-CORRUPTION	Risk management, policies, procedures, communication and training	Operational Units; Administrative Units; Suppliers; Clients	205-1; 205-2; 205-3; 103-1; 103-2; 103-3
HEALTH AND SAFETY	Committees, statistics, risks and formal agreements	Operational Units; Administrative Units; Suppliers; Clients; Communities	403-1; 403-2; 403-4; 103-1; 103-2; 103-3
ANIMAL WELLNESS	Impacts of the biodiversity activities, products and services	Operational Units; Administrative Units; Suppliers	304-2; 103-1; 103-2; 103-3
FINANCIAL RESULTS	Economic Performance	Operational Units; Administrative Units	201-1; 201-2; 201-3; 201-4; 103-1; 103-2; 103-3

rently of the most material interest to the Company and its stakeholders (below). It showed how the actions and initiatives undertaken by the Company on each of these fronts are related and contribute to the goals established by global movements that support the Sustainable Development Goals (SDGs) and the Global Compact, both UN initiatives. With the Materiality Matrix established, the GRI topics cove-

red in this report were defined, as detailed in the GRI Content Summary.





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## ABOUT

## MARFRIG

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### PROFILE

Marfrig Global Foods is the 2nd largest beef protein company in the world, and the leading global hamburger producer. Originating in Brazil, it operates in the production, processing, industrialization, sale and distribution of food and value-added products based on beef animal protein.

With consolidated operations in the Americas, it serves different locations around the globe, according to the demands and needs of each region. It offers innovative, safe and healthy products and solutions for foodservice, retail

and wholesale channels.

In South America, it is responsible for the slaughter and deboning of products derived from the processing of cattle from Brazil, Uruguay and Argentina, and the production of processed foods such as canned meat, beef jerky, sauces and sachets, among others. The products are marketed internally in the retail, wholesale and foodservice channels, and exported to various markets. In Chile, where it is the country's main beef importer, the Company has a lamb slaughtering operation with capacity for 605,000 head/year. There are also

two lamb slaughtering lines in Uruguay.

In North America, it is responsible for the slaughter and deboning of products derived from the processing of cattle originating in the U.S. The products are marketed internally in the retail, wholesale and foodservice channels, and exported to various markets. This business also includes the marketing of allied/complementary products and the byproducts originating from the process, tannery and logistics operations, and sale of products online directly to the consumer.

With a diversified and comprehensive portfolio, its products are present in the largest restaurant and supermarket chains, reaching millions of consumers in approximately 100 countries. The brands are recognized worldwide for premium quality, reflecting a production model that respects legal, environmental and animal welfare aspects.

With approximately 30,000 employees, Marfrig Global Foods, whose head office is located in the city of São Paulo (SP), is a publicly traded company with shares listed on the B3 - Brasil, Bolsa, Balcão's Novo Mercado segment for companies that spontaneously adhere to differentiated Corporate Governance practices.

**2ND LARGEST BEEF  
PROTEIN COMPANY** IN THE  
WORLD, IN CAPACITY

**LARGEST GLOBAL  
HAMBURGER PRODUCE**

**LEADING POSITION IN THE  
MARKETS** OF SOUTH AMERICA  
AND NORTH AMERICA

**36** PRODUCTION UNITS

PRODUCTS SOLD TO **MORE  
THAN 100 COUNTRIES**





# OPERATING PLATFORM

Focused on beef protein, with a diversified production platform in the Americas and access to the main consumer markets of the world. It has 24 slaughtering units, 12 processing units and eight distribution centers in Brazil, Argentina, Uruguay, Chile and the United States, as well as sales offices in the Americas, Europe and Asia.



(1) Includes Quickfood's units, whose acquisition was announced in December 2018, but only concluded on 1/2/2019. | (2) Includes the processing unit at Várzea Grande (MT), whose acquisition process started in December 2018 and concluded in April 2019.

# SALES OFFICES





BRANDS

NORTH AMERICA



SOUTH AMERICA



MISSION

TO SUPPLY THE BEST PROTEIN GLOBALLY BY FORGING LONG-TERM RELATIONSHIPS WITH OUR CONSUMERS AND BY CREATING HIGH QUALITY AND SAFE PRODUCTS, MOTIVATED BY OFFERING THE BEST TO OUR CLIENTS.

VISION

TO BE RECOGNIZED AS THE BEST GLOBAL PROTEINS COMPANY.

THIS WILL HAPPEN IN FOUR WAYS:

- GROWING WITH OUR CLIENTS, SUPPLIERS AND PARTNERS THROUGH INNOVATIVE PRODUCTS AND BY OPERATING IN THE BEST MARKETS;
- PROMOTING THE COMPANY'S DEVELOPMENT AND CREATING VALUE FOR SHAREHOLDERS;
- EMPLOYING A TEAM OF MOTIVATED EMPLOYEES WHO ARE COMMITTED TO SERVING THE ENTIRE PRODUCTION CHAIN WITH OPERATIONAL EXCELLENCE AND IN A SUSTAINABLE MANNER; AND
- RESPECTING THE SOCIETY IN WHICH WE OPERATE.



## VALUES

### 1. FOCUS ON THE CLIENT

We are fully committed to our internal and external clients and embrace their priorities as ours.

We put all our effort and passion in what we do to serve our clients in all stages of the production chain.

We act with integrity and do what is right with regard to our products and procedures.

### 2. SIMPLICITY

We employ clarity, objectiveness and simplicity in taking decisions in order to facilitate all our processes. The idea of “less is more” permeates all that we do.

### 3. TRANSPARENCY

We don't conceal our problems. Our behavior and conduct are aimed at helping us learn from our mistakes and not repeat them.

We encourage dialogue with our stakeholders, which helps us generate trust and improve ourselves as professionals and individuals.

### 4. RESPECT

We treat everyone the way we wish to be treated. We are guided by our ethical principles and are constantly motivated to develop our relationships.

### 5. EXCELLENCE

We constantly encourage provision of innovative solutions and pursue excellence in all that we do. We have developed these capacities across the organization to build loyalty of our internal and external clients.

### 6. ENTREPRENEURIALISM

We are attentive to the context of the market in which we live and adapt to it. We perform our tasks with passion and know how to resiliently recover in the face of adversity. We have a sense of ownership, taking care of our processes, productivity and resources. We are alert to quickly adapt ourselves to needs, problems and opportunities.

GRI 102-10

## BUSINESS

## STRATEGY

For Marfrig Global Foods, 2018 was a year marked by a strategic business redirection. The Company's operations began to focus on beef protein and higher added-value products. The low-leverage capital structure became another priority, a level that already was reached in the period and subsequently has been maintained.

### STRATEGIC MOVEMENTS DURING THE YEAR

#### In the United States

- Acquisition of control of National Beef, the 4th largest and most efficient beef company in the United States.
- Sale of the Keystone Foods subsidiary, which mainly was engaged in the processing of chicken meat, in line with its commitment to financial discipline and the focus on beef protein.
- Maintenance of Keystone's hamburger business in North Baltimore, Ohio, one of the largest such plants in the United States and a leading supplier to the foodservice channel, an operation that reinforces our commitment to expanding our higher added value product lines.

#### In Argentina

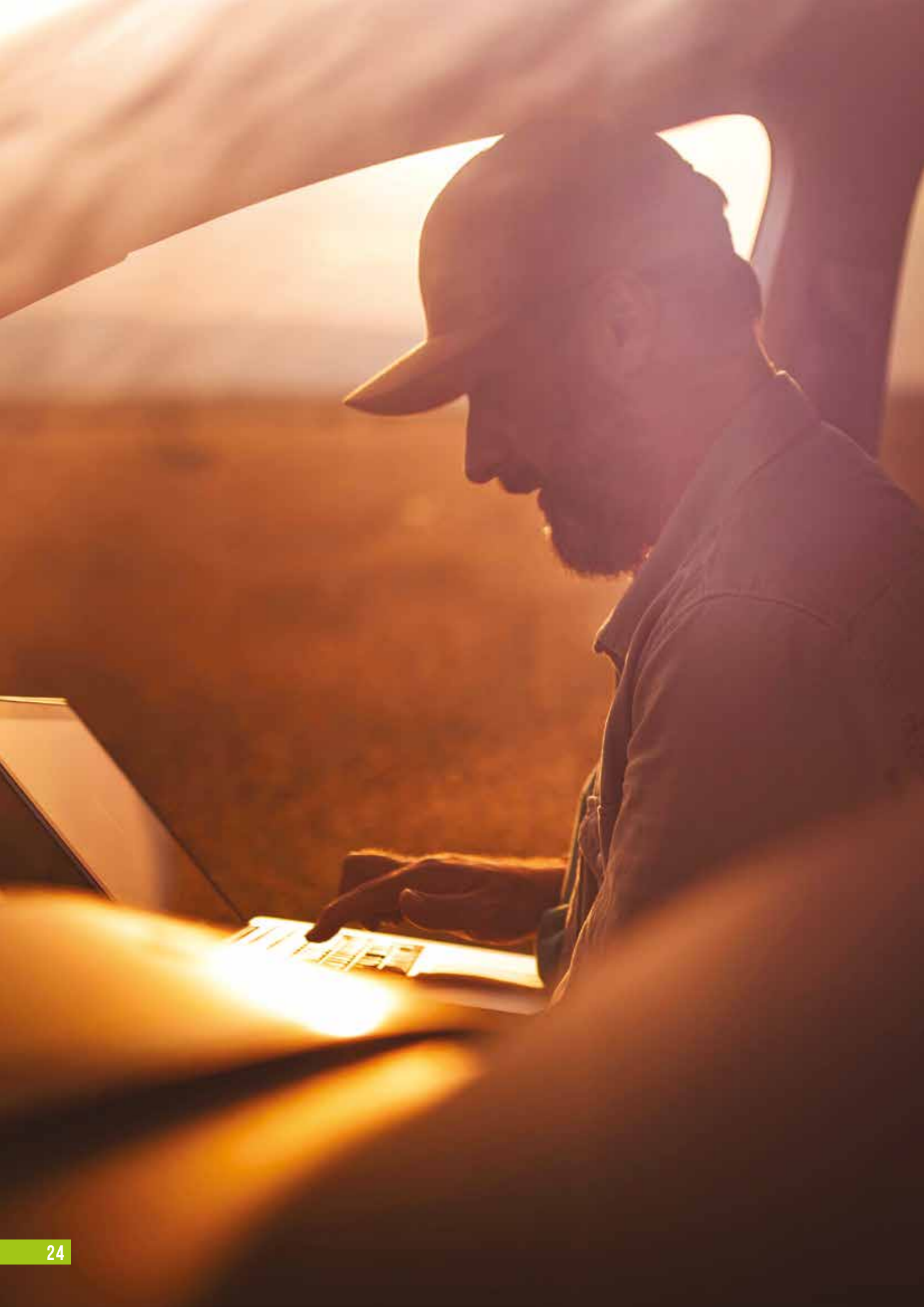
- Purchase of control of QuickFood, the leading producer of beef derivative foods in the country, owner of Paty, the foremost local hamburger brand.

#### In Brazil

- Acquisition, in Brazil, of a processing unit in Várzea Grande (MT), which is dedicated to the production of hamburgers, meatballs and kibes. The plant was acquired from BRF, a company with which Marfrig signed a long-term contract to supply hamburgers, among other products.

These moves led Marfrig to become the world's **second largest beef company** in terms of capacity in 2018 and the **largest hamburger producer** in the world, with an output of more than 230,000 tons per year. They also contributed to the **significant improvement in the capital structure**, which closed the year with leverage of 2.39x (net debt/EBITDA), **one of the lowest levels in the sector**.





## SUSTAINABILITY APPLIED TO THE BUSINESSES

Sustainability is one of Marfrig's strategic pillars. In this regard, good practices permeate the entire business and its operations, representing key tools that allow us to make superior-quality products available to the market. In addition to providing quality items, Marfrig has striven to develop sustainable options in line with the demands of the consumers and markets it serves.

The conduct and initiatives taken in this direction - including strict verification of the origin of the raw materials and the production process operations - have placed Marfrig in a market-leading position, distinctive for its differentiated products. The Company increasingly values and disseminates the best practices in biodiversity preservation, animal welfare and production management, always in partnership with renowned organizations in these fields of



*"MARFRIG GLOBAL FOODS RECOGNIZES ITS ROLE IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT REGARDING ITS OPERATIONS. THEREFORE, IT CONSTANTLY DEVELOPS TECHNOLOGIES AND SOLUTIONS TO TRANSFORM THE PRODUCTION SCENARIO, MITIGATING RISKS, INTEGRATING THE ACTORS INVOLVED IN ITS VALUE CHAIN AND, HENCE, SUPPLYING ITS CLIENTS WITH DIFFERENTIATED AND QUALITY PRODUCTS THAT SATISFY THE HIGHEST SOCIO-ENVIRONMENTAL REQUIREMENTS".*

**PAULO PIANEZ – DIRECTOR OF SUSTAINABILITY**

activity.

The result of this conduct and the strategies adopted can already be seen in the Company's product portfolio:

- **Low carbon meat:** in 2018, Marfrig established an unprecedented partnership with Empresa Brasileira de Pesquisa Agropecuária (Embrapa), to foster the adoption of more sustainable livestock practices. The initiative covers the Carbon Neutral Meat (CCN) and Low Carbon Meat (CBC) production concepts developed by Embrapa for the certification of meat produced in systems that neutralize or reduce the emission of animal methane, thus strengthening the chain's

added value. This initiative represents a breakthrough in the industry's value chain and reinforces Marfrig's commitment to a sustainable production system. Through it, both the meat domestic and export markets - and especially the more demanding ones - are strengthened, as they differentiate the Brazilian product in non-tariff negotiations that encompass issues related to good sustainability practices.

- Launch of the **first Rainforest Alliance certified hamburger** – Marfrig pioneered the creation of sustainable hamburgers, providing meats produced to the highest production, environmental, social, and animal welfare management standards, certified by the Rainforest Alliance. The burgers, produced in partnership with European customers between 2015 and 2016, initially were earmarked for distribution in retail chains on that continent. The following year, they also became available to Brazilian consumers.
- To help consumers **identify and select products made from quality meats produced in a manner to preserve the native South American Pampas fields, Marfrig created a specific label in partnership with the Alianza del Pastizal NGO**. To obtain this, NGO member properties are evaluated and certified according to the guidelines established by the Pastizal Meat Certification Board (CCCCP). This analysis also checks the Omega 3 levels of the meat.

- **The Nature Conservancy (TNC):** a partnership signed since 2013 to promote sustainable livestock farming in southeastern Pará and contribute to the preservation of the Amazon Biome by encouraging good socio-environmental practices. In this initiative, in which the Walmart retail chain also participates, technical advisory services are offered to producers, both on environmental as well as animal welfare issues, within the “Sustainable Meat: from the Field to the Table” project. Since 2016, meats from participating properties have been presented to the consumer market. The project was one of the highlights of the TNC's annual global report, which is distributed to thousands of representatives of businesses, foundations, governments and other non-governmental organizations around the world.

Marfrig's responsibility for best practices related to sustainability is also reflected in the strengthening of several public commitments undertaken in partnership with recognized global and local organizations focused on social and environmental issues, including issues related to animal welfare.

- **Rainforest Alliance Certified™:** Since June 2012, Marfrig has been tracking the complete cycle of beef production under the seal of the Institute for Forest and Agricultural Management and Certification (Imaflora). The Company was the first in the animal protein industry to adopt this

practice, which gives it the right to use the Rainforest Alliance Certified™ (RAC) seal of approval. The seal certifies that beef farms follow strict international standards for environmental conservation and respect for workers, local communities and animal welfare rules.

- **Amazon Biome Pact:** In this agreement, Marfrig reaffirms its commitment not to buy animals from areas of deforestation and/or

conflicts with Indigenous lands and/or Conservation Units, practices that are subject to annual audits by an independent company. This commitment remains in force even after the NGO Greenpeace withdrew from the Public Commitment on Amazon Cattle Ranching in 2017.

## 100% COMPLIANCE WITH AMAZON PRESERVATION PRACTICES

For the seventh consecutive year, the cattle purchase processes of farms located in the Amazon biome showed 100% compliance with the Public Commitment on Amazon Cattle Ranching. This result was certified by an audit from DNV-GL, a Norwegian consultancy specializing in business and environmental risk analysis. Through evaluation and testing, the practices applied in combating forest deforestation and violence against indigenous peoples and the use of labor analogous to slave labor were verified. The full report is available at [http://www.marfrig.com.br/Arquivos/2018\\_Avaliacao\\_ao\\_Atendimento\\_do\\_Compromisso\\_Publico.pdf](http://www.marfrig.com.br/Arquivos/2018_Avaliacao_ao_Atendimento_do_Compromisso_Publico.pdf)







## GLOBAL MEAT CHAIN

Marfrig also supports several efforts to develop global sustainable beef production standards:

- **Global Roundtable for Sustainable Beef (GRSB):** An initiative whose principles are the attentive use of natural resources, efficiency and innovation in livestock raising and respect for the human rights and the communities inserted in the livestock, animal feed/health and welfare productive chain. It is comprised of producers, also organized in associations; the commercial and processing sectors; retail companies; and civil society organizations. Organizes roundtables in Canada, Colombia and the United States, in addition to Europe.
- **Working Group on Sustainable Livestock Raising (GTPS):** Its objective is to discuss and formulate common princi-

ples, standards and practices to be adopted by the sector with the premise of building a sustainable, fair, environmentally correct and economically viable livestock raising sector. Among the work developed by the GTPS and its partners, a standout is the Guide to Sustainable Livestock Indicators (GIPS), aimed at engaging all links in the production chain in the best sustainability practices applied to livestock activities. It is composed of producers, industries, research centers and universities. Marfrig Global Foods has been associated with the GTPS since 2009, and has had a seat on its Board since 2012.

- **Tropical Forest Alliance (TFA 2020):** Seeks to achieve zero deforestation in the beef, palm oil, soybean, pulp and paper production chains by 2020, a goal based on

the commitment shared by the participating nations of the Rio+20 international environment convention. This global alliance, created in 2012 by the *Consumer Goods Forum*, brings together the top executives from various consumer-goods industries and the U.S. government. Marfrig is a member of the TFA 2020 Steering Committee.

- **National Pact Institute for the Eradication of Slave Labor (InPACTO):** It aims to unite the private sector and Brazilian civil society organizations in the prevention and eradication of slave labor in production chains. The initiative also promotes actions to reinstate rescued or vulnerable workers into the labor market through professional training activities. The members - companies, civil society organizations and workers' organizations - commit to ten commitments

to combat slave or slave-like labor in their businesses and in the production chain. Marfrig has been associated with InPACTO since 2014, but its engagement in the struggle against slave labor is prior to that date. In 2005, the Company was already a signatory of the Pact of the same name and that gave rise to the Institute.





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## OPERATIONS

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The strategic moves made in 2018 consolidated Marfrig's position in the Americas axis. Hence, the operations began to be divided into two platforms: North and South America. In both, it has a diversified production structure, capable of serving the main and most profitable consumer markets in the world.

### NORTH AMERICA

It encompasses businesses in the United States: National Beef — the fourth largest and most efficient beef company in the United States, acquired in June 2018 — and the hamburger plant in North Baltimore, Ohio, one of the largest and most technologically updated U.S. hamburger production facilities. This division's production capacity is 106,000 tons of hamburger meat/year, frozen and in natura, earmarked for the foodservice industry.

National Beef accounts for 13% of the country's total slaughter. It has two plants for this purpose, which together have a capacity of 12,000 animals/day, which totals more than 3 million head/year.

With a high added-value portfolio, the operation offers products with the best specifications

and quality, in addition to widely recognized brands. The items produced are marketed domestically to the retail, wholesale and foodservice channels, and exported to a number of markets. Japan and Korea, for example, are the main destinations for chilled beef, a product in which National Beef stands out as the top U.S. exporter. It also markets allied/complementary products and by-products originating from the process, tannery and logistics operations, which adds to the online sale of products directly to the consumer.

Given the business strategy focused on beef protein and value-added products, the Company sold Keystone, a company it held in the U.S. but that primarily was engaged in chicken protein.

**Performance.** In North America, especially in the U.S., beef demand was extremely heated up in 2018. The U.S. consumption of meat was over 26 kg/inhabitant, a volume 5% higher than in 2017. This is explained by the country's good economic moment and a change in consumer habits, who now are seeking higher quality products with distinctive flavors and textures. Hence, it is a demand that fits precisely with the priority



market for Marfrig's operations in that country. This context boosted the net revenues of the North American operation by 2.1%, totaling US\$ 7.8 billion (more information on page 77).

## SOUTH AMERICA

One of the main beef producers in the region, with a slaughter capacity of more than 21,000 animals/day, Marfrig Global Foods is recognized for the quality of its products both in the domestic market and the international scenario, since it is one South America's main exporters.

In line with its strategy to maximize production and sales of higher value-added products with greater profitability, in 2018, Marfrig acquired the assets of Quickfood, a leading beef-derived foods company in Argentina, owner of the Paty brand and the local leader in the hamburgers segment; and of Vienissima, a sausage maker. In Brazil, it bought the Várzea Grande (MT) plant from BRF. Dedicated to the production of hamburgers, meatballs and kibes, the unit will strengthen the Company's industrialized higher added-value product portfolio. In addition to bolstering the supply to traditional clients already served in other countries, the acquisition



*"MARFRIG'S BUSINESS IS BASED ON RESPECT FOR THE ENVIRONMENT AND ANIMAL WELL-BEING. THE PRINCIPLES OF ONE OF OUR STRATEGIC PILLARS, SUSTAINABLE DEVELOPMENT, PERMEATES OUR ACTIVITIES AND, THEREFORE, WE ALWAYS SEEK TO PRESERVE AND DISCLOSE THE MOST SUSTAINABLE PRACTICES RELATED TO OUR LIVESTOCK ACTIVITIES".*

**MIGUEL GULARTE –  
CEO SOUTH AMERICA  
OPERATION**

was accompanied by a partnership with BRF to supply products to be sold under the Sadia and Perdigão brand names for five years. The strategy of expanding the hamburger production base in the region offers stability in terms of the margin, when compared to a business model that basically is characterized as selling a commodity. At the same time, it makes it possible to add value to the products.

In addition to these changes, a refrigeration plant also was inaugurated in June in Pontes e Lacerda, in Mato Grosso. In the second half of the year, three new Distribution Centers started operating in Recife (PE), Curitiba (PR) and Esteio (RS). Also inaugurated was Marfrig's first meat concept store - Casa Montana, in Itupeva, SP.

Thus, operations in South America are distributed between Brazil, Uruguay, Argentina and Chile:

- In **BRASIL**, it is the second largest beef processor, with a slaughtering capacity of 16,000 animals/day and hamburger production capacity of 69,000 tons. Focusing

on the retail and foodservice channels for the local market, its customers include the best restaurants and steakhouses

- In **URUGUAI**, it is the largest company in the sector, distinguished by the production and sales of organic meats, mainly for export.
- In **ARGENTINA**, in addition to operating two slaughter plants, the company is a leader in the production and commercialization of hamburgers; now owns Quickfood, one of region's most valuable and recognized brand names.
- In **CHILE**, it is the main beef importer, besides operating a lamb slaughtering plant in Patagonia. Besides the traditional brands, with wide recognition for excellence and quality, it has an extensive processed and high added-value food line.

South America has established itself as one of the main supply platforms to meet the growing global demand for beef protein. In 2018, exports of beef in natura from Brazil, Argentina and Uruguay totaled about 2.2 million tons<sup>1</sup>. This characteristic means that approximately 50% of what Marfrig produces in South America is earmarked for destinations such as China – including Hong Kong, Italy and Egypt, among others.

<sup>1</sup> According to data from the Brazilian Meat Industries Association (Abiec), National Meat Institute of Uruguay (Inac) and Ministry of Agriculture of Argentina

Regarding domestic demand, operations were impacted by the economic challenges facing the region's countries, such as hyperinflation in Argentina and high unemployment rates in Brazil, where it also faced an incident<sup>2</sup> in one of the plants that compromised the last quarter's slaughtering volume. Despite this context, Marfrig achieved growth, reflecting the performance of sales channels such as foodservice and small retail (more information on page 79).

<sup>2</sup> Incident in part of the refrigerator of Mineiros (GO) caused a considered fire of medium proportions, temporarily paralyzing the operation of the unit. A holiday, when the unit was closed, did not affect employees.





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## COMPLIANCE PROGRAM

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Integrity is one of the values that guide Marfrig Global Foods' business practices, a concept reinforced by the fact that the Company's history is notable for honesty in its actions and respect for society.

Taking the Company in this direction, in line with ethical principles and transparency in relationships, makes the employee the lead player. Thus, to disseminate best practices to this key stakeholder group and engage its members in the values defended by the Company, Marfrig introduced and has upheld its Compliance Program since 2015.

The guidelines established are structured into ten elements, based on three assumptions: prevention, detection and response. Governance and Culture, in turn, represent the Program's keystone elements. Developed in order to observe the regulations in force in the Company's various markets and to respect each country's culture and customs, the Compliance Program is applied throughout the value chain. Thus, it must be observed by all employees, subsidiaries and affiliates, which includes shareholders, officers, members of committees and related parties. Cases of noncompliance are subject to

disciplinary measures.

In 2018, the Compliance Program was improved. After a diagnosis of its maturity, carried out the previous year by the KPMG consulting firm, the enhancement phase began. One example, toward this end, was the revision of the Code of Ethics and Conduct and Anti-Corruption Policy, documents that form the basis of the Compliance Program. Reformulated, the Code of Ethics will bring, among the changes, specific chapters to address issues related to environmental and social responsibility. Other important issues it addressed, such as conflicts of interest and receipt of gifts, will be separated and raised to policy conditions. The new versions of the documents will be submitted for the Board of Directors' evaluation in 2019.

**STRUCTURED GUIDELINES  
BASED ON THREE PREMISES:  
PREVENTION, DETECTION  
AND RESPONSE**



## ELEMENTS OF THE COMPLIANCE PROGRAM

### GOVERNANCE AND CULTURE

There is a continuous commitment to establish a Compliance Culture at all hierarchical levels, in order to engage 100% of employees in efforts toward this end. The Board of Directors plays a key role in this regard. In addition to the classic attributes and functions of this Corporate Governance level – which includes the formulation and monitoring of general business policies, including the long-term strategy – it has an important role in Marfrig’s oversight, auditing and compliance efforts.

To accomplish these tasks, it is supported by a permanent Fiscal Council and three Advisory Committees, which act to protect the Company’s assets and property and ensure the business’ long-term sustainability. The Committees focus on specific topics:

- **Audit Committee.** Advises on analysis

and disclosure of the financial statements and regarding the development of internal controls. It also supervises and coordinates the work of internal and external auditors, especially in matters related to accounting, internal financial controls and other legal compliance controls.

- **Compensation, Corporate Governance and Human Resources Committee.** Supports decision-making process for internal HR strategies, policies and standards, as well as compensation and benefits for officers, employees and service providers. It also advises on operationalization of processes and the control and development of corporate governance practices.
- **Finance and Risk Management Committee.** Periodically examines investment and financing plans, and their impacts on the

## CAPITAL STOCK

Marfrig Global Foods S.A. is a publicly-traded company whose shares are traded on the B3 Novo Mercado under ticker symbol MRFG3.

SHAREHOLDERS*	%
CONTROLLING SHAREHOLDERS	37.42
BOARD OF DIRECTORS	0.02
DIRECTORS	0.07
TREASURY STOCK	0.34
BNDES PARTICIPAÇÕES S.A.	33.74
FREE FLOAT	28.41

The “Controlling Shareholders” group is composed of MMS Participações Ltda. and its partners individually. MMS Participações Ltda. is controlled by Marcos Antonio Molina dos Santos and Marcia Aparecida Pascoal Marçal dos Santos, each with a 50% stake.

\* In December of 2018

Company’s capital structure. It also monitors the maintenance of predetermined liquidity and capital structures

As a publicly traded company with securities listed on the B3 Novo Mercado - the listing environment with differentiated Corporate Governance rules - Marfrig spontaneously adopts practices related to the topic that go beyond what is required by current corporate law. An example, in this regard, is the make of

the Board of Directors. Under the Company’s Bylaws, Board must be comprised of five to 11 members, at most, all elected and removable at a General Shareholders Meeting, with a unified term of office of two years, with reelection allowed. Because it is listed on the Novo Mercado, at least 20% of the Board’s members must be independent. In line with efforts to adopt best practices in this area, the Board of Directors was comprised of ten members at the end of 2018, half of whom were inde-

MARFRIG’S SHARES ARE LISTED IN THE PORTFOLIOS OF 10 B3 INDEXES:





pendent. See the Board's composition on <http://ri.marfrig.com.br/>.

Added to this Corporate Governance structure is the Executive Board, responsible for executing the general policies and guidelines established by the Board of Directors. Its members are elected by the Board of Directors to three-year terms, re-election is permitted, and they may be dismissed at any time. At the close of 2018, it was composed of six members: one chief executive officer and three other executive officers for Planning and Management, Legal and Financial and Investor Relations; there were also two executive officers without specific designation. See the Executive Board's composition on <http://ri.marfrig.com.br/>.

GRI 201-2; 205-2; 205-3

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## PREVENTION

## ACTIONS

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**RISK MANAGEMENT.** One of the Compliance Program's activities is the development of a risk management approach and methodology aimed at preventing, detecting and remedying irregularities. The Company manages the issue through a risk matrix, evaluated and revised annually, in order to mitigate them, a process that incorporates careful assessment of these aspects. Once the risks are identified, the policies and processes are adjusted to ensure the Company's sustainable development, which encompasses environmental, social and economic viability issues.

The market risks to which the Company is exposed, given the characteristics of its operations, include the possibility of exchange rate variations, fluctuations in interest rates, changes in commodity prices and changes in liquidity and credit. The risk factors are detailed in item 4.2 of the Reference Form (see on <http://ri.marfrig.com.br/>).

There is a specific policy for the management of market risks, a document that defines the limits and parameters for the negotiation of products, in order to protect the liquidity and exposures from the exchange, commodities and

interest risks; the responsibilities and approval hierarchies for contracting product protection; and the monitoring, communication and information methodology for the agents involved in market risk management. Other risks not covered by this policy, such as regulatory changes and environmental and market conditions, are also monitored in order to manage eventual occurrences. Third-party risks, in turn, will be monitored and mitigated through a specific process, which includes, for example, background checks and due diligence procedures, among other activities undertaken by the Company.

The dedicated structure includes, in addition to the Financial Risk and Management Committee – a Board of Directors advisory body that includes the application and monitoring of business risk management methodology – the Risk Management Group (GGR). Created to support risk management activities and set up guidelines on activities and decisions about strategic matters, in accordance with the laws, ethics and internal controls established by the Company, the GGR is responsible for advising the Board of Executive Officers to achieve the strategic objectives through activities that protect and increase the value of the Company's



equity. It is comprised of Marfrig's global CFO, who is the GGR leader, and the financial officers of the business divisions, the director of treasury, the Controller and the Risk Management specialist.

**COMPLIANCE ROLES AND RESPONSIBILITIES.** The program is conducted by an area specific to this function: the Compliance department. In addition to having the support of senior management to carry out its functions, it has reporting autonomy and independence, essential conditions for the Program's effective implementation.

**INTERNAL RULES AND GUIDELINES.** Marfrig adopts the principle of zero tolerance for any form of corruption. In this sense, the critical policies that underpin the Compliance Program are the Code of Ethics and Conduct, which establishes minimum guidelines on the expected integrity of employees, and the Anti-Corruption Policy, both revised in 2018. These documents are available to employees through the intranet and the institutional website, a channel through which the outside public can also access them. The Company is developing a specific management tool to monitor and manage the development, review and approval flows of policies. All employees are aware of the documents and guidelines related to the topic. In 2018, there were no cases of confirmed corruption, nor rescinded contracts, dismissals or disciplinary measures taken in this regard.

In line with Best Corporate Governance practices, Marfrig also adopts policies for specific topics. These include Securities Trading, Disclosure, Dividends, Directors' Compensation,

Stock Options and Related Party Transactions and Conflict of Interest Situations. These documents are available on Marfrig's Investor Relations website.

**COMMUNICATION AND TRAINING.** To establish a Compliance culture, there is a specific training agenda for all employees, regardless of hierarchy: the subjects include Ethics, Corruption, Conflicts of Interest, Competition and Donations, among others. In addition, information is continuously released to inform and engage this public regarding best practices. To disseminate the messages, Fala Marfrig (Speak Marfrig), an internal communication channel, and TV Corporativa (Corporate TV) are used. To reach the external public, the Company introduced compliance clauses in contracts signed with third parties. Through them, expected behavior is established while matters concerning the Code of Conduct and Ethics and the complaints channel are explained.

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## DETECTION TOOLS

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- **TECHNOLOGY AND DATA ANALYSIS.** Technology, whenever possible, is applied to support the Compliance department's efforts regarding either risk management or in policies and procedures and, furthermore, for monitoring actions, risks and performance indicators, among other concerns.
- **MONITORING AND TESTING.** The Compliance department is aware of the importance of establishing a monitoring plan and test programs, leading to proper execution in a standardized, transparent and consistent manner.
- **COMPLAINTS CHANNEL.** It is the medium through which employees and other stakeholders can report allegations of unethical behavior, such as suspicions or discovery of corrupt practices or failure to comply with Marfrig's directives. Called the Helpline, the channel guarantees anonymity, secrecy and non-retaliation to whistleblowers

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## RESPONSE ELEMENTS

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- **INVESTIGATION.** The Company has dedicated professionals to investigate the complaints received, and can also count on the support of specialized companies, when deemed necessary.
- **NON-COMPLIANCE MANAGEMENT.** Non-retaliation, used to protect employees or whistleblowers, is a non-compliance management assumption, under the responsibility of the Compliance department. Such irregularities, when identified, are considered in the training conducted on the subject.
- **REPORT.** Senior Management is periodically informed about the main actions and monitoring of the Program through reports, indicators and information about events or occurrences that are not in compliance with the Company's guidelines, or risks of events in this regard.



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## INTEGRATED MANAGEMENT SYSTEM

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Issues related to environmental management, food safety, occupational health and safety and social responsibility are seen as crucial to business management. All of these issues, which are equally important for the Company, are conducted under the Integrated Management System (SGI), whose main objective is to continuously improve processes on these fronts.

As a multinational company, Marfrig Global Foods also seeks, through SGI, to encourage exchanges and synergies between its operations in different countries. For this reason, the management model is based on four international standards, which complement each other:

- **ISO 14000:** series of standards in which guidelines are established on environmental management within companies.
- **ISO 22000:** set of rules, also an ISO series, but focused on food safety.
- **OHSAS 18000:** British standards series, developed by the BSI Group, for Occupational Safety and Health Management and Certification.
- **SA 8000:** voluntary standard based on International Labor Organization conventions and other United Nations conven-

tions, attesting to a company's ethical and responsible approach to social work problems such as occupational health and safety, freedom of association, child labor or slave labor, among others.

Based on these standards, the SGI establishes management goals and indicators and monitoring the data on an ongoing basis.

**MANAGEMENT  
SYSTEM FOCUSED  
ON CONTINUOUS  
IMPROVEMENT  
REGARDING  
ENVIRONMENTAL  
ISSUES, FOOD SAFETY,  
OCCUPATIONAL HEALTH  
AND SAFETY AND SOCIAL  
RESPONSIBILITY**



## ENVIRONMENTAL MANAGEMENT

Marfrig Global Foods conducts business in all countries where it operates in a manner to minimize the impact of its operations on the environment. On this front, there is a constant commitment to promote the conscious consumption of natural resources, such as water, to seek sustainable energy alternatives and to reduce greenhouse gas emissions. The actions adopted also include the preservation of biodiversity and the management of waste arising from operations.

### ENERGY

In line with the quest for continuous improvement, Marfrig has taken actions to reduce energy consumption at its facilities and replace

the sources used with more sustainable options. Toward this end, higher-efficiency equipment has replaced older units and efforts are underway to reuse thermal energy in boilers and animal grease collection processes, among other examples. The results of such initiatives are already reflected in the numbers. Operations in South America and North America together consumed 2,683,043 GJ of energy in 2018, less than half of the previous year. This variation, in addition to reflecting the actions taken, is the result of the sale of Keystone, in the United States, during the period.

## ENERGY CONSUMPTION

Estimated reduction of 3.5 % in energy consumption for the year of 2019

IN GJ	2019	2018	2017
NON-RENEWABLE SOURCES	2,105,149	2,101,922	2,009,426
RENEWABLE SOURCES	485.382	581.121	4,644,531
TOTAL CONSUMPTION	2,590,531	2,683,043	6,653,957

## ENERGY CONSUMPTION BY SOURCE

Renewable sources - wind and hydro, for example - accounted for 22% of consumption in the year



### WIND FARM IN URUGUAY

The refrigerated slaughterhouse in Tacuarembó, Uruguay's largest state, located in the north-central region, inaugurated a wind farm, with power generation capacity of 215 MWh/month, which provides 13% of the unit's electricity consumption. The search for alternative sources of energy, as in this case, reinforces Marfrig's commitment to move towards increasingly sustainable and clean production.



## WATER

Total water consumption by Marfrig Global Foods' operations was 19,084,732 m<sup>3</sup> in the year, a decrease of 22% over the previous period.

Surface water is the main source of use in South America, accounting for 60.1% of the total, followed by underground water (38.6%). This is different than in North America, where underground and public network water have a balanced share of 51.8% and 48.2%, respectively.

In North America, the Liberal and Dodge City units in Kansas, for example, use water from a combination of wells from the Ogallala Aquifer – which covers eight states, the largest in the country – or is purchased from the cities. These two units are also the only ones that use recycled water. Liberal uses approximately 200,000 gallons per day (approximately 757 cubic meters per day) of recycled water, which is equivalent to 5% of consumption. In Dodge City, the total is 50,000 gallons (or about 189 cubic meters per day), or 1.25% of daily consumption. In St. Joseph, Missouri, water is provided from four wells connected to the Missouri River's aquifer. Underground well also is the source used by the Hummel's Wharf plant in Pennsylvania, whose source is an aquifer near the Susquehanna River. The Moultrie, Georgia, and two units in Kansas are supplied by municipal water services.

In Brazil, the units - located largely in the vicinity of urban centers - are supplied by three

sources: groundwater, surface water and others (also surface in origin). They also use 32 drilled wells and 11 points of surface capture. All units have been awarded water-use permits, which are fully complied with. There is no water capture higher than the specified limit, a measure that protects the supply sources. It is in Marfrig's interest to preserve the springs.

In the units with surface capture, the Company works to protect the permanent protection areas (APPs) near its operations, a measure that preserves the water resources and also protects the native Brazilian flora and fauna species.

The quality of the sources is managed through laboratory analyses, pursuant to the Ministry of Health's Consolidated Order No. 5, Annex XX, and the National Environmental Council's (Conselho Nacional do Meio Ambiente – CONAMA) 357/05 directive.

Some of its Brazilian units re-use water, given the restrictions imposed by existing legislation. But among the practices adopted in this sense is the re-use of animal bath water on the slaughter ramp, implemented in some plants, but not extended to others because Federal Inspection procedures have not allowed the practice. Water re-use actions like this one, added to others, still totals a still small consumption volume (253,860 m<sup>3</sup>/year).

All units have targets for consumption reductions, defined by the respective divisions. Brazil's operations, for example, work steadily

to reduce water consumption in work routines. An example in this direction is the re-use of less noble waters for cleaning of effluent treatment plants and the re-use of water from the animal' baths for corral hygiene purposes. The plants are equipped with flow reduction equipment in sinks, worker boot and carcass washers, automated viscera table feeds, among other engineering solutions for equipment that consumes large volumes of water. Flowmeters for tributaries and effluents also are used various units in Uruguay and Chile, which leads to better consumption control. Sprinklers are also being installed in the hand-washing tanks, a measure that will be extended to all units. Other measures that have been adopted are the re-use of water in the tripe cleaning sectors and installation of pistol grips on hoses. In one of the production units, a solenoid valve was placed in the 90° C water feed rings controlled by an electronic temperature sensor to reduce sterilizer water consumption.

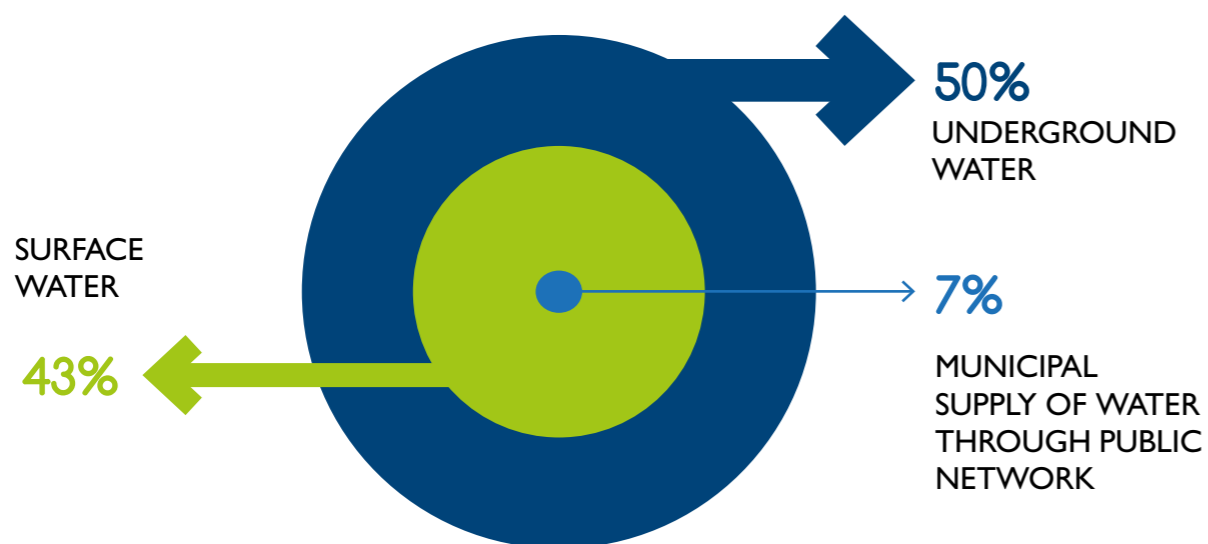


## WATER CONSUMPTION IN 2018

Estimated reduction of 4.6% in water consumption for the year of 2019

IN M <sup>3</sup>	2019	2018	2017
SURFACE WATER	7,682,370	8,214,003	7,441,437
UNDERGROUND WATER	9,257,703	9,593,841	11,167,119
CITY WATER SUPPLY THROUGH PUBLIC NETWORK	1,267,930	1,276,889	5,831,459
TOTAL	18,208,003	19,084,733	24,440,015

## DISTRIBUTION OF WATER CONSUMPTION BY MARFRIG GLOBAL FOODS IN 2018



## BIODIVERSITY

All Marfrig's plants, in different jurisdictions, have operating licenses issued by environmental authorities. These documents take into consideration the impacts caused in the ecosystems and communities in which the units are located. The permits trigger the adoption of actions and monitoring systems required by the local environmental agencies and called for under existing laws. Some examples are the monitoring of treated effluents and the noise and vibrations levels around production units, among other actions.

Hence, in addition to a consolidated monitoring and investigation routine, compliance with the environmental laws in force and the permits granted all operations overseen by the environmental agencies allow Marfrig to minimize the impacts of its operations on the environment and surrounding communities.

## CLIMATE CHANGE AND EMISSIONS

Greenhouse gas (GHG) emissions management is based on the annual inventories conducted since 2010, prepared according to the GHG Protocol, a global emission measurement program that is the benchmark for companies and governments around the world. The initiative is conducted in Brazil by GVces, a center for sustainability studies at the Getúlio Vargas Foundation.

This practice adds to the adoption of a Policy on Climate Change and Natural Resources, which establishes operational levels for industrial, commercial and service activities in favor of a low carbon economy.

In 2018, Marfrig emitted 368,087.1 tCO<sub>2</sub>e of Scope 1 gases, generated directly by the Company's activities, surpassing the volume observed in the previous year by 5.6%. This increase stems

## MARFRIG'S PERFORMANCE IN THE EMISSIONS INVENTORY IN 2018\*

INTCO2E	2018	2017	CHANGE %
SCOPE 1	368,087.1	348,485.7	5.6
SCOPE 2	202,708.6	269,590.4	-24.8

\* Global data, with information from the units located in Brazil, the United States, Argentina, Chile and Uruguay. In 2017, information from Keystone (USA) is included, which is no longer the case in 2018 given the sale of the company. This year's figures include the emissions of National Beef (USA), which was acquired in the period.



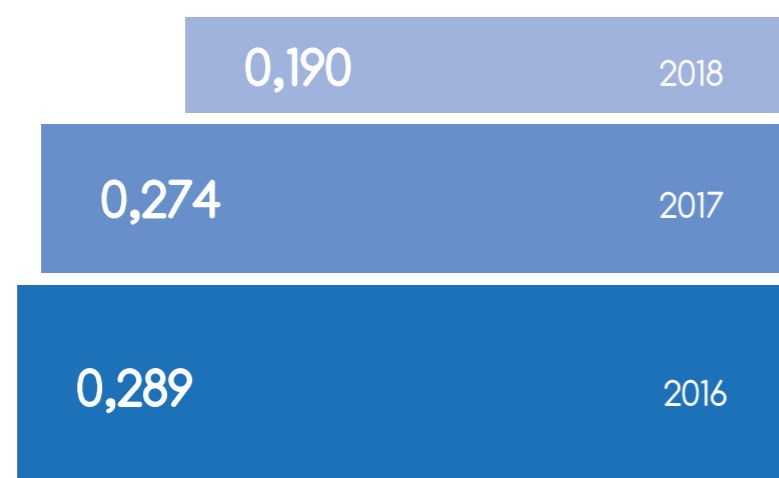
mainly from the sources of stationary combustion and effluent treatment. In the first case, the two National Beef cattle slaughtering units (in Dodge City and Liberal) use expressive quantities of natural gas in the boilers of about 20 million m<sup>3</sup> per year. Also in the Liberal unit there is a high volume of emissions, due to the treatment of effluents. Approximately 4 million m<sup>3</sup> of effluents are released per year, with a mean biochemical oxygen demand (BOD) load of 6,200 mg per liter.

For their part, total Scope 2 gases, related to emissions stemming from electricity use, were reduced by 24.8%, totaling 202,708.6 tCO<sub>2</sub>e, a variation that reflects the fewer production units. Keystone, sold in the period, totaled 21

plants, while National Beef, acquired in 2018, has two slaughterhouses. This change in the operating structure also impacted energy intensity, which was 30% lower in 2018, from 0.27 tCO<sub>2</sub>e to 0.19 tCO<sub>2</sub>e/ton produced.

## POWER INTENSITY

IN tCO<sub>2</sub>e



## MATERIALS, EFFLUENTS AND WASTE

The waste generated by Marfrig's South America operations reached 113,400 tons in 2018, 48.5% more than in the previous year. The opening of new units and the greater amount of rumen generated in the slaughter, material that is earmarked for composting, drove this change. The figures also reflect the materials that resulted from a fire at the Mineiros (GO) unit. In Argentina, Chile and Uruguay, there was a reduction in the volume of waste generated, reflecting the improvement of practices in the care of these materials.

Of the total wastes, discards in landfill totaled 25,500 tons, a reduction of 3% compared to

the previous year. Recycling followed with 12,700 tons, 42% more volume than in 2017.

All units dispose of the waste and effluents generated and not re-used in the activities. For this reason, there is a specific training schedule in place designed to orient and make employees cognizant of the importance of recycling the largest possible volume or correctly dispose of the materials. Toward this end, the applicable legal requirements and other environmental agency prerequisites from each country also are observed.

Environmental impact studies are prepared in the various phases for new project development and licensing, allowing the Company to

## WASTE DISPOSAL<sup>1</sup>

INTONS	2018	2017
LANDFILL - OWN + THIRD PARTY	21,501.01	22,103.3
COMPOSTING	64,253.12	44,722.64
INCINERATION	13,582.88	78.35
RECYCLING	12,714.8	8,969.36
OTHER DISPOSAL	1,313.68	445.95
TOTAL	113,365.48	76,319.6

(1) Data from North American operations not available.

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**A N I M A L**
**W E L F A R E**


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## ALL UNITS DISPOSE OF WASTE AND EFFLUENTS GENERATED AND NOT REUSED IN THEIR ACTIVITIES.

understand each site's biodiversity. The information gathered leads to minimizing the impacts of its operations and help predict the characteristics of the waste that will be generated. This contributes to the application of the necessary technologies for proper treatment or disposal that, in some cases, includes the release of effluents into water bodies in each region.

For products considered hazardous, strict procedures are established for storage, transportation and disposal. The guidelines are based on the identification of the risks involved and the definition of necessary mitigation and prevention actions. In such cases, environmental monitoring and previously prepared contingency plans specific to each occurrence and substance type in the event of an accident are included. Eventual occurrences are registered and submitted to an ex-

tensive cause assessment process, designed to establish the necessary adjustments to current procedures. In Brazil, all monitoring of controlled chemical product purchases and the disposal of hazardous waste is through an environmental management system implemented in the units.

Another Marfrig distinguishing characteristic on this front is support for recyclable packaging. One important customer requires that product cartons contain at least 25% post-consumer recycled materials, deriving from new product production waste, as well as 40% from fully recycled materials.

In its operations, Marfrig Global Foods seeks to assure animals, as far as possible, the five freedoms<sup>1</sup>: being free from hunger and thirst; from discomfort; from pain, illness and injury; from fear and stress; and to be able express natural behaviors of the species.

In this regard, observing animal management best practices is a duty of all the Company's employees. We constantly strive to raise their awareness of this responsibility and empower them to act according to ethical standards. For this purpose, we offer specific training on the subject at all our operations. In Brazil, this agenda is led by the area management staff, overseeing programs that undergo regular and frequent review. In parallel, a number of awareness campaigns are run. An example is World Animal Day, on October 4, with the realization of activities aimed at addressing the issue across a cross-section of workers. In 2018, 3,886 people participated in internal and external actions focused on animal welfare.

To ensure that the practices are in line with the Company's policies and customer protocols, including the laws of each country in which Marfrig

operates, the organization has established a department that operates exclusively in the production chain. With a multidisciplinary training, the team — bringing together highly qualified zoo-technicians and veterinarians, the team follows the evolution of animal welfare indicators, monitoring, decision-making and the development of training programs related to the topic.

The Marfrig Animal Welfare Team conducts on-site visits for training purposes. The Animal Welfare Sector runs training sessions for cattle ranchers and runs instructional events to teach truck drivers how to handle and transport animals to reduce stress and hematomas. Constant monitoring of the operations also occurs. The indicators used for this management have been developed largely in accordance with the protocols established by the North American Meat Institute (NAMI), an international reference in this field, and there are certifications based on these standards. In the internal audits carried out in 2018, the average indices seen in Brazil were within the parameters considered acceptable.

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<sup>1</sup> Defined by Farm Animal Welfare Council (FAWC), based in Britain.



## ANIMAL WELFARE INDEXES

Parameters pursuant to the American Meat Institute (AMI Protocol)

EFFICACY OF AWAKENING AFTER FIRST SHOT	minimum 95%
ANIMALS CONSCIOUS IN THE CHUTE	0%
FALLS	1%
SLIPS	3%
USE OF ELECTRIC CATTLE PROD	25%
VOCALIZATION	3%

In addition, there is an Animal Welfare Committee in Brazil dedicated to improving the processes. For its part, the Federal Inspection Service (SIF) operates a program known as the National Meat Waste Control Plan (PNCRC) that requires verification, through random sampling in all slaughterhouses, of the veracity of what cattle ranchers previously have certified.

Routines for monitoring and managing this topic include:

- Statement by rural producers certifying the non-use of hormones, growth promoters and antibiotics issued to all animals arriving at the refrigerated slaughterhouses.
- Monitoring livestock shipments. There is constant concern for the animal welfare during transport operations. To ensure the best conditions on the routes, vehicles are regularly evaluated and inspected regarding accommoda-

tions and occupied spaces. In 2018, 5,715 vehicle chassis quality assessments were conducted. To engage carriers that have been best-practice certified carriers, there is a specific clause in contracts and a commitment agreement for drivers. If there is evidence of non-compliance with these standards, Marfrig will take the appropriate measures and the contracts may be terminated.

- Audits of the processes throughout the chain, made by the first party (internal), second party (suppliers) and third party (external, for certification purposes in 100% of slaughter units in Brazil). On these occasions, the facilities' parameters and characteristics are verified. This includes management quality, through the evaluation of the indices of falls, slips, corral density, water quality, food, general structure and equipment, use of electric rods, efficacy of the first shot in numbing stage, signs of unconsciousness, if there is an act of abuse

against animals, persons trained for functions performed, time involved in numbing, among others. Items related to animal transport (density, handling conditions and of the animals upon arrival, waiting time for disembarking, cage quality) and crisis management also are verified. During technical visits to supplier properties, one of the criteria verified is hematoma indices found on the carcasses of the animals classified during slaughter.

The North American operations follow animal welfare standards similar to those in Brazil. Each of the operations has a specific manager, responsible for this topic. Likewise, livestock suppliers sign a pledge that attests to the non-use of banned pro-

ducts and the proper treatment of the animals. Communication with cattle ranchers to ensure compliance with these provisions is constant.

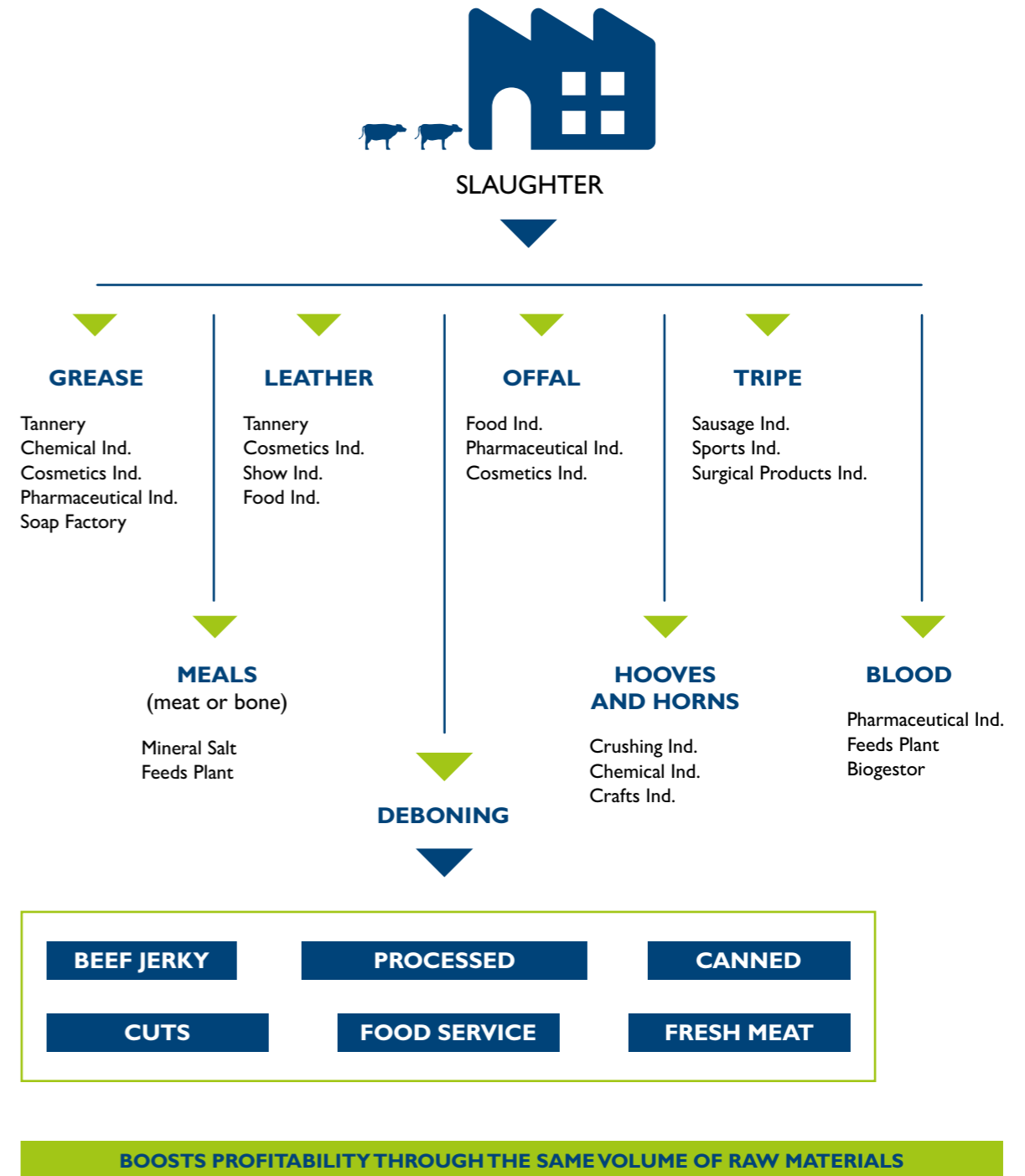
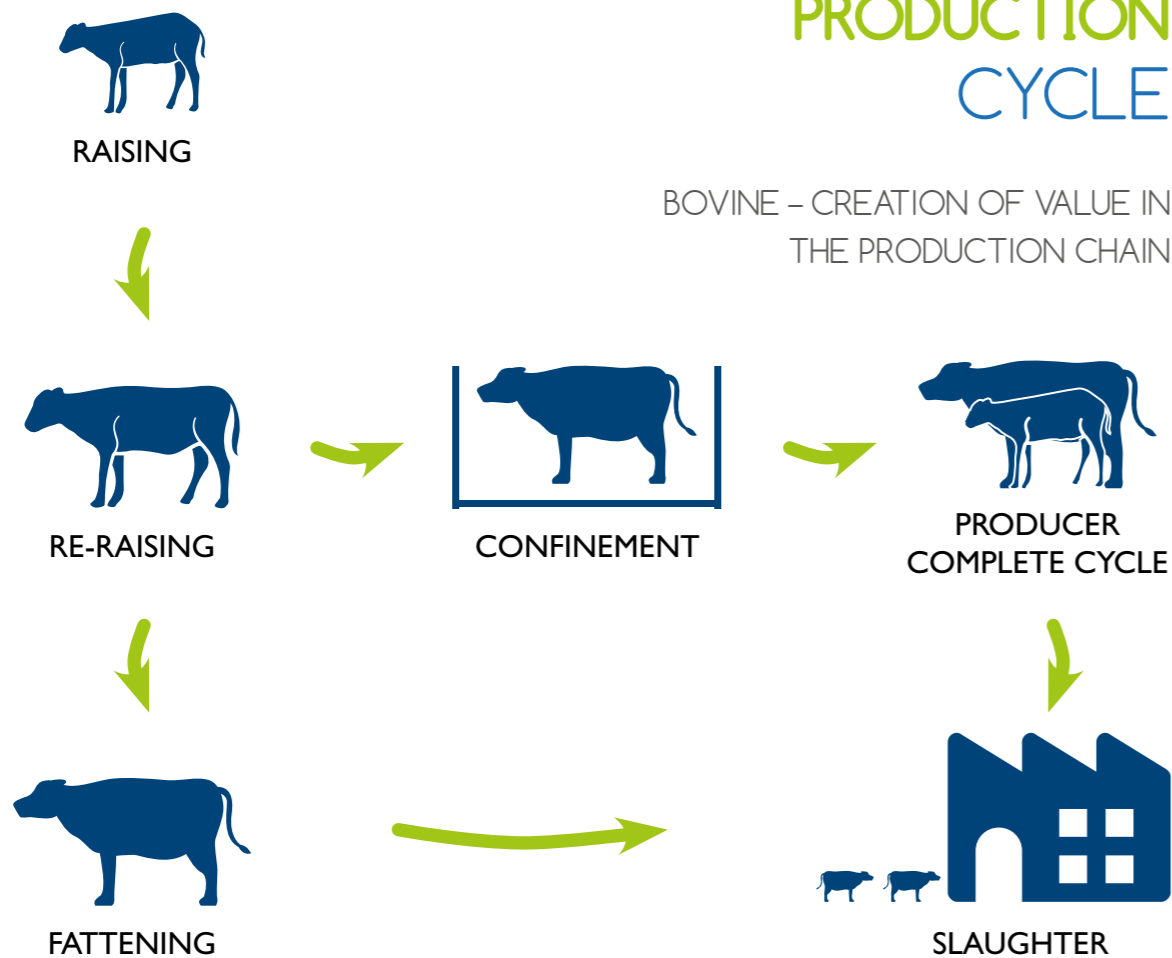
## DIFFERENTIATED PRODUCTS

Good animal welfare practices allow Marfrig to offer distinctive products, serving demanding markets and palates:

- **GRASS FED.** From Uruguay, the Viva Grass Fed Beef brand offers beef cuts from grass fed cattle, an attribute that meets the demand of the North American market. Developed in partnership with the local cattle suppliers, the animals, besides being raised free in the pastures, are raised without the use of antibiotics, growth hormones or animal-based feed products. With the approval of the U.S. Department of Agriculture (USDA), the products are marketed in large American chains.
- **GRAIN FED.** National Beef's Certified Angus Beef® Natural brand in the United States is a premium product line from grain-fed animals. In this case, they come from American Midwest ranches, where they are fed corn. The cattle are raised without any antibiotic or hormone additives, on a 100% vegetarian diet.

QUALITY AND  
FOOD SAFETY

Marfrig Global Foods' main segment is the Premium market. To ensure that the products meet the food quality and safety standards of this niche, the Company adopts a set of practices that include control methodologies and processes, as well as audits and certifications, which translates into more requirements throughout the production chain





**The production units** rigorously control product quality using appropriate structures and qualified professionals, reconciled through personnel training initiatives. The plants also are the targets of frequent audits, both in-company and third party.

These routines also include a series of plant monitoring actions, such as those conducted in Brazil by the Quality Assurance Team for the microbiological analysis of raw materials, finished products, inputs and ingredients. A similar process is used to verify equipment and utensils in the pre-operational and operational stages, always to ensuring that the correct hygiene measures are being applied.

National Beef (USA), for example, uses a proprietary system to manage this issue, allowing it to operate at higher levels than required by the beef industry's standards: this is the Beef® Biologic® system, which introduces the "clean room" mentality into the operations. It surpasses the latest technologies to incorporate procedures and processes into a fully integrated system. It covers three fronts:

- Training of employees, so that they are educated and committed to maintaining best practices for the supply of meat with the best quality standards.
- Processing Interventions, which introduce a number of processes throughout the work routines designed to manage and control levels of pathogens and microorganisms.

They go beyond traditional HACCP (Hazard Analysis and Critical Control Points), SOP (Standard Operating Procedures) and GMP (Good Manufacturing Practices).

- Innovative Procedures: Operating plants are divided into six areas, an organizational model that allows better monitoring, evaluation and continuous control of the activities.

All these practices are in addition to the assessments made by the Ministry of Agriculture, Livestock and Food Supply (MAPA) as part of the National Waste and Contaminants Control Plan (PNCRC). The monitoring system aims to promote the chemical safety of foods of animal origin produced in Brazil. Tests include a wide range of authorized veterinary drugs (for which the applicable limits are verified) and prohibited drugs (including hormones), pesticides, inorganic contaminants, mycotoxins and dioxins. The analyses are carried out by the National Agricultural Laboratories Network. As a reflection of these controls, no cases of non-compliance related to the impacts that the products could have on consumer health were registered in 2018.

The quality control is not restricted to the actions adopted in the operations. There are initiatives to engage and stimulate the development of suppliers in this area, such as the Marfrig Club Program. In it, producers are recognized who are standouts regarding good animal welfare practices and socio-environmental confor-

mities (More information on page 71).

There is also the Marfrig Angus Award Program, which seeks to strengthen, intensify and enhance the Company's relationship with Brazilian cattle ranchers, encouraging the use of artificial insemination for cross-breeding Angus and Brangus races. To encourage producers to join the program, a premium is offered on the price of the beef cut upon the purchase of the animals. Four Brazilian states participate in the program: São Paulo, Goiás, Mato Grosso and Mato Grosso do Sul. In 2018, more than 70,000 animals were awarded from over 400 supplier properties from these locations.







GRI 417-1; 417-2

## LABELING

To inform customers and consumers about the composition of the food in order to ensure food quality and safety, all Marfrig products meet the different labeling requirements of the markets in which it is present and where its products are sold. In addition to information on food composition, the labels also can inform the name, net weight, nutritional table, storage conditions, dates of manufacture and validity, as well as meat producer data.

The labels in Brazil and the United States are examples of how the Company has been adapting to different legislative requirements. In Brazil, the products must bear the seal of the Federal Inspection Service (SIF) of the Ministry of Agriculture, Livestock and Supply (MAPA). The

labels should inform the products that contain or may contain ingredients among the 18 that cause most allergies, in line with the resolution from the National Sanitary Surveillance Agency (Anvisa). In the United States, the inspection seal is issued by the U.S. Department of Agriculture (USDA). The information presented to the consumer refers to ingredients and additives used, the existence of allergenic items, as the case may be, and the inclusion of vitamins, minerals and fibers, among other information. In 2018, no cases of non-compliance related to information and labeling were registered.

## CERTIFICATIONS

To verify the excellence of its products, Marfrig's operations and processes are periodically evaluated by independent certifiers, according to international standards and in line with customer and import market requirements. There are a number of certifications, some specific to certain markets or countries.

ARGENTINA	N. CERTIFIED UNITS
ISO 22000	1
BRC GLOBAL STANDARDS	3
CÓDIGO DE CONDUTA MCDONALD'S E MCDONALD'S STANDARDS	2
MCDONALD'S SQMS	1
HALAL CERTIFIED BEEF	1
NAMI (ANIMAL WELFARE)	1
CERTIFICAÇÃO LEED	1
CERTIFICACIÓN ANGUS	1

BRAZIL	N. CERTIFIED UNITS
ISO 14001	8
OHSAS 18000	8
SA 8000	2
BRC GLOBAL STANDARDS	15
HACCP	15
IFS FOOD	2
RAINFOREST ALLIANCE CERTIFIEDTM	4
CÓDIGO DE CONDUTA MCDONALD'S E MCDONALD'S STANDARDS	16
MCDONALD'S SQMS	14
BURGUER KING GLOBAL SUPPLIER	12



BRAZIL	N. CERTIFIED UNITS
HALAL CERTIFIED BEEF	15
NAMI (ANIMAL WELFARE)	15
ASDA PROTOCOL	1

CHILE	N. CERTIFIED UNITS
BRC GLOBAL STANDARDS	1
KOSHER CERTIFIED BEEF	1
HALAL CERTIFIED BEEF	1

UNITED STATES	N. CERTIFIED UNITS
BRC GLOBAL STANDARDS	2
GLOBAL STANDARD FOOD SAFETY	2
CÓDIGO DE CONDUCTA MCDONALD'S E MCDONALD'S STANDARDS	1
MCDONALD'S SQMS	1
COSTCO CODE OF CONDUCT	2
HIGH QUALITY BEEF QUOTA (UE)	1
HALAL CERTIFIED BEEF	1
NAMI (ANIMAL WELFARE)	1
LEATHER WORKING GROUP (LWG)	1
CERTIFIED ANGUS BEEF – COICE	2
CERTIFIED ANGUS BEEF – PRIME	2
NATURAL CERTIFIED ANGUS BEEF	2
NATIONAL BEEF BLACK CANION BEEF	2
NATIONAL BEEF CLACK CANION PREMIUM RESERVE ANGUS BEEF	2
CERTIFIED HEREFORD	2
CERTIFIED HEREFORD PREMIUM CHOICE	2
EU ANGUS	2

URUGUAY	N. CERTIFIED UNITS
BRC GLOBAL STANDARDS	5
HACCP	5
GLOBAL STANDARD FOOD SAFETY	5
CERTIFIED ORGANIC BEEF	4
USDA ORGANIC STANDARD	4
CÓDIGO DE CONDUCTA MCDONALD'S E MCDONALD'S STANDARDS	4
MCDONALD'S SQMS	2
BURGUER KING GLOBAL SUPPLIER	4
COSTCO CODE OF CONDUCT	4
HIGH QUALITY BEEF QUOTA (UE)	4
KOSHER CERTIFIED BEEF	2
HALAL CERTIFIED BEEF	2
TACUAREMBÓ ANGUS BEEF & TACUAREMBÓ PREMIUM ANGUS BEEF	4
NAMI (ANIMAL WELFARE)	4
VIVA GRASS FED BEEF (USDA)	5

**OPERATIONS AND PROCESSES PERIODICALLY EVALUATED BY INDEPENDENT CERTIFIERS, ACCORDING TO INTERNATIONAL STANDARDS AND IN LINE WITH THE REQUIREMENTS OF CLIENTS AND IMPORT MARKETS**

## OCCUPATIONAL HEALTH AND SAFETY

The commitment to offer opportunities for professional development includes assuring employees' quality of life. In order to provide safe working conditions, Marfrig strictly follows the policies related to occupational health and safety in the localities where its operations are present. In Brazil, the initiatives developed are based on the Corporate Work Safety and Health Guidelines Program (PDSSTC). Its purpose is to promote a safe and appropriate workplace that complies with current legislation and technical standards, in a manner that defines standards applied to all operating units. In addition to premises and regulations, the program includes instructions for training and mobilizing employees, suppliers, partners and service providers in this direction, as well as establishing the necessary resources to ensure a safe job environment. Action results and related risks are continuously monitored through a set of indicators.

The operational units in the different countries employ specialists in this field along with Safety Committees — such as the Internal Accident Prevention Commission (CIPA), the Specialized Service in Safety Engineering and Occupational Medicine (SESMT), the Health

and Safety at Work (TSS) and the Ergonomic Committee. North American plants additionally undergo safety assessments, based on the DuPont Behavior Based Observation (BBS) process.

Among other functions, it is the responsibility of the safety committees to communicate and investigate the cause of accidents and to ensure the adoption of practices as established in the action plans. They also contribute to identifying and mapping the work process risks, developing preventive action plans, participating in prevention quality control measures and assessing the workplace action priorities. In Brazil, for example, 428 employees participate as full and alternate members of the workplace safety committees (CIPAs) set up in 22 units, including plants, distribution centers and the administrative offices.

Efforts to ensure safe working environments also include constant investments to improve facilities, always in line with the regulations regarding the locations in which the plants are operating.

In Brazil, for example, investments broadened

the scope of actions for early detection and prevention of ammonia leaks and also were made in fire prevention and control systems. Professionals are also properly trained to act in an emergency to avoid greater risks to people, the environment and the facilities. Some machinery and equipment was reformed, including the introduction of ergonomic features.

Although the Company is diligent regarding these issues, there has been a 30% increase in total accidents in the year and 32% in the total

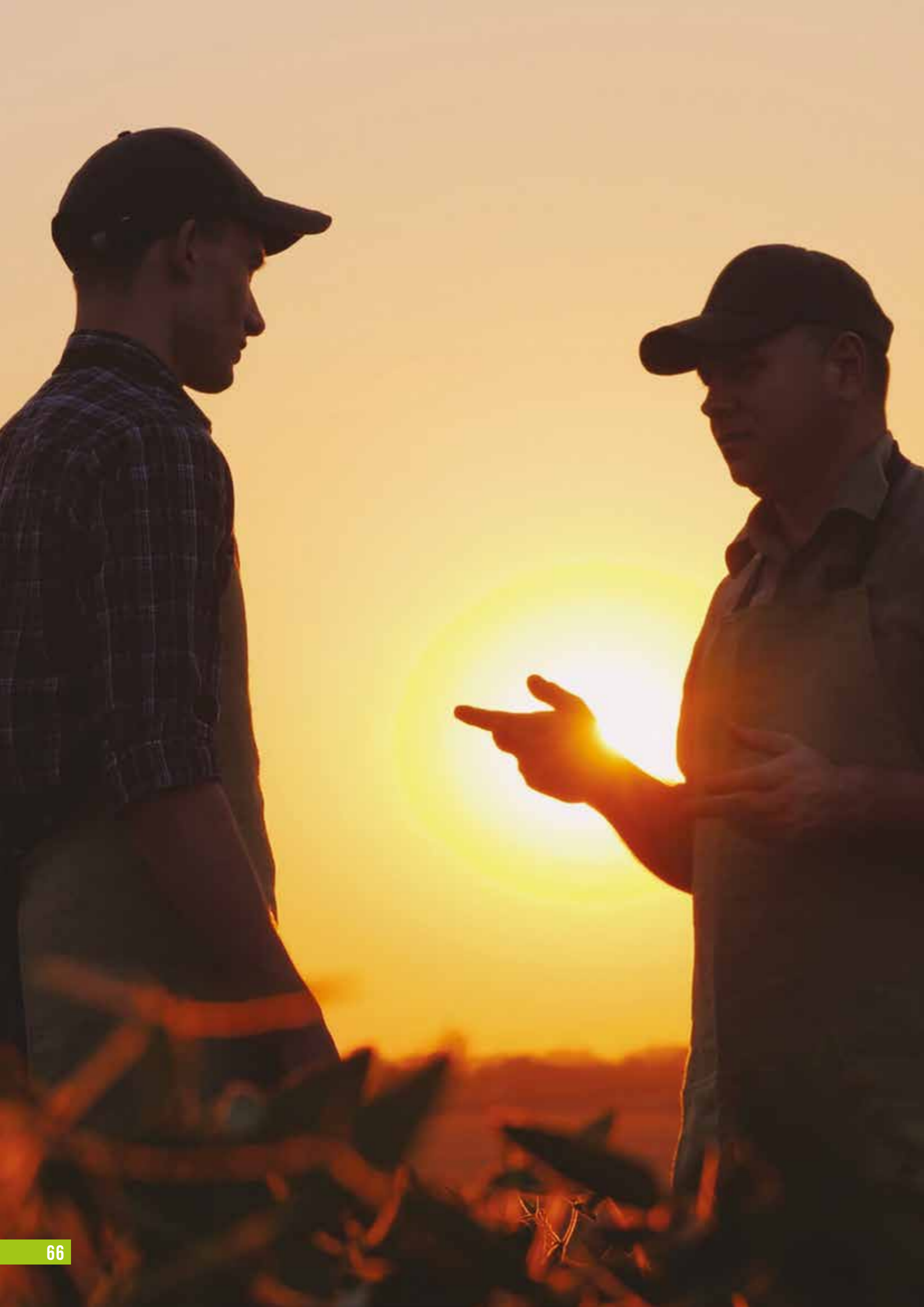
days lost in global operations. These numbers reflect the opening of new operations and staff expansion.

## OCCUPATIONAL HEALTH AND SAFETY STATISTICS \*

	GLOBAL	
	2018	2017
TOTAL ACCIDENTS	2,804	2,156
TOTAL DAYS LOST	18,454	14,001

\* Data consider information from the operations of Argentina, Brazil, Chile, Uruguay and the United States (National Beef).





## RELATIONS

### PEOPLE

Marfrig Global Foods' business performance is the result of the efforts of approximately 30,000 direct employees, allocated to the Company's operational presence in a number of different countries.

Given the importance of this group for the development and success of the business, Marfrig seeks to support employee career development. In parallel, it adopts good attraction and retention practices. There is a strong culture for internal promotions, aimed at offering growth opportunities to professionals already in the Company, hence creating a sense of stability and retention. Another Human Resource management feature is the promotion of workplace diversity. In North America, for example, the labor pool is composed of more than 15 nationalities and there is a constant commitment to accom-

modate this cultural variety on a daily basis. A demonstration of this commitment is partnerships with language schools, which have been set up to facilitate worker access to English classes. Workplace training also is offered to employees who want to develop or enhance language skills.

### NUMBER OF EMPLOYEES

The opening of new production units in Brazil, coupled with the increase in livestock supply in the Americas – markets where the Company operates – led to the creation of new jobs. This, in turn, meant that by the end of 2018 there were 29,600 Marfrig employees, 3% higher than the previous year.

	SOUTH AMERICA		NORTH AMERICA	
	2018	2017	2018	2017
TOTAL EMPLOYEES	21,460	20,605	8,140	8,160
MEN	15,476	14,403	5,340	5,441
WOMEN	5,984	6,202	2,800	2,719



On the job, these professionals co-work with young people and teenagers over 15 years of age who are in the **Young Apprentice** program. The program, developed in Brazil, had 553 participants in 2018, working in the Company's administrative areas. The youths are selected through accredited entities, such as the Industry Social Service (Sesi), Good Will Legion (LBV) and Center for Company-School Integration (CIEE), among others. Practical training is conducted on the Company's premises while the theoretical portion is offered by the entities themselves. Each participant's performance, based on contracts ranging from 12 months to 24 months, is evaluated jointly with these organizations; some may be hired by the Company at the end of the program.

### COMPENSATION

The compensation policy adopted by Marfrig is linked to the objectives and strategies of the business and follows the best market benchmarks and practices, periodically surveyed in the locations in which the Company has operations. In addition to a salary, the Company offers a job package that includes variable compensation programs, long-term incentives and fringe benefits.

In Brazil, the compensation program was restructured in 2018 with the support of an outside consultant and based on surveys and comparisons of positions and salaries practiced in the market. There is also a project for structuring targets that are aligned with its businesses that have an impact on variable compensation – eligible for job functions as of the managerial

GRI 201-3

level – in order to make them more objective and quantifiable.

### BENEFITS

Marfrig offers employees benefits compatible with the practices adopted in the different markets in which it operates. In Brazil, for example, depending on their job function, employees may have access to life insurance, dental care or transportation vouchers, among other benefits.

In Chile, the Company complies with current legislation in the country regarding pension plans, which establishes the payment of 11.45% of the base salary to a pension fund chosen by the employee. Benefits are stipulated by law and administered by a National Pension System. If there is co-participation, which is voluntary, the maximum percentage is 15% of the salary.

Pension plans also are offered to National Beef and National Carriers employees in the United States. Defined contribution - employer-sponsored 401 (k) format - the plan is eligible for staff who have been employed at National Beef for over one year, and those who work full-time and are not represented by a union in

the case of National Carriers. Employee adherence to these plans is 22.1% and 29.7%, respectively.

### TRAINING

In line with its commitment to contribute to the professional development of its employees, in 2018 Marfrig ran the Operational Leadership Training Program in Brazil. Aimed at developing new leadership skills, the initiative provides management tools so that its professionals can perform their daily activities in the best possible manner. The program lasts six days. Topics include **self-knowledge, communication, leadership styles, conflict management, feedback, ac-**

**tion planning and leadership.** Kicked off in August, it graduated 630 operational leaders in the Company's Brazilian units, distributed in 59 classes. The program will continue in 2019. Leadership development was also part of the training offerings in North America in the period, including outside and on-the-job instruction.

*THE BUSINESS PERFORMANCE IS THE RESULT OF THE WORK OF MORE THAN 30,000 DIRECT EMPLOYEES, DISTRIBUTED IN THE OPERATIONS OF THE DIFFERENT COUNTRIES IN WHICH MARFRIG HAS A PRESENCE*

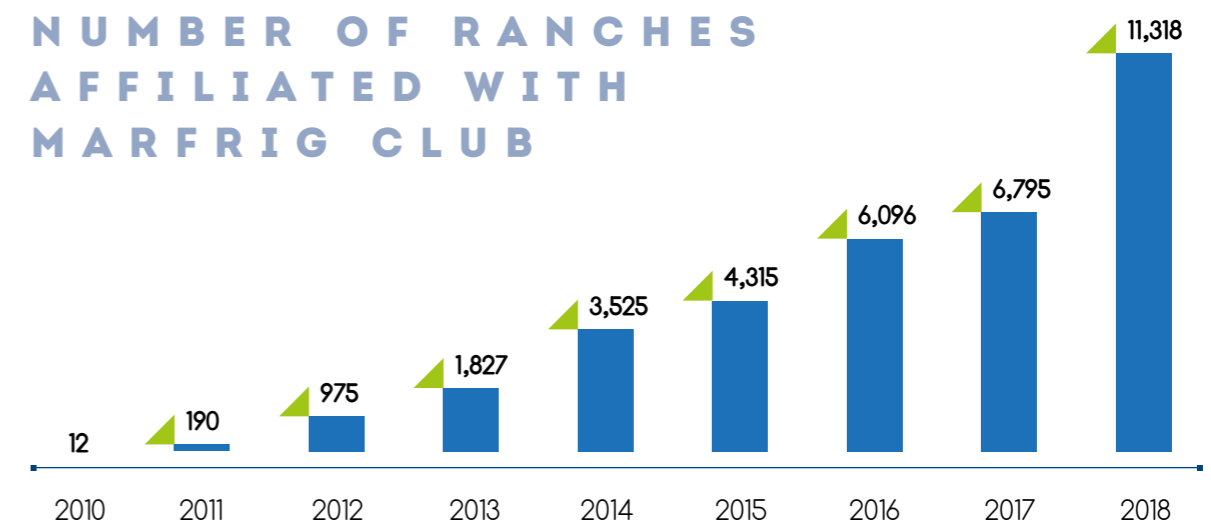




## MARFRIG CLUB CHECK LIST\*

MARFRIG ESTABLISHED A TARGET OF 100% OF SUPPLIERS FOR THE MARFRIG CLUB CHECK LIST AS ITS INTERNAL TARGET BY THE END OF 2020. BUT ADHESION HAS BEEN RAPID: IN 2018, 83% OF THE ANIMALS SLAUGHTERED CAME FROM RANCHES ALREADY PARTICIPATING AT SOME LEVEL IN THE PROGRAM.

## NUMBER OF RANCHES AFFILIATED WITH MARFRIG CLUB



\*Only in Brazil

## SUPPLIERS

The Company relies on the Marfrig Club to disseminate sustainability and environmental best practices among suppliers, and to engage them in these efforts. Based on three pillars – animal respect, environmental respect and social respect – the initiative has been in force since 2010. It encourages the development of rural properties to ensure safer production, with lower environmental impacts.

The program is designed to bolster the relationship between producers and Marfrig, fostering good agricultural practices on their landholdings — particularly with regard to the origin, well-being and traceability of the animals — as well as the management of environmental and social aspects. The guidelines related to each of these topics are included in the Sustainable Practices Guide, available on

the Company's website.

A checklist is applied verify if the properties are implementing good practices on each of these fronts, fully adapted to Brazilian conditions. Through it, it is possible to identify if the properties have made advances with regard to the respective themes. Depending on the results obtained, the producer is classified as a beginner, bronze, silver or gold property. In addition, the Marfrig Club maintains a professional to assist and advise the cattle ranchers in its slaughter units to be at the disposal of the producers, when necessary. Producers moreover are offered regular training on their properties designed to share best animal health care practices.





## RESPONSIBLE CATTLE PURCHASES

In order for a ranch to be approved and authorized to become an animal supplier to Marfrig, it must comply with requirements regarding the type of administration adopted on the property, good environmental conservation practices – which include respect for the deforestation criteria – and legal compliance of the operation. These principles, adopted for the purchase of animals for slaughter, follow a specific policy that is based on the commitments assumed by the Company and in accordance with the procedures related to the Integrated Management, Food Safety, Environment and Social Responsibility System.

Towards this end, the producer can not be included on the list of Embargoed areas by the (Brazilian Environment Institute (IBAMA) and must have no record of forced or compulsory labor on the Ministry of Labor and Employment (MTE) Slave Labor blacklist. In parallel, the supplier must present documents such as proof of Land Registration Regularity (SNCR), Rural Environmental Registry (CAR), Guarantee Letter, Marfrig Club Checklist, Fiscal Register, Animal Transit Receipt and Model A and Model B.

## GEOSPATIAL MONITORING

Marfrig encourages ranchers to produce livestock while respecting biodiversity. Therefore,

## MARFRIG IS THE ONLY COMPANY IN BRAZIL WITH 100% GEOREFERENCED MAPS OF ITS SUPPLIERS IN THE AMAZON BIOME

the supplier ranches located in the Amazon Biome are continuously monitored through geospatial technology, a tool adopted by Marfrig since 2009. Using ranch satellite imaging databases (DETER and PRODES, made available by INPE), Marfrig seeks to ensure that the properties from which it acquires animals are free from deforestation, conflicts with indigenous lands and conservation units. These requirements, when complied with, minimize the impact on production, the community and the environment.

The animal purchase process also involves the

analysis of each new sales transaction, made through conversations with the producer, in order to identify the characteristics of age, weight and carcass quality of the commercialized animals. This personalized procedure, a Marfrig competitive advantage, is considered important to understand if the animals are proper for the meat markets served by the purchasing slaughter unit.

## COMMUNITIES

Designed to contribute to the development and social well-being of the communities in which it operates, Marfrig implements important programs in support of the communities in which it operates in the various countries where it has operations. Contributions range from partnerships with health institutions to financial support for social causes, through to employee awareness and donation campaigns in the units. The Marfrig Sustainability Institute has developed a number of different activities for children and adolescents between 6 and 16 years old to enhance citizenship and environment respect awareness.

## PARTNERSHIP WITH THE HOSPITAL DE AMOR

The partnership that began in 2017 with the Hospital de Amor, a center of excellence in oncology located in Barretos (SP), was expanded in 2018. Initially focused on providing the meat needed to satisfy the hospital's daily consumption, serving some 16,000 peo-



*“THE ACTIVITIES WE HAVE BEEN DEVELOPING THROUGH THE MAKE AND BE HAPPY PROGRAM HAVE ALLOWED US TO SHARE, WITH CHILDREN AND ADOLESCENTS FROM PUBLIC SCHOOLS PARTICIPATING IN THE INITIATIVE, KNOWLEDGE ABOUT CITIZENSHIP AND RESPECT FOR THE ENVIRONMENT, OFFERING A NEW WORLD VIEW.”*

**MARCIA AP. MARÇAL  
DOS SANTOS -  
INSTITUTO MARFRIG**

ple per month, the assistance subsequently was supplemented through the participation of ranchers. The Agro against Cancer program was created in 2018. Through it, Marfrig's partner cattle ranch partners can donate US\$ 1.00 per animal slaughtered to the hospital, funds to be used for the maintenance of patient treatment, prevention and early diagnosis of cancer, offered by the entity free of charge to the public through the Unified Health System (SUS). In the year, Marfrig donated to the institution 96 tons of Montana brand meat.



## MARFRIG INSTITUTE OF SUSTAINABILITY

The entity within the group that is focused on promoting social assistance, culture, education, health, food safety and sports, with initiatives for both employees and the communities in the vicinity of its operating units. One of the actions developed within this scope is the Fazer e Ser Feliz (Do and Be Happy) Program, which runs a series of physical and intellectual development programs through sports and leisure activities, fostering citizenship and respect for the environment among socially vulnerable children and adolescents ages 6-16 enrolled in the public schools of the covered municipalities.

In addition to these initiatives, the units also mobilize the in-company public to participate in social campaigns, food donations and other initiatives aimed at collaborating with various institutions:

### SOCIAL CAMPAIGNS, WITH THE IN-HOUSE PUBLIC

- Collection of Toys and Foods, an initiative that received more than 40,000 items of food and 6,000 toys.
- Pink October: awareness campaign, made with the aim of alerting society about the importance of prevention and early diagnosis of breast cancer. At the time, 58 hairpieces were donated to the Rapunzel Solidarity institution in

São Paulo (SP).

- Blue November: awareness campaign, with emphasis on prevention and early diagnosis of prostate cancer. Some 201 caps were donated to the Hospital de Amor, in Barretos (SP).
- Combating Drugs, with lectures and awareness actions in the units.
- Against Discrimination, also with lectures and awareness actions in the units.
- Yellow Fever, Zica, Chikungunya and Dengue Fever Awareness and, in some units, vaccination campaigns.
- Campaigns about sexually transmitted diseases and distribution of condoms during the Carnival period.
- First Aid Campaigns (National Night Out, Na-

tional Fire Safety, Drug Awareness Education)

- World without Tobacco Day, with lectures and distribution of materials aimed at making employees aware of the evils caused by cigarettes.

### DONATIONS

- Financial Resources for the Association for Assistance to the Disabled Child (AACD) in Brazil and for local non-profit groups in the communities near the National Beef plants in the United States (Wounded Warrior Project, TAPS Honor Gala [military support], Special Olympics, shelters for homeless, food campaigns, schools among others)
- Disused paper, intended for recycling to the Hospital de Pediatría Garrahan in Argentina







## OUTLOOK

The acquisition processes for Quickfood in Argentina and the Várzea Grande (MT) hamburger plant in Brazil, initiated in December 2018, were concluded several months later. As a result, Marfrig has been working toward **consolidating and expanding its manufacturing facilities**, in line with the **strategy of concentrating operations on beef protein and high added value products** derived from it.

Examples are the **reversal of the negative margins of Quickfood**, explained by operational and business improvements; the **expansion of the Várzea Grande Industrial Complex**, a unit that produces traditional hamburgers, marketed in retail channels under the main Brazilian brands; and premium, to supply the country's largest fast food chains. With investments in three new high-tech hamburger

production lines, the monthly hamburger production, which was 2,500 tons in April, rose to 3,000 tons in May and should end 2019 reaching 5,500 tons. Premium products will account for more than half of this volume. Investments and adjustments made to the plant still allowed it to be authorized in May to serve the world's largest fast-food chains.

Another front for improvement is **synergy gains** between operations, such as the benchmark made between the operations of National Beef – recognized as the best beef sector company in the United States – and Uruguay. The initiative aims to foster an exchange of experiences and enhance practices, so that all Marfrig's units apply the highest production and quality standards to their products.

The organic growth of operations continues to be reconciled with **new acquisitions**. In

March, it acquired Iowa Premium in the United States, a company that works exclusively with high quality animals (Black Angus), and will be merged into National Beef. The transaction was conducted jointly with the Jefferies Financial Group, among other investors.

New **import markets** are also being sought. The company, already with most plants qualified to export to China from South America – nine in total – has also included a new destination for its products in Asia: Japan. In February 2019, its Uruguay units conducted the first shipment of products to the Asian nation. The cargo included a wide variety of burgers and refrigerated cuts that will be marketed by National Beef, which is the leading exporter of chilled meats from the United States to Japan.

In relation to the product portfolio, Marfrig has sought to expand its share of the Angus beef cuts market. Consistent with its **vocation to produce high quality meats**, it began certifying Angus production in Brazil at the Várzea Grande, Mato Grosso, and Bagé and Alegrete units in Rio Grande do Sul, which join the four Brazilian states where certified slaughtering is carried out: São Paulo (Promissão), Goiás (Mineiros), Mato Grosso (Tangará da Serra) and Mato Grosso do Sul (Bataguassu). The process is audited by German certifier TÜV Rheinland.

Another front is **customer service channels**. The mercadomarfrig.com platform was launched in March 2019. The **B2B e-commerce project, strategic and pioneering in the meat segment**, lets foodservice and small retail customers purchase the Company's full product line with

greater convenience.

For the **end consumer**, Marfrig has **partnered with Carrefour**, the largest food retailing network in operation in Brazil, through which it has installed its first Contêiner Bassi store, where customers can find a full range of barbecue items, beef and distinctive cuts of Montana, Bassi and Steakhouse brands. Located on the São Paulo coast in the parking lot of the Carrefour Guarujá hypermarket, it was in operation during the summer months. An exclusive space was also created at the Carrefour Market in Granja Viana, in São Paulo, for the distribution of meats from the Bassi, Montana, Sadia and Perdigão brands.





ECONOMIC AND  
FINANCIAL PERFORMANCE

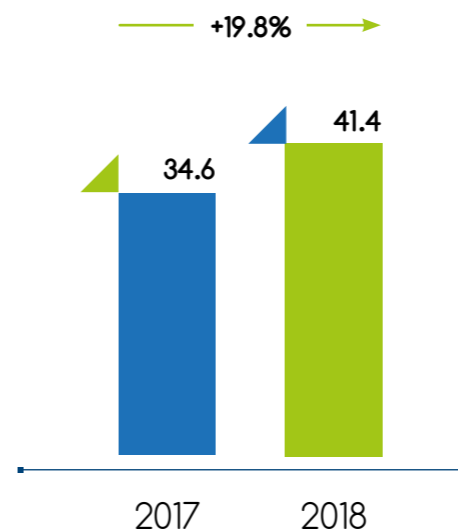
Marfrig's financial results in 2018 reflected significant advances, with highlights being the 19.8% growth in net revenue and more than 35% growth in Adjusted EBITDA. These numbers reinforce the view that the Company made the correct decision by focusing on beef protein. Geographic diversification – with a presence in the North American market, which is experien-

cing an excellent beef cycle, with greater availability of animals and growing demand for beef; and in South America, with the revamping of the industrial park in Brazil – also contributed, better positioning the Company to capture the benefits of a foreign market that increasingly is heating up.

NET REVENUE

A **19.8% increase** in consolidated net revenue, totaling

**US\$ 41.4 billion**

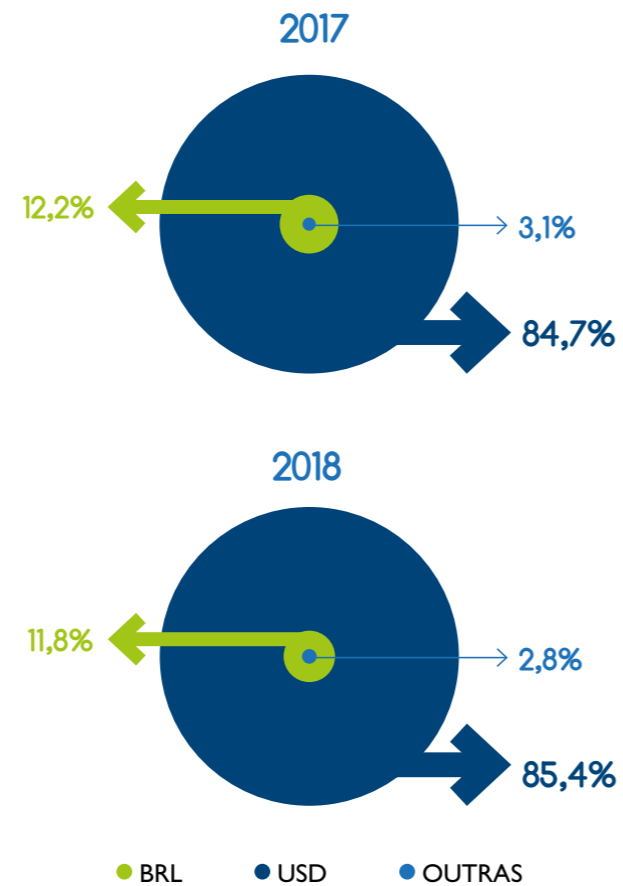


## REVENUE PER CURRENCY

Of total revenues,

# 88.2%

derived from foreign currencies (compared to 87.8% in 2017), reflecting Marfrig's growing multinational activities.



## REVENUE FROM OPERATIONS

In **NORTH AMERICA**, net revenue was US\$ 28.7 billion (US\$ 7.8 billion), 17.3% higher than in 2017 (in dollars, the increase was 2.1%), explained by the **solid demand and higher level of sales due to the greater supply of animals in the country**. Also related to sales, about 90% were generated by the cattle processing operation, while the remainder comes from portions, processed, leather, logistics and direct on-line sales to the consumer.

### NORTH AMERICA

Net revenue

# US\$ 28.7 billion

(US\$ 7.8 billion)

+ 17.3%

In **SOUTH AMERICA**, net revenue was US\$ 12.8 billion, up 26%. Of note was the 22% increase in sales volume (+US\$ 2.8 billion), which offset the lower average price practiced in the period. This higher sales volume is a reflection of **Marfrig's strategy of expanding its production in Brazil, taking advantage of the improved livestock cycle in the country and the greater supply of animals in Argentina. The ongoing good performance in Chile also made a positive contribution to this growth.**

- in **Uruguay**, market share grew in relation to 2017, reaching 22% of the country's total cattle slaughter.
- in **Brazil**, particularly notable was the **29% domestic market volume expansion**. There was double-digit growth in the food-service and small retail channels, as well as in large and small supermarket chains.

**Exports:** 39% higher, accounting for 52% of the net revenues of the South America operation. In the period, the highlights were:

- **higher slaughtering levels in Brazil**, partially offsetting the 5% drop in price, following the market trend and increase in the mix for lower value added countries, reflecting the ramp-up of certification for exports of the reopened plants during 2017 and 2018.
- **improvement in the destination mix in Uruguay**, where the volume exported increased by 13%, with a higher share of shipments to China, leading to a 7% increase in the average price.
- **a 70% increase in Argentina's exports**, a result achieved with the continuation of the process of the herd recomposition in the country, which grew by 1.1%, higher production and the devaluation of the currency.
- **greater domestic distribution capilarity and growth in all sales channels in Chile**, achieved through the continuation of organic growth, with a 9% increase in the sales volume, and the addition of new product categories into the portfolio.

### SOUTH AMERICA

Net revenue

# US\$ 12.8 billion

+ 26.0%

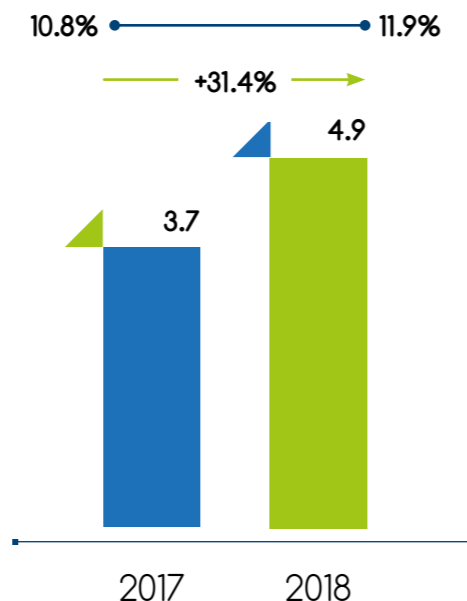


### GROSS PROFIT

Increase of **31.4%** of gross profit in the period, reaching US\$ 4.9 billion.

**US\$ 4.9 billion.**

Gross margin also rose by 11.9%, 110 bps higher than in 2017.

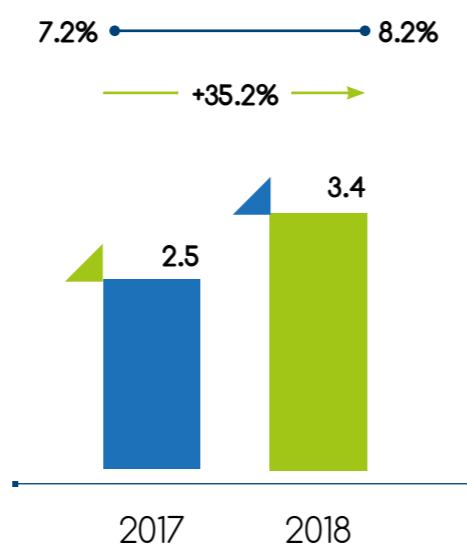


### ADJUSTED EBITDA

A record in the year, Adjusted EBITDA totaled

**US\$ 3.4 billion,**

**35.2% higher** than in 2017. Adjusted EBITDA margin was 8.2%, 100 bps expansion over 2017.

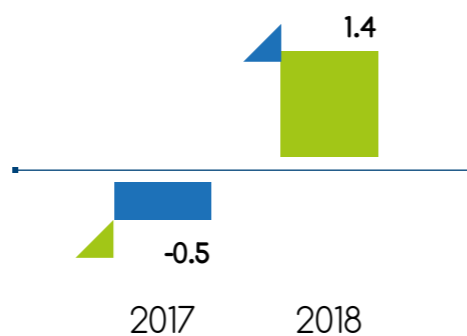


### NET PROFIT

Net income improved significantly in the period, reaching

**US\$ 1.4 billion,**

explained by the record performance of the North America operation and the positive impact of the Keystone divestment.

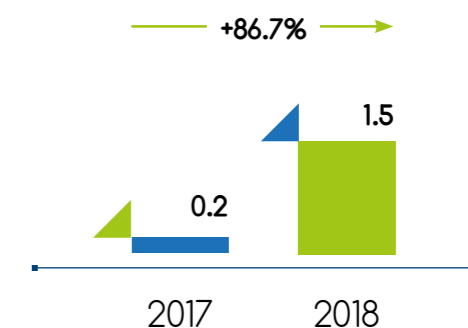


### OPERATIONAL CASH FLOW

Operating activities generated cash of

**US\$ 1.5 billion,**

up **86.7%** over the previous period.

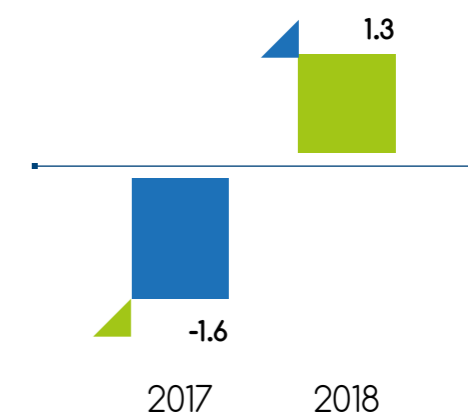


### FREE CASH FLOW

Free cash flow was

**US\$ 1.3 billion,**

a result that surpassed the negative result observed in 2017.



### NET DEBT

**Reduction of dollar-denominated net debt by 42%,** ending the year at US\$ 2.1 billion.

Measured in reais, net debt amounted to

**US\$ 8.0 billion.**

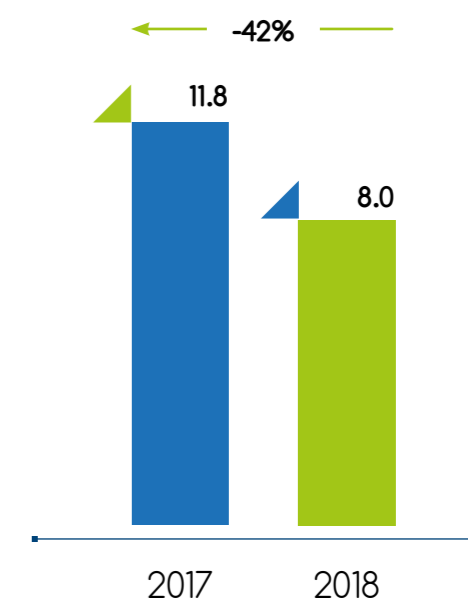
#### Leverage:

In December 2018: :

**2.39 x**

In December 2017:

**3.50 x**



## MAIN INDICATORS

<b>ECONOMIC-FINANCIAL (US\$ BILLION)*</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
NET REVENUE	41.4	34.6	18.8	18.9	15.2
COGS	36.0	30.8	16.7	16.6	13.2
GROSS PROFIT	4.9	3.7	2.2	2.3	2.0
GROSS MARGIN	11.9%	10.8%	11.5%	12.2%	13.0%
ADJUSTED EBITDA	3.4	2.5	1.6	1.8	1.4
ADJUSTED EBITDA MARGIN	8.2%	7.2%	8.6%	9.5%	8.9%
NET DEBT	8.0	8.0	5.9	7.1	11.0
LEVERAGE RATIO (NET DEBT/EBITDA UDM ADJ.)	2.4x	4.6x	3.7x	2.3x	5.0x
NET EQUITY	4.0	2.4	0.9	0.7	2.0
<b>OPERATIONAL</b>					
NUMBER OF EMPLOYEES	29,600	32,846	29,927	30,276	32,935
WOMEN	8,784	36%	36%	38%	37%
MEN	20,816	64%	64%	62%	63%
REVENUE PER EMPLOYEE (THOUSAND US\$)	1,398.6	1,202.9	672.0	624.0	461.8
<b>SOCIO-ENVIRONMENTAL</b>					
SOCIAL AND ENVIRONMENTAL INVESTMENTS (US\$ MILLION)	9.38 <sup>(1)</sup>	57.94	11.1	29.5	23.2
WATER CONSUMPTION (MILLION M3)	12.6	20.1	18.7	19.9	23.0
POWER CONSUMPTION (MILLION GJ)	3.0	5.9	6.5	6.2	17.5
GHG EMISSIONS - SCOPE 1 (MILLION TCO2E) <sup>(2)</sup>	368.1	348.5	355.8	316.9	343.5
GHG EMISSIONS - SCOPE 2 (MILLION TCO2E) <sup>(2)</sup>	202.7	269.6	261.6	277.4	276.8
WASTE (THOUSAND T)	113.4 <sup>(3)</sup>	375.7	388.4	480.6	177.0
<b>OCCUPATIONAL HEALTH AND SAFETY</b>					
TOTAL ACCIDENTS	2,804	773	2,205	2,476	2,884
WORKDAY LOSSES DUE TO ACCIDENT	18,454	14,375	20,309	8,728	19,134

\* Economic and financial data for 2017 and 2018 are presented on a "pro-forma" basis; that is, taking into account National Beef's information for the periods. In the last quarter of 2018, the results of the hamburger business in North Baltimore, Ohio, previously owned by the Keystone subsidiary sold in November 2018, were also included. Indicators of previous years are not adjusted on the pro forma basis. The information disclosed at the time was maintained.

(1) Data considers the investments in Brazil (Capex and Opex), Uruguay and Chile (Opex only). | (2) In the previous annual reports, the published emission figures were the totals. As of this edition, the numbers are now split between Scope 1 and Scope 2. In order to provide comparative data, the historical series is adjusted to this new format. | (3) Does not include National Beef operations data.

### VALUE ADDED STATEMENT (VAS)\*

The total value added to be distributed was US\$ 6.96 million in the year. The largest portion of this total (70%) was earmarked for third party capital remuneration, such as interest payments or rents.

<b>US\$ 000</b>	<b>CONSOLIDATED</b>	
	<b>ACCUMULATED 2018</b>	<b>RECLASSIFIED ACCUMULATED 2017</b>
REVENUES	30,429,638	10,622,316
TOTAL VALUE ADDED TO BE DISTRIBUTED	22,549,643	6,081,175
DISTRIBUTION OF VALUE ADDED	22,549,643	6,081,175
PERSONNEL	2,489,589	901,102
TAXES, FEES AND CONTRIBUTIONS	65,743	106,874
COMPENSATION OF THIRD PARTY CAPITAL	17,840,341	5,518,436
REMUNERATION ON EQUITY CAPITAL	2,153,970	(445,237)

\* Fiscal balance data disclosed, on a corporate basis



**GRI CONTENT  
SUMMARY**

GRI STANDARDS	GRI TOPICS	DEFINITIONS	PAGE / ANSWER
	I02-14	Statement from senior decision-maker	6, 8
	I02-1	Name of the organization	16
	I02-2	Activities, brands, products, and services	20
	I02-3	Location of headquarters	16
	I02-4	Location of operations	16, 18
	I02-5	Ownership and legal form	16
	I02-6	Markets served	16
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	I02-8	Information on employees and other workers	67
	I02-41	Collective bargaining agreements	67
	I02-9	Supply chain	56
	I02-10	Significant changes to the organization and its supply chain	24, 31
	I02-11	Precautionary Principle or approach	35
	I02-12	External initiatives	25, 67
	I02-13	Membership of associations	25, 67
	I02-45	Entities included in the consolidated financial statements	16
	I02-46	Defining report content and topic Boundaries	13
	I02-47	List of material topics	12, 13
	I03-1	Explanation of the material topic and its Boundary	13
	I02-48	Restatements of information	10
	I02-49	Changes in reporting	10
	I02-40	List of stakeholder groups	13
	I02-42	Identifying and selecting stakeholders	13

GRI 102 – GENERAL DISCLOSURES

GRI STANDARDS	GRI TOPICS	DEFINITIONS	PAGE / ANSWER
	I02-43	Approach to stakeholder engagement	12
	I02-44	Key topics and concerns raised	12
	I02-50	Reporting period	10
	I02-51	Date of most recent report	10
	I02-52	Reporting cycle	10
	I02-53	Contact point for questions regarding the report	10
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	I02-55	GRI content index	86
	I02-56	External assurance	*
	I02-18	Governance structure	36
	I02-16	Values, principles, standards, and norms of behavior	35

GRI 102 – GENERAL DISCLOSURES

MATERIALITY TOPIC	GRI STANDARDS	GRI TOPICS	DEFINITIONS	PAGE / ANSWER
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	GRI 416: Customer Health and Safety	416-1	Assessment of the health and safety impacts of product and service categories	56
		416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	56
	GRI 417: Marketing and Labeling	417-1	Requirements for product and service information and labeling	60
		417-2	Incidents of non-compliance concerning product and service information and labeling	60
	GRI 103: Management Approach 2016	I03-1	Explanation of the material topic and its Boundary	13
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MATERIALITY TOPIC	GRI STANDARDS	GRI TOPICS	DEFINITIONS	PAGE / ANSWER
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		303-2	Water sources significantly affected by withdrawal of water	48
		303-3	Water recycled and reused	46
	GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	13
		103-2	The management approach and its components	46
		103-3	Evaluation of the management approach	46
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		205-3	Confirmed incidents of corruption and actions taken	39
	GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	13
		103-2	The management approach and its components	35
		103-3	Evaluation of the management approach	35
HEALTH AND SAFETY	GRI 403: Occupational Health and Safety	403-1	Workers representation in formal joint management-worker health and safety committees	64
		403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	65
		403-4	Workers with high incidence or high risk of diseases related to their occupation	**
	GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	13
		103-2	The management approach and its components	64
		103-3	Evaluation of the management approach	64

MATERIALITY TOPIC	GRI STANDARDS	GRI TOPICS	DEFINITIONS	PAGE / ANSWER
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	GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	13
		103-2	The management approach and its components	53
		103-3	Evaluation of the management approach	53
FINANCIAL RESULTS	GRI 201: Economic Performance	201-1	Direct economic value generated and distributed	85
		201-2	Financial implications and other risks and opportunities due to climate change	39
		201-3	Defined benefit plan obligations and other retirement plans	69
		201-4	Financial assistance received from government	37
	GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	13
		103-2	The management approach and its components	79
		103-3	Evaluation of the management approach	79

\* This report was not submitted to a third party audit

\*\* Conventions or collective bargaining agreements may address matters pertaining to health and safety, issues that are managed by the Company in accordance with Regulatory Norms and laws related to these matters in the respective markets.



# CORPORATE INFORMATION

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## **TRADING MARKETS**

*Equity*

BM&F BOVESPA (New Market)

Trading code: MFRG3

Custodian Bank: Itaú Unibanco S.A.

ADRS (American Depository Receipts) -

Level I

OTC (US over-the-counter market)

Trading Code: MRRTY

Custodian: Deutsche Bank Trust Company  
Americas

Custodian Bank: Itaú Unibanco S.A.

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