Market Risk Management Policy

MARFRIG GLOBAL FOODS S.A.
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Contents

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1. Introduction

1.1. Purpose

This Market Risk Management Policy ("Policy") establishes the rules and the guidelines for the procedures to be followed by Marfrig Global Foods S.A. and its Subsidiaries in Brazil and abroad ("Marfrig" or "Company"), and their respective employees and managers.

This Policy defines (i) the risk limits acceptable to the Company; (ii) the parameters for negotiating the products to hedge Marfrig's exposures; (iii) the responsibilities and approval hierarchy for contracting hedge instruments; (iv) the methodology for monitoring, communicating and informing the agents involved in market risk management.

This policy addresses the following risks:

- Exposure to exchange rate;
- Exposure to commodity prices;
- Exposure to interest / inflation rates;
- Liquidity risk.

Important: These risks do not represent an exhaustive list, but reflect the main risks to which the Company is exposed in the opinion of its Executive Management.

1.2. Scope

This Policy is valid and applicable to all divisions and operations of the Marfrig group.

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1.3. Validity

This Policy will take effect from the date of its approval by the Board of Directors of the Company. It will remain in force for an indeterminate period and will be reviewed annually by the Board of Directors.

1.4. Disclosure

The outcome of the actions highlighted in this Policy and evidence of discussions held must be presented periodically at the Company Board of Directors' meetings, with the presence of the Finance Committee, and recorded in the meetings minutes.

This Policy will be broadly disseminated within the Company and its Subsidiaries, with the adhesion and consent of the managers, and will be filed with capital market regulators and made available to shareholders, investors and the market in general through the Company’s Investor Relations website.

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2. Definitions and Responsibilities

In order to measure, control, monitor and mitigate Market Risks, Marfrig set up an internal structure whose size is compatible with its operations and the complexity of its businesses. The responsibilities of the members of this structure are detailed below:

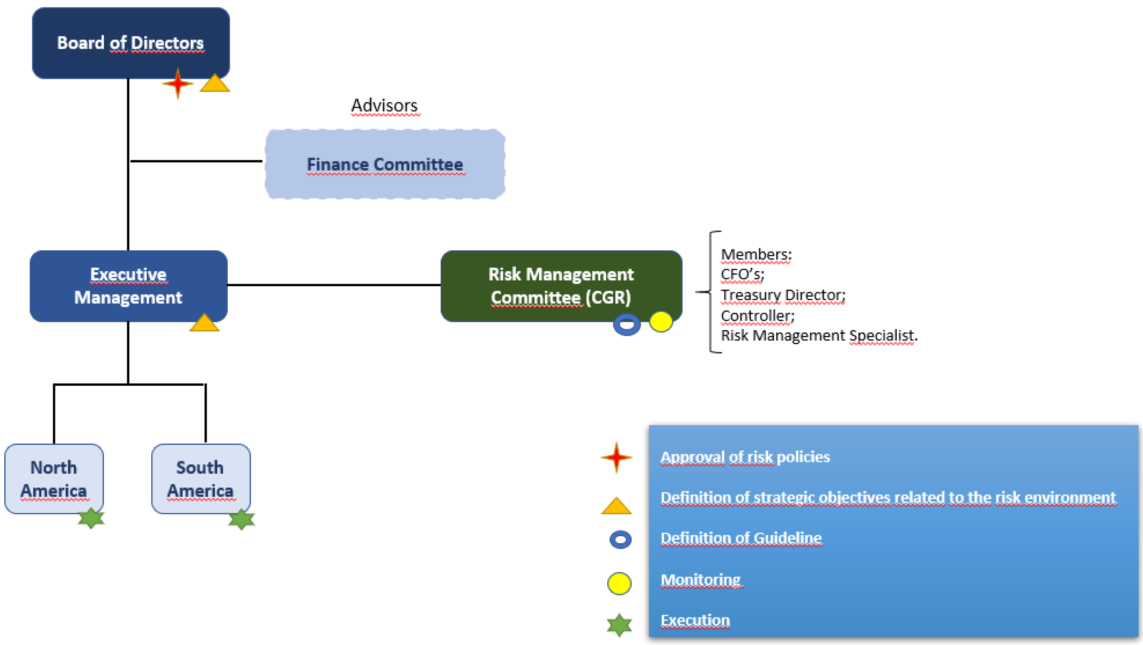

Figure 1 – Corporate Risk Management Committee (CRC) Structure

Board of Directors and Executive Management

The Company's Board of Directors and Executive Management are responsible for defining the strategic objectives related to the Company's risk environment. The Board of Directors is responsible for approving the Market Risk Management Policy jointly with the Finance Committee. The Executive Management and the Board of Directors are

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responsible for i) implementing a structure to manage financial risks; and ii) ensuring the application of this Policy.

Risk Management Committee (CGR)

The Risk Management Committee (CGR) consists of the CFOs of the Business Divisions, the Treasury Director, the Controller and the Risk Management Specialist. The CGR advises the Board on achieving the Company's strategic goals, ensuring that its activities are conducted in a way that preserves and increases the value of its assets through the definition of guidelines for mitigation of monitored risks.

The CGR should frequently monitor the risks of the Business Divisions, define risk mitigation mechanisms, monitor the execution and propose to the Board of Directors the update of the Risk Management Policy, in accordance with the regulations, ethics and internal controls established by Company.

CGR Meetings

The Risk Management Committee will meet ordinarily every quarter and, extraordinarily, when convened by any of its members.

The meetings shall be installed with the presence of the majority of members, and decisions are taken by the majority of those present. The matters discussed will be formalized in the minutes of the meeting.

At CGR meetings, the following must be presented:

- The updated map of each risk defined in this Policy: Exchange, Commodities, Interest/Indices and Liquidity;
- The instruments contracted to mitigate each risk; and
- The stress scenarios for each risk.

Risk Management Specialist

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The Risk Management Specialist will represent the CGR in its duties as guardian of Corporate Risk Management. The Specialist will serve as consolidator and will report the activities to the Board, informing the consolidated risks, exceptional situations, recommendations for action, and the stress scenarios, through periodical reports.

Directors of Business Divisions

The Directors of the Business Divisions are responsible for and committed to delivering the performance targets set in the budget period. For this, the Directors must observe their risk variables and take action to ensure their deliveries within the parameters of this policy.

Each Business Division is responsible for the following: i) to identify and evaluate its market risks; ii) implement the risk hedging strategies, as defined by CGR, based on its knowledge, analyses and instruments available in the local markets; iii) control and manage risk variables; and iv) report the results under this Policy to the CGR.

The Division Directors must ensure formal and timely communication to the CGR in case of any event that indicates a significant impact on the approved budget by the Board of Directors. In this case, the CGR must submit to the Board the exposures and actions proposed by the Business Divisions. The CGR will formalize this flow of information in writing.

Approval authority

The Company will be represented exclusively by its Officers and Attorneys-in-Fact, in accordance with the approval authorities established in its Bylaws. Acts and operations

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in amounts that exceed the Officers and Attorneys-in-Fact limits, will require approval by the Board of Directors.

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3. Market Risks

The Company is dedicated to producing, manufacturing and marketing, in the domestic and foreign markets, and also to its international operations, food products focused on animal protein. The operational risks come mainly from the following:

- From exchange variation on its international operations;
- From volatility of commodity prices;
- From fluctuation in interest rates; and
- From management of the Company's cash flow.

Accordingly, the Company tries to (i) hedge its margins from price fluctuations; (ii) ensure raw material supply; (iii) streamline its planning process by reducing volatility/uncertainty in its pricing strategy. These risks may be mitigated through hedging operations contracted by the Divisions and/or by the Company's global Treasury.

3.1 Exposure to Exchange Rates

This section specifically addresses the exposure to market fluctuations in the exchange rate different from the functional currency that Marfrig operates in the market, (Real – R$) such as the U.S. dollar, the British pound and the euro.

Exposure to exchange rates is divided into two parts:

- Exchange Rate Exposure of Balance Sheet; and
- Exchange Rate Exposure of Cash Flow.

3.1.1 Exchange Rate Exposure of Balance Sheet

The exchange rate exposure of balance sheet is any exposure to currencies other than the functional currency of the Company that results in exchange variation in the

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accounting results arising from the variation in exchange rates throughout the period during which any balance is outstanding.

Exchange rate exposures of the balance sheets of the business divisions must be monitored by the finance department of the respective Business Division and reported to the Risk Management Specialist on a weekly or daily basis. For net balance sheet exposure, the CGR must recommend a hedge to the Board. If approved, the Treasury desk of each Business Division will contract the exchange rate hedge.

3.1.2 Exchange Rate Exposure of Cash Flow

Exchange rate exposure of cash flow is any net exposure of the Company's operating and financial cash in currencies other than the functional currency of Marfrig or its business divisions.

To reduce the volatility in business margins while optimizing the Company's cash management and increasing its predictability, the Business Division may adopt a hedging position to hedge its cash flow based on and up to the limit of: i) expected purchases and sales in other currencies; and ii) debt in other currencies maturing in the next 12 months.

Decisions must take into consideration the history of the company's capacity to transfer costs to prices and the market outlook. Each Business Division must keep in its controls a map of the position and coverage.

Exchange rate exposure of Cash Flow of the business divisions, as well as the respective hedging instruments, must be reported by the financial areas of these units to the Risk Management Specialist.

The Treasuries of the business divisions must contract exchange rate hedges through derivative financial instruments, observing the guidelines of this policy.

3.2 Exposure to Commodity Prices

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As part of its operations, Marfrig purchases certain commodities, such as cattle, grains and fresh meat, which represent the biggest individual components of its production costs and are subject to certain variables.

Raw material prices are directly related to market conditions and are influenced by domestic supply (volatility caused by factors such as weather conditions, crop yields, logistics costs, agricultural policies, macroeconomic factors and others) and by global market demand.

Exposure to commodity prices, especially in the purchase of raw materials, are managed in accordance with their sales cycle, while maintaining the inventory management strategies, position of purchase contracts for future delivery and derivative operations in the futures market.

The business divisions may contract futures transactions in order to reduce the price risk related to commodity requirements for a period of up to 12 months (revolving).

The Treasuries of the Business Divisions must contract commodity price hedges through derivative financial instruments in a way that meets the guidelines of this policy. Business Divisions must keep in their controls a map of the position and coverage.

Exposure to commodity prices must be reported by the finance departments of the Business Divisions to the Risk Management Specialist.

3.3 Exposure to Interest / Inflation Rates

Marfrig may be exposed to interest rates due to economic changes affecting the Company's assets and liabilities pegged to the Long-Term Interest Rate (TJLP/TLP), the LIBOR (London Interbank Offered Rate), the CDI (Brazilian overnight rate) or inflation indexes such as the General Market Price Index (IGP-M) and the Broad Consumer Price Index (IPCA).

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The Company continuously monitors market interest rates to minimize the aggregated average cost of servicing its consolidated debt and to hedge against the volatility of market interest rates.

Execution of interest hedging strategies is an exclusive activity of the Treasury areas of the business divisions and require approval from the CFO. Reports must be made to the Risk Management Specialist.

3.4 Liquidity Risk

The possibility of the Company not being able to efficiently honor its expected and unexpected obligations, whether current or future, without affecting its day-to-day operations and without incurring significant losses, due to lack of sufficient funds on the date of maturity of each debt, resulting in a mismatch between payments and receipts caused by:

- Difficulties in rapidly selling assets or positions due to lack of market price or liquidity; and
- Difficulties in obtaining funding or financing for its cash position and thus complying with its financial obligations.

To manage this risk, the Company adopts the following methodology:

3.4.1 Analysis of Minimum Cash Needs

The minimum cash is defined by the Company as the lowest cash level that must be available to cover short-term disbursements (next 12 months), considering the limitations to inflows of both financial (financing sources) and operational (recession scenario) sources.

The calculation of the minimum cash and monthly projections of disbursements must be presented by the global Treasury to the CGR on a monthly basis. The following

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should be considered in this calculation: (i) short-term debt; (ii) payment of tax obligations; (iii) disbursements with projects and investments; and (iv) operating cash generation.

3.4.2 **Credit Lines with Guarantee of Liquidity**

The CFO must ensure that funds and credit lines are available to manage operations. Accordingly, the CFO may choose to contract credit lines from financial institutions i.e. back-up facilities, such as:

- *Overdraft account;*
- *Standby Facility;*
- *Revolving credit.*

On a monthly basis, the Directors of the Divisions and operations of the group should revise and discuss cash flow projections, the financing needs and any relevant information to manage liquidity, and report such information to the CFO.

The Treasury continuously manages the cash level required by the operations, in addition to projecting the financing needs, in order to ensure an effective management of financing resources and adequate liquidity, reporting the strategies discussed to the CFO.

New products must be reported to and approved by the CFO, considering the assessment of Liquidity Risks and existing controls. The strategies will be executed by the local treasury departments.

3.4.3 Updating of Financing Sources

The Treasury, jointly with the CFO, is responsible for regularly managing the leverage levels and availability of financing sources of the Company to ensure that adequate action is taken in time to maintain liquidity and business continuity.

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The main sources of financing of the Company are: (i) cash flow from operations; (ii) short- and long-term bank debt; (iii) equity issues; and (iv) debt issue (debentures and senior notes – bonds, long-term debt in U.S. dollar through notes issued abroad exclusively to qualified institutional investors).

3.4.4 Financial Investments and Cash and Cash Equivalents

The surplus cash balance, after calculating the Minimum-Security Cash, may be invested by the Treasury in the following ways:

a) Fixed Income: products offered by financial institutions or privately issued fixed income securities that remunerate the invested capital at fixed or pre-fixed interest rates, with predetermined liquidity in accordance with the Treasury's financial planning;

Financial investments in Fixed Income must comply with the following criteria:

i. Financial institutions or issuers with a minimum B+ rating;

ii. The total balance invested by the Company cannot exceed 3% of the Net Equity of the financial institution or issuer;

b) Variable Income: purchase of shares of companies listed on the Stock Exchange at market prices.

Financial investments in Variable Income must be of a passive nature, without the exercise of control by the executive management and without influence on the governance bodies of the issuing company.

If the investment in variable income becomes active in the issuing company, subject to the appropriate resolutions of the Board of Directors, the treatment will change to Equity Interest, no longer classified as Financial Investments and Cash and Cash Equivalents, and shall be treated according to the rules of Shareholding, in

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accordance with technical pronouncement CPC 18 (R2) "*Investimento em Coligada, em Controlada e em Empreendimento Controlado em Conjunto*"

The mark-to-market (MTM) of the stock portfolio must be done daily. The market risk sensitivity analysis of the stock portfolio must be carried out on a daily basis, as required by technical pronouncement CPC 48 "Financial Instruments".

3.4.5 Monitoring and metrics

The Risk Management Specialist monitors Marfrig's total debt by analyzing its Assets with Own Capital (Shareholders Equity) or Loan Capital (Current Liabilities + Non-Current Liabilities) and the proportion, in order to calculate Marfrig's debt ratio.

The leverage ratio is monitored by dividing net debt by the Adjusted EBITDA in the last 12 months. Net debt is short-term debt (loans and financing, and interest on debentures in current liabilities) plus long-term debt (loans and financing), less cash, cash equivalents and marketable securities. This leverage ratio enables comparison with other companies in the segment and is used as a parameter for certain financial transactions entered into by the Company.

The measure used internally to manage the availability of investment sources is the ratio of credit lines used to total lines available.

Every month, the Treasury must report a position to the CFO, matching the current and projected financing sources with available credit lines.

Liquidity risk limits are defined by the CFO jointly with the Finance Committee:

- Manage the concentration of debt maturities in the year in levels close to US$ 1 billion;

- Manage the share of short- and long-term debt at 20% and 80%, which could vary by up to +/- 5 p.p., respectively;

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- Manage the ratio of cash, cash equivalents and marketable securities to short-term debt (12 months), keeping it above 2.0x;

- Manage the ratio of cash equivalents and marketable securities to short- and medium-term debt (24 months) at less than or equal to 2.5x;

- The average term of payment of debt should not be shorter than 42 months; and

- The leverage ratio (Net Debt/EBITDA LTM) must be equal to or less than:

(i) 2.5x on December 31 of each year.

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4. Financial Instruments

Transactions with financial instruments must be carried out exclusively for hedging purposes, within the regular course of business. The following financial instruments are eligible for hedging:

- Swap contracts (currency, interest and commodities);
- Futures contracts (standardized and OTC – currency, interest and commodities);
- Forward contracts;
- Options.

The Company´s Management must report semi-annually to the Board of Directors the details regarding to all operations conducted on this policy basis.

Operations **not listed** as Eligible Instruments may be carried out only with prior approval from the CGR. Strategies involving the **Sale of Options** (**Calls and Puts)** will be permitted only with the approval of the CGR, regardless of the nominal value of the transaction.

Instruments, operations or strategies that, individually or jointly, create any type of leverage or include contractual provisions that cause them to be leveraged are strictly prohibited.

Any variation between the hedged positions or in the hedge that causes the hedge to exceed 100% of the position must be closed out until the limit is reached.

To reduce the exposure to the risk of liquidity of stock exchanges, derivative operations maturing on a certain date should not exceed 10% of the total traded on the respective stock exchange.

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5. Hedge Accounting

Accounting of financial instruments using hedge accounting is aimed at minimizing the impact of volatility on the result arising from the mismatch between the mark-to-mark measurement and the accounting classification of the financial instruments used for hedging and the items hedged by the Company.

The Company can adopt hedge accounting of its hedging instruments, in compliance with the International Financial Reporting Standards (IFRS) and the standards issued by the Brazilian Accounting Pronouncements Committee (CPC).

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