Management Report 2013









FOCUS TO WIN

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1. Message from the Chairman

I want to start by wishing all of you health and success in this new year.

It is with great satisfaction that I announce that we have appointed Sergio Rial as our new chief executive officer. I have known Sergio for five years and worked together with him for over a year on the transition and integration of Marfrig Global Foods.

As chairman of the board and controlling shareholder, my commitment to Marfrig will not change in the slightest. To the contrary, my commitment will only grow, since I will now have more time to focus on our strategy, on our relationships with clients and suppliers and on managing our talent on a full-time basis.

To underscore its new profile and global scope, the group has changed its name to Marfrig Global Foods, which conveys more effectively our position as a global food company that is present in 16 countries, operates 78 commercial, production and distribution units and employs 46,000 people.

The business segments received new logos with a common language, which further highlight the group's strengths and the alignment among them. Each segment has its own strategy for contributing to the success of our "Focus to Win" strategy.

With regard to 2013, I would like to thank our entire team, which faced a year full of many challenges.

We repositioned the group strategically without losing our focus on capturing operational improvements in all of our businesses, while maintaining our high quality and continuing to drive innovation.

I would like to thank the Beef business for its leadership in sustainability and for its firm commitment to our clients. Meanwhile, Moy Park and Keystone were examples of growth and operational performance and effectively consolidated our strong international presence.

I wish our team all the success and together we will continue working to ensure the growth of Marfrig Global Foods and the achievement of the targets established under the strategic plan Focus to Win.

Marcos Antonio Molina dos Santos
Chairman of the Board of Directors

2. Message from the CEO

2013 marked the beginning of a new phase for the companies forming the Marfrig Group. With a stronger capital structure and a new simpler and more focused business model, the group can now reinforce its original values and create an organizational culture that is centered on the client and driven by innovation and that seeks growth with profitability supported by its solid expertise in the food service and retail segments and by its commitment to the highest standards of food safety and quality and to industry leadership in sustainability.

These characteristics are the foundation of our strategic plan Focus to Win, which will guide Marfrig on the path to operational excellence while generating benefits for society and financial returns for investors. The results of the plan will be reaped over a five-year period (2014-18).

Moy Park, the business segment based in Europe, has the following strategic objectives: to grow its sales of fresh poultry and processed food products to the retail channel at above-industry rates in the United Kingdom and Ireland; to continue expanding its sales of multi-protein products in the retail markets of the United Kingdom, Ireland and Continental Europe; to expand its footprint in the food service distribution channel in the same regions, becoming the continent's distribution platform for the entire product portfolio of Marfrig Global Foods.

Meanwhile, Keystone will focus on the poultry segment, for which it will expand its processing capacity in the United States and Asia.

Another one of our strategic pillars is growth in key accounts, where our efforts will focus on fast-food chains, a segment that offers vast potential. In the United States alone, the 100 largest restaurant chains generated revenue of US$214 billion in 2012, while the global "food away from home" market grew to US$1 trillion.

Growth will also be fueled by expansion into new regions and in our processing capacity in Asia and the Middle East. Indonesia is a key market. With a population of 240 million, today the country has 45 million consumers, a figure that is expected to triple by 2030.

Lastly, Keystone will focus its efforts on expanding and diversifying its presence in the beef market by improving its supply chain in this category through greater integration with Marfrig Beef.

Marfrig Beef, the beef segment in South America, has the primary objective of increasing its free cash flow by capturing efficiency gains and optimizing the utilization of its assets. These goals will be achieved by improving inventory management, increasing the capacity utilization of its plants to over 80% by 2018, and dedicating some of them to processing specific products or serving specific markets.

The group will also concentrate its efforts on growing its revenues and expanding its presence in more profitable distribution channels, such as small retailers and food service, while also optimizing its product mix and sales structure in export markets.

The better export conditions enjoyed by Uruguay will help leverage sales overseas and improve connectivity with the group's other business segments in order to expand the supply of beef from South America.

Our strategic plan “Focus to Win” is supported by the following pillars:

1. FOCUS ON THE CLIENT: Understanding and offering solutions to clients and final consumers is part of the corporate DNA of Marfrig, which over its history has contributed to the success and growth of many restaurant chains around the world and has led to the development of high-quality and practical food solutions for its clients. Now, through Focus to Win, the company will work even more closely with its commercial partners.

2. FOCUS ON INNOVATION: From the development by Keystone Foods of cryogenic food freezing techniques in the 1970s, to Moy Park's organic chicken line and the recent certification that allows the Marfrig Beef's food production plants to use the Rainforest Alliance Certified™ seal, Marfrig Global Foods is at the forefront of the industry in innovation.

3. FOCUS ON PROFITABILITY: Reviewing all of its processes and maintaining the costs of its operations competitive are the cornerstones of Focus to Win.

4. FOCUS ON THE FOOD SERVICE AND RETAIL CHANNELS: Focus to Win has designated these two channels as the main vectors of the group's entire commercial strategy.

5. FOCUS ON THE HIGHEST SAFETY AND QUALITY STANDARDS: These are the key ingredients of Marfrig's success and will sustain it over the long run. The group operates globally in accordance with the highest food safety and quality standards.

6. FOCUS ON INDUSTRY LEADERSHIP IN SUSTAINABILITY: How Marfrig uses its financial, human and environmental resources is of critical importance to ensuring that it always remains a corporation that is respected by environmental, governmental and social organizations.

My best wishes to all of you in this New Year. I begin 2014 reenergized. We accomplished a lot in 2013, but will do even more in 2014, guided by our strategic plan Focus to Win.

We will continue to build a better company with each passing year. We will reach the end of 2014 in better shape than in 2013. And not just in terms of numbers, but also in our relationships with clients, in our commitment to the group's record in sustainability and product quality in both Brazil and abroad, and in the spirit and energy of our teams at all levels, I repeat, at all levels.

I believe that leaders are here to serve and you can count on our commitment to serve the company, our clients, investors and local communities.

Sérgio Rial
Marfrig Global Foods CEO

3. Overview of the Corporation

Marfrig Global Foods S.A. is a global food company operating in the food service and retail segments that offers innovative, safe and healthy food solutions to its clients. With a diversified and comprehensive product portfolio, the Corporation is committed to excellence and quality and to ensuring the presence of its products in the largest restaurant chains and supermarkets, as well as in the households of its consumers, in over 140 countries.

Its activities include the production, processing, further processing, sale and distribution of foods based on animal proteins, namely beef, lamb, poultry and fish, as well as a variety of other food products, such as breaded foods, ready-to-eat meals, frozen vegetables, desserts and other products.

With 46,000 employees, the Marfrig Group is the largest lamb producer in South America, the second largest poultry producer in the United Kingdom and the largest private company in Uruguay and Northern Ireland.

The Corporation has created an integrated and geographically diversified business model that is formed by 78 production units, distribution centers and offices distributed located in 16 countries in South America, North America, Europe, Oceania and Asia.

The strategic location of its units, combined with its vast distribution network with access to key channels and consumer markets, forms a unique exposure mix in the industry that is well diversified in terms of production, origin of sale and profitability, as well as in terms of its footprint in both emerging markets (more accelerated growth with some volatility in profitability) and mature markets (more predictable growth with more predictable profitability as well).

Marfrig has annual production capacity of 903,000 tons of processed products and annual slaughtering capacity of 5 million head of cattle, 500 million chickens, 5 million turkeys and 3 million lambs. Together, this production platform gives the Corporation significant growth capacity as well as the ability to hedge against certain industry risks.

In 2013, the Group recorded net sales revenue of R$18.7 billion, for growth of 13.5% on the prior year. Approximately 54% of our revenues come from the international operations (Moy Park and Keystone), while the remaining 46% come from Marfrig Beef's operations in South America.

As part of its permanent effort to add value to the business, the Corporation made a significant divestment in 2013, selling the Seara and Zenda business units for R$5.85 billion. The payment was made through the assumption by the acquirer of the debts of the units sold and of Marfrig itself, which led to a significant reduction in the Corporation's leverage ratio.

The divestment of these assets was guided by the strategy of simplifying and optimizing the Corporation's organizational structure and reducing the need for financial resources, while benefiting from the lower leverage and tighter focus on the core business, supported by a more robust capital structure. Management believes the continuous improvement in internal processes will enable the Corporation to attain higher levels of efficiency and cost control, which, coupled with a stronger orientation on results and commitment to profitable growth, will support higher margins and stronger cash generation.

The Marfrig Group is composed of three business segments, each of which has its own product lines and regional footprints that complement each other to form a comprehensive product portfolio and diversified production platform with a global platform:

- **Marfrig Beef:** The Marfrig Beef business unit is a pioneer in marketing and promoting beef and lamb in the Brazilian market, with strong expertise in the food service segment in the domestic market as well as a strong presence in export markets, where it is equally recognized for the quality of its premium products. The international operations in South America focus on exporting premium beef cuts and on leveraging the strategic position it enjoys in Uruguay, which gives Marfrig Beef access to the world's key consumer markets.

- **Moy Park:** Focused on the European market of prepared food products and fresh meats derived mostly from chicken and turkey, Moy Park has a strong presence in major retail and food service chains in the United Kingdom and Continental Europe. Through its integrated poultry production system, Moy Park maintains a commitment to supplying high-quality food products made from locally raised fresh chicken and to offering a broad variety of processed food products to a wide range of consumers. Moy Park was named Northern Ireland's No. 1 company in the 2012 Ulster Business Top 100 Companies list.

- **Keystone:** The Keystone business unit is a supplier of food made from animal protein to major global restaurant chains, with operations concentrated in the United States and Asia. Committed to innovation and the highest food safety and quality standards, it combines vast expertise in the food industry with a strong focus on clients to offer a complete mix of fresh and frozen products. With an advanced research and development center, Keystone has developed some of the most admired items on menus of global restaurant and fast-food chains, as well as processes that ensure the demands of the market and clients are fully met.

The Marfrig Group develops and implements innovative initiatives and comprehensive social and environmental responsibility policies throughout its production chain to ensure the sustainability of its business over the long term. It has a Code of Ethics that permeates the Corporation and is applied in all countries where it operates, which fosters the development of a single and global culture governed by the same values. The most visible facet of the Corporation's engagement in sustainability practices is the working groups that it leads and the public commitments that it has assumed in partnership with the world's largest organizations in defense of sustainable production and the conservation of biodiversity.

4. Strategy – Focus to Win

The year 2013 marked the beginning of a new and important phase in the strategy of the Marfrig Group. With a more robust capital structure, the Corporation adopted a new, simpler and more focused business model that will allow it to strengthen its original values and to create an organizational culture centered on the client.

In this light, the strategy **Focus to Win**, which was announced to the market in October and includes financial targets for the next five years, was developed to lead Marfrig on the path to operational excellence and to generating benefits for society and financial returns for investors.

The strategy establishes the foundation of a corporate culture that is centered on the client and driven by innovation to pursue growth with profitability supported by its solid experience in the food service and retail segments and its commitment to the highest food safety and quality standards and to industry leadership in sustainability.

By expanding the business organically accompanied by profitability, consistent free cash generation, more rigorous management of costs and greater integration of the businesses to promote more stable results, the new five-year plan permeates the growth objectives of each of the group's business units, as described below:

- **Focus to Win – Marfrig Beef:** the primary objective is to increase free cash generation by capturing efficiency gains and optimizing the utilization of assets. To achieve this, measures are being implemented to optimize inventory management, improve the conditions of trade payables and receivables and increase the capacity utilization of production facilities. Revenue growth will focus on increasing the share of the most profitable distribution channels, such as small retailers and food service, while improving the product mix and commercial structure for exports. By also taking advantage of the excellent export

conditions enjoyed by Uruguay, Marfrig Beef will pursue greater connectivity with the Group's other business segments (e.g. Keystone in Asia and the United States and boosting exports to Europe through Moy Park) to increase its supply of beef from South America.

- **Focus to Win – Moy Park:** the growth strategy is based on increasing sales of higher-value products in the retail channel and leveraging food service sales by taking advantage of the segment's growth and the expansion of operations to Continental Europe. Capitalizing on its leadership in the production of locally raised chicken in Ireland and the United Kingdom and on its recognition as one of Europe's largest organic chicken producers, Moy Park will seek to expand its sales in the United Kingdom and Continental Europe. Moy Park's growth will also be driven by expanding its presence in the food service distribution channel by becoming a distribution platform in Europe for the entire portfolio of Marfrig Global Foods.

- **Focus to Win – Keystone:** business growth in the United States is based on diversifying the client portfolio in the food service segment. In Asia and Middle East, the growth strategy focuses on forging partnerships and joint ventures to drive and sustain growth in key markets, such as China and Indonesia. At the global level, Keystone will also focus its efforts on growing and diversifying its presence in the beef market by improving its supply chain through greater integration with Marfrig Beef.

The results of the Focus to Win strategy will be reaped over the next five years (2014-18), by the end of which the Corporation projects positive free cash flow of between R$650 million and R$850 million, with average annual revenue growth in the period from 7.5% to 9.5%.

Also in 2013, seeking to reinforce the Group's new profile and the global scope of its operations, the Corporation adopted the new name **Marfrig Global Foods**. The new name better represents the Corporation's positioning as a global food company that is present in 16 countries, has 78 commercial, production and distribution units and employs 46,000 people.

5. Macroeconomic and Industry Scenario

MACROECONOMIC SCENARIO:

Despite the economic environment that continues to be marked by uncertainty, 2013 was a year of greater economic stability, with gradual recovery in world economic growth. According to IMF estimates (January 2014), the world economy grew by 3.0% in 2013, below the growth of 3.2% recorded in 2012, though with signs of improvement, especially in the second half of the year, which reinforces the positive trend. Developed countries sustained their recoveries by beginning to unwind their fiscal tightening measures, which led to higher consumption, while developing countries in general benefited from the improvement in international trade.

The U.S. economy continued to move towards a sustained recovery with growth in industrial production and higher investments, despite the intensification of political disputes in the country. As a result of this growth and greater optimism on the economy, the U.S. dollar strengthened against world currencies.

The Chinese economy, which no longer enjoys the double-digit growth of previous years, is expected to register growth of around 7.7% in 2013. Despite the slowdown, the level of growth remains strong, given that it is the world second largest economy.

Europe's recovery remains timid and uneven among the various countries forming the euro zone. The loosing of fiscal policy supported stronger domestic demand and recovery in growth rates in the region's economy. In the United Kingdom, economic growth was fueled by better credit conditions and higher confidence, with the IMF projecting GDP growth of 1.7% in 2013, which is higher than the rates in euro zone countries.

In Brazil, consensus forecasts compiled by the country's central bank project economic growth of 2.5% in 2013, which is above the level of 1.0% recorded in 2012. The country's unemployment rate reached record lows, while average income levels grew by 3% in 2013. Even so, data also indicated that the Brazilian economy ended the year decelerating, with GDP growth contracting in the last two quarters of the year, which has not been seen since 2009, when the impacts of the international financial crisis were felt around the world.

In the second quarter of 2013, the Brazilian Real began a depreciation cycle, which led the central bank to abandon its informal currency band policy (between R$2.05/USD and R$2.10/USD), with regular market interventions in the market through auctions of reverse currency swaps, which led the exchange rate to fluctuate around R$2.20/USD.

INDUSTRY SCENARIO:

Brazil: The beginning of 2013 was marked by excessive slaughtering, which led finished cattle prices to rise. With the oversupply, beef price increases lagged cost increases, with domestic consumers unwilling to pay more for beef, especially given the country's inflationary pressures. As a result, with volume and prices stable and production costs higher, margins were squeezed.

In the second half of the year, Brazil's beef industry began to enjoy a more favorable and rational environment, with external demand increasing significantly driven by the depreciation in the Brazilian Real against the U.S. dollar. Furthermore, in Brazil, the pasture-fed portion of the herd suffered little from the higher grain costs, which makes the country very competitive compared to the United States, Europe and other producing regions where cattle is raised in feedlots and grain-fed.

Fresh beef volumes exported by domestic meatpackers came to 1.47 million tons in 2013, 21% higher than the prior year (1.21 million tons), according to Brazil's Foreign Trade Secretariat (SECEX). In this scenario, cattle slaughtering in Brazil grew by 10% in 2013, while the average cattle price rose by 7% from 2012.

Uruguay and Argentina: In Uruguay, despite the higher slaughter of beef cattle early in the year, which pressured finished cattle prices, the country adjusted production and ended 2013 with 5% lower slaughter volume compared to 2012. The scenario is explained by the higher retention of breeding stocks (slaughter down 10% from 2012), as

well as by weather effects that slowed animal weight gain. As a result of these factors, the size of the beef cattle herd is historically high in the country, indicating higher supply and less price pressure in 2014.

Exports, which account for approximately 75% of the country's production, set new records in 2013, with more than 350,000 tons of beef shipped in the period. The main destinations of Uruguayan beef are the European Union, China and the NAFTA and Mercosur regions. In the domestic market, where average annual per-capita consumption exceeds 60kg (source: Inac), consumption is expected to remain stable, especially given the potential pressure from higher beef prices.

In Argentina, beef slaughtering grew by 11% in 2013, which was sustained by the higher slaughter of young animals and cows, given the shortage of finished cattle in the market. Although the government is currently studying measures to support the rebuilding of the herd and to promote production, in 2013, given the difficulties involved in obtaining export licenses, the growth in beef production was completely directed to the domestic market. As a result, exports accounted for a mere 7% of the country's total beef production, while domestic per-capita consumption increased significantly from 59kg to 64kg per year.

Europe: The upward trend in grain costs that impacted margins in Europe's poultry industry in late 2012, slowed gradually over the course of 2013. Although the prices of the main inputs used to produce animal feed did not decline significantly from their average levels in the year, at the end of 2013, the prices of wheat and soybean (in Europe chicken feed is made from wheat and soybean, unlike the rest of the world, where it is made from corn and soybean) had already fallen by 22% and 8%, respectively, compared to their levels at year-end 2012, according to the Department for Environment, Food & Rural Affairs (Defra).

On the other hand, the UK poultry industry continued to be able to successfully passthrough the impacts from higher costs. According to Defra, average fresh chicken prices in the UK retail market increased by 3.4% (in local currency).

In addition to the growing awareness with regard to healthier eating habits, UK poultry consumption has been increasingly driven by growing concern with tracking and quality assurance. Since the discovery of horse meat being sold in products labeled "100% beef," demand for locally raised products has grown. As a result, the region's poultry production has increased, with poultry slaughtering in the United Kingdom growing by 3.2% from 2012.

United States: According to the U.S. National Restaurant Association (NRA), sales in the food service sector exceeded US$660 billion in 2013, growing 3.8% from 2012, marking the fourth consecutive year of positive growth since the 2008-09 crisis that hit the United States. For 2014, sales are estimated to grow by 3.6% reaching US$683.4 billion.

China: GDP growth, urbanization and the expanding middle class have led to changes in the eating habits of the Chinese, with positive impacts on sales in the food service industry. China has seen fast growth in the number of restaurants in both large urban centers as well as inland cities, with the country still showing excellent potential for growth. The McDonald's chain, for instance, almost doubled the number of stores between 2007 and 2012,

from 876 to 1,705 units, which is still well below the number of stores in the USA (14,146 units). The chain YumBrands reported that it expects to open 700 new units in the country in 2014, from its current 6,200 stores.

Total and per-store revenue of large international food service chains have been registering robust growth. These chains have been investing in diversifying their menus and preparing products adapted to the various meals of the day in order to expand their product lines while offering greater convenience and practical solutions to this new consumer class.

During the first few months of 2013, China's food industry was impacted by reported cases of avian influenza. In the second half of the year, following the implementation of measures to combat the disease in the regions affected, the situation was normalized and consumption returned to previous levels.

6. Consolidated Economic and Financial Performance

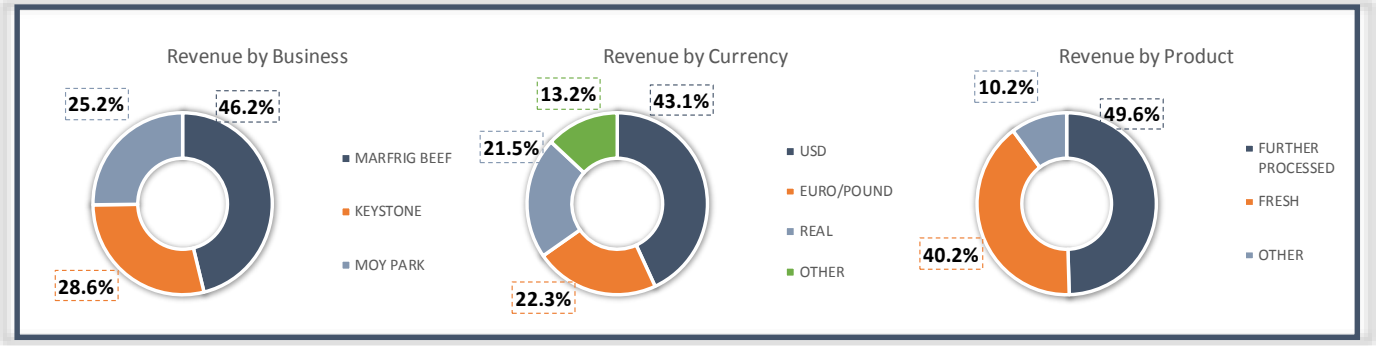
6.1. NET REVENUE

Net revenue grew 14% in 2013 to R$18.75 billion, compared to R$16.52 billion in 2012, which is explained by the 14% increase in the average sales price combined with sales volume remaining virtually stable in relation to 2012.

The Marfrig Beef business segment accounted for 46% of consolidated revenue, in line with its contribution in 2012, while Keystone accounted for 29% (30% in 2012) and Moy Park for the remaining 25% of revenue (24% in 2012).

Revenue growth was driven by the solid performance of all business segments, with the highlights including: (i) the growth of 18% at Moy Park, with sales growth in both the food service and retail segments in the United Kingdom and Continental Europe; (ii) the 14% growth at Marfrig Beef due to the higher exports from Brazil and the sales to the domestic food service market, which more than offset the unfavorable conditions faced by the international operations; (ii) the growth of 10% at Keystone, which, despite suffering effects from the reported cases of avian influenza in Asia, continued to grow its sales in the United States, supported by a more diversified client base; and (iv) the effects from the appreciation in the average U.S. dollar/Brazilian Real exchange rate in the period.

A breakdown of Net Revenue in 2013 follows:



:: MARFRIG BEEF ::

Brazil Operation – Domestic Market

21.5% of Consolidated Net Revenue

Domestic sales in Brazil grew 13% in 2013 to R$4,029 million, compared to R$3,561 million in 2012. This performance was due to the 7% growth in sales volume and the 5% increase in the average sales price, which are explained by: (i) the increased focus on the food service segment, which, even with the transfer of the Seara assets, continued to account for approximately 40% of domestic sales; and (ii) the improvement in the client mix in the retail channel, with a higher share of small and midsized businesses, with this positioning enabling us to mitigate the negative effects caused by the oversupply of beef in the channel that pressured prices, especially in the first half of the year.

Brazil Operation – Exports

13.8% of Consolidated Net Revenue

Exports from Brazil advanced 35% in 2013 to R$2,597 million, from R$1,930 million in 2012. The performance was due to the 25% growth in sales volume and the 8% increase in the average sales price, which were driven by: (i) the recovery in consumption in key markets in the Middle East, Europe and Asia; and (ii) the more competitive prices in Brazilian Real due to the 15.9% appreciation in the U.S. dollar against the Brazilian Real in the period.

International Operations – Argentina, Uruguay and Chile

10.8% of Consolidated Net Revenue

Revenue from the international operations decreased 5% in 2013 to R$2,031 million, compared to R$2,137 million in 2012. This performance was due to 14% decrease in sales volume, which was mitigated by the 11% increase in the average sales price practiced in the period. In view of the growing challenges and uncertainties in the Argentine market, the Corporation opted to reduce its exposure to the country and close temporarily two production units at the start of the year, which made a significant contribution to the reduction in sales volume compared to 2012. In Uruguay, after a challenging year, with pressure on cattle prices and reductions in supply, the scenario showed gradual signs of recovery over the year, accompanied by increases in the average export price.

:: MOY PARK ::

Domestic Market – United Kingdom

21.8% of Consolidated Net Revenue

Moy Park's revenue from domestic sales in the United Kingdom advanced by 18% in 2013 to R$4,089 million, compared to R$3,472 million in 2012. This performance was due to the 4% growth in sales volume and the 13% increase in the average sales price, which were driven by: (i) the growth in the agri-fresh segment due to the entry of new clients and the growth of the overall market; (ii) the continued strong growth in both the retail and food service channels; and (iii) the 15.2% appreciation in the pound sterling against the Brazilian Real, which had a positive impact on the currency translation of revenues.

Exports

3.4% of Consolidated Net Revenue

Moy Park's export revenues grew by 19% in 2013 to R$634 million, compared to R$534 million in 2012. This performance is explained the 3% growth in sales volume and the 16% increase in the average sales price, which were driven by the change in the export product mix, with an increased share of higher-value processed products and exchange variation in the period.

:: KEYSTONE FOODS ::

United States

21.7% of Consolidated Net Revenue

Keystone's revenues from its operations in the United States grew by 11% in 2013, to R$4,060 million, compared to R$3,650 million in 2012. This performance was due to the 6% reduction in sales volume, which was offset by the 18% increase in the average sales price practiced, which are explained by: (i) the change in the sales mix of the main client, with lower sales of beef-based products due to the discontinuation of the Angus line, with this reduction partially offset by the entry of new chicken-based products; (ii) the reduction in promotional activities at the main clients compared to 2012, which was partially offset by higher sales to new clients; and (iii) the depreciation in the Brazilian Real against the U.S. dollar, which had a positive impact on the currency translation of revenues and on the average price.

Asia and Middle East

7.0% of Consolidated Net Revenue

Revenue from Keystone's operations in Asia and the Middle East amounted to R$1,311 million in 2013. Due to the accounting adjustment implemented to comply with IFRS 11 – Joint Arrangements (CPC 19 – R2), the joint venture

established in China (Shandong Mckey Chinwhiz Foods Co. Ld.), which previously was accounted for based on proportionate consolidation, began, in 2013, to be accounted for using the equity method. Although this change is irrelevant at the consolidated level of the group, the comparisons of volumes and revenues in Keystone's operations in Asia and the Middle East suffered distortions and are not comparable with 2012.

From the operational standpoint, the reported cases of avian influenza affected the business in China by reducing sales volume in the country's domestic market as well as exports to Japan. On the other hand, this effect was partially offset by higher sales to Korea, Malaysia, Thailand, the Middle East and Singapore.

6.2. COST OF GOODS SOLD (COGS)

Cost of Goods Sold increased 16%, from R$14.15 billion in 2012 to R$16.44 billion in 2013, in line with the Corporation's organic growth (14% higher net revenue). The increase in COGS was also influenced by the 19% increase in expenses with raw materials (grains, livestock and other inputs), the increase of 11% in labor costs and of 5% in production costs (energy, packaging, indirect costs and other).

The Marfrig Beef business segment increased its share in COGS from 42% to 44% in 2013, while Moy Park remained stable at 26% and Keystone reduced its share from 32% to 30%. The higher shares in COGS of the Marfrig Beef operation is explained mostly by the increase in cattle costs in 2013, but also by increases in other cost lines. The item raw materials was the main component of COGS in 2013, accounting for 74% of the total, compared to 72% in 2012. Labor accounted for 13% of total COGS in 2013, compared to 14% in 2012, while the share of production costs decreased from 15% to 13% in the period, which is explained by improvements in production processes and the automation of lines.

COGS (R$ million)	2013	Share (%)	2012	Share (%)	Change (%)
Raw materials	12,104	74%	10,133	72%	+19%
Labor	2,192	13%	1,968	14%	+11%
Production costs	2,148	13%	2,053	15%	+5%
TOTAL	**16,443**	**100%**	**14,154**	**100%**	**+16%**
Marfrig Beef	*7,180*	*44%*	*5,969*	*42%*	*+20%*
Moy Park	*4,256*	*26%*	*3,657*	*26%*	*+16%*
Keystone Foods	*5,006*	*30%*	*4,528*	*32%*	*+11%*

::MARFRIG BEEF ::

The 20% increase in cost of goods sold compared to 2012 reflects: (i) the 14% growth in the segment's sales, especially at the Brazil operation, where production (beef cattle processing) grew by 7%; and (ii) the higher finished cattle prices, particularly in Brazil, which increased by 7% in relation to the average price in 2012. On the other hand, the closure temporarily of two production units in Argentina at the beginning of the year due to uncertainties regarding the country's political and economic scenario and the improvements made in the industrial facilities in Brazil, which supported higher capacity utilization rates at the plants in operation, helped attenuate the pressure on COGS.

:: MOY PARK ::

The 16% increase in cost of goods sold compared to 2012 reflects: (i) the organic growth of 18% in the segment's sales, supported by the expansion in retail and food service clients; and (ii) the gradually lower pressure on raw material costs due to the reduction in grain prices compared to the peaks in 2012.

:: KEYSTONE ::

The 11% increase in cost of goods sold compared to 2012 was virtually in line with the 10% growth in the segment's sales. The growth in COGS lagging the growth in revenue is due to the gains in operational efficiency in the United States.

6.3. GROSS INCOME AND GROSS MARGIN

In 2013, Gross Income amounted to R$2.31 billion, slightly lower from R$2.36 billion in 2012. The Marfrig Beef segment accounted for 64% of total gross income the period (70% in 2012), while Moy Park accounted for 20% (vs. 15% in 2012) and Keystone for 16% (vs. 15% in 2012).

Gross Margin contracted by 200 bps, from 14.3% in 2012 to 12.3% in 2013, explained by the decreases in gross margin of 460 bps in the Marfrig Beef segment and 50 bps in the Keystone segment, which were partially offset by the 120 bps gross margin expansion in the Moy Park segment.

:: MARFRIG BEEF ::

The decrease of 460 bps in the operation's gross margin was due to the increase in the volume of cattle slaughtered in the industry, especially in the first half of the year in both Brazil and Uruguay. The increase pressured prices for finished cattle, with producers retaining herds and reducing the supply of finished cattle,

which led to higher prices in relation to the prior year. The higher supply of beef in both the domestic and international markets made it more difficult to pass through the higher costs to retail prices, which weighed on profitability.

Starting in the second half of the year, with slaughter rates normalizing, given the more rational market in terms of cattle supply and demand, and the depreciation in the Brazilian Real against the U.S. dollar, which favored exports, profitability recovered gradually with gross margin reaching 18% in 4Q13 (compared to 15% in 2Q13).

:: MOY PARK ::

The 120 bps improvement in gross margin was due to sales growth driven by improvement in the product mix, the reduction in grain prices during 2013, the higher penetration in food service clients and the higher share in sales of more profitable sales channels. The reduction in soybean and wheat costs over the year also supported higher profitability.

:: KEYSTONE ::

The decline of 50 bps in the operation's gross margin is explained by the reduction in sales volume in the U.S. operation due to in particular the change in the mix and the lower number of promotions carried out by clients in 2013 than in previous years, as well as by the effects from the reports of avian influenza in the Asian operation, which increased the cost of boneless chicken breast (raw material) during the first half of 2013, and also impacted demand in premium markets, such as Japan. The gradual normalization of production levels as from the third quarter helped support a gradual recovery in gross margin, which exceeded 7% in 4Q13, compared to 6% in 2Q13.

6.4. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (SG&A)

In 2013, SG&A expenses amounted to R$1.37 billion, increasing 5% on the prior year and lagging the net revenue growth in the period of 13.5%, demonstrating our strong commitment to reduce SG&A expenses. The Marfrig Beef segment accounted for 59% of total SG&A expenses in the period (63% in 2012), while Moy Park accounted for 27% (vs. 22% in 2012) and Keystone for 14% (vs. 15% in 2012).

The higher selling, logistics and marketing expenses required to support the organic growth of the business were offset by higher sales and rigorous control of expenses, which led to a 60 bps reduction in SG&A expenses as a ratio of net revenue, from 7.9% in 2012 to 7.3% in 2013.

Selling expenses amounted to R$805 million and accounted for 4.3% of NOR, with this ratio remaining virtually stable in relation to 4.2% of NOR in 2012. General and administrative expenses came to R$563 million, accounting for 3.0% of NOR, or 70 bps lower than in 2012.

SG&A (R$ million)	2013	2012	Change (%)
Selling Expenses	**805.3**	**699.0**	**15.2%**
% of Net Revenue	*4.3%*	*4.2%*	*+10 bps*
General and Administrative Expenses	**563.5**	**606.2**	**-7.0%**
% of Net Revenue	*3.0%*	*3.7%*	*-70 bps*
TOTAL SG&A	**1,368.8**	**1,305.2**	**4.9%**
% of Net Revenue	*7.3%*	*7.9%*	*-60 bps*
Marfrig Beef (%)	*9.4%*	*10.8%*	*-140 bps*
Moy Park (%)	*7.8%*	*7.2%*	*+ 60 bps*
Keystone Foods (%)	*3.5%*	*3.9%*	*- 40 bps*

:: MARFRIG BEEF ::

The 140 bps decrease in SG&A expenses as a percentage of NOR is explained by the implementation of a program to rigorously control expenses, the optimization of the segment's organizational structure and the temporarily closure of units in Argentina.

:: MOY PARK ::

The 60 bps increase in SG&A expenses as a ratio of NOR was due to the higher expenses with payroll and logistics required to support the organic growth of the business, as well as the greater penetration in food service clients and the higher share of more profitable sales channels in both the domestic and export markets.

:: KEYSTONE ::

The reduction of 40 bps in SG&A expenses as a ratio of NOR in 2013 is due to the meticulous restructuring carried out in late 2012, which optimized the administrative structure through reviews and simplifications of processes, the results of which were captured over the course of 2013.

6.5. ADJUSTED EBITDA AND ADJUSTED EBITDA MARGIN

In 2013, Marfrig's consolidated Adjusted EBITDA (earnings before interest tax, depreciation and amortization) came to R$1,446 million, compared to R$1,505 million in 2012. Adjusted EBITDA margin stood at 7.7%, compared to 9.1% in 2012.

The Marfrig Beef segment accounted for 55% of period Adjusted EBITDA (64% in 2012), Keystone for 24% (20% in 2012) and Moy Park for 21% (16% in 2012).

ADJUSTED EBITDA RECONCILIATION (R$ million)	2013	2012	Change (%)
Adjusted EBITDA	**1,446.2**	**1,505.2**	**-4%**
(+) Other Operating Income/Expenses:	(65.0)	372.8	N/A
EBITDA	**1,381.2**	**1,878.0**	**-26%**
(+) Equity income	(9.1)	0	N/A
(+) Depreciation/amortization	(505.4)	(448.5)	13%
(+) Net financial charges	(1,441.1)	(1,068.4)	35%
(+) Net exchange variation	(589.9)	(349.9)	69%
(+) Non-controlling interest	(12.9)	(13.9)	-7%
(+) Provision for income and social contribution taxes	361.3	266.2	36%
Net Income	**(815.9)**	**263.5**	**N/A**

:: MARFRIG BEEF ::

The 340 bps decrease in Adjusted EBITDA margin was due to (i) the pressure on finished cattle prices, which surpassed the average price recorded in 2012 in both Brazil and Uruguay; (ii) the oversupply of beef in the domestic and international markets at the start of the year, which made it difficult to pass through cost increases to sales prices; and (iii) the temporarily closure of two production units in Argentina due to the political and economic uncertainties in that market, which led to lower sales volumes.

:: MOY PARK ::

The 60 bps improvement in Adjusted EBITDA margin was driven by higher sales and the higher dilution of fixed costs, the improvement in the product mix with increased penetration in food service clients and the higher share of sales from more profitable sales channels, as well as the reduction in soybean and wheat prices over the course of the year.

:: KEYSTONE ::

The improvement of 10 bps in Adjusted EBITDA margin at Keystone is due to the optimization of the administrative structure, which offset the lower sales volume in the United States and the impacts from avian influenza in Asia.

RECONCILIATION OF DISCONTINUED OPERATIONS (R$ million)	2013	2012
EBITDA from continuing and discontinued operations	**2,373.8**	**2,134.0**
(-) Effect from discontinued operations	992.6	256.0
EBITDA from continuing operations	**1,381.2**	**1,878.0**

6.6. NET FINANCIAL RESULT

In the year, the financial result excluding the effects from exchange variation was an expense of R$1.44 billion, increasing 35% from the R$1.07 billion expense recorded in 2012, due to the increase in interest expenses on borrowings, the higher net loss from derivative instruments and the higher financial discounts offered.

Exchange variation in the year, which has no cash impact, was a loss of R$590 million, compared to a loss of R$350 million in 2012, which is explained by the 15.9% appreciation in the U.S. dollar against the Brazilian Real in the period.

NET FINANCIAL RESULT (R$ million)	2013	2012	Change (%)
Financial Income	**365**	**340**	**8%**
Interest income	178	213	-16%
Financial income (loss) from derivatives	180	108	67%
Other	7	18	-61%
Financial Expenses	**(1,806)**	**(1,407)**	**28%**
Interest expenses / Debentures / Leasing	(1,272)	(1,166)	9%
Financial income (loss) from derivatives	(302)	(108)	180%
Bank fees, commissions, financial discounts and other	(232)	(133)	74%
Net Exchange Variation	**(590)**	**(350)**	**69%**
Net Financial Result	**(2,031)**	**(1,418)**	**43%**

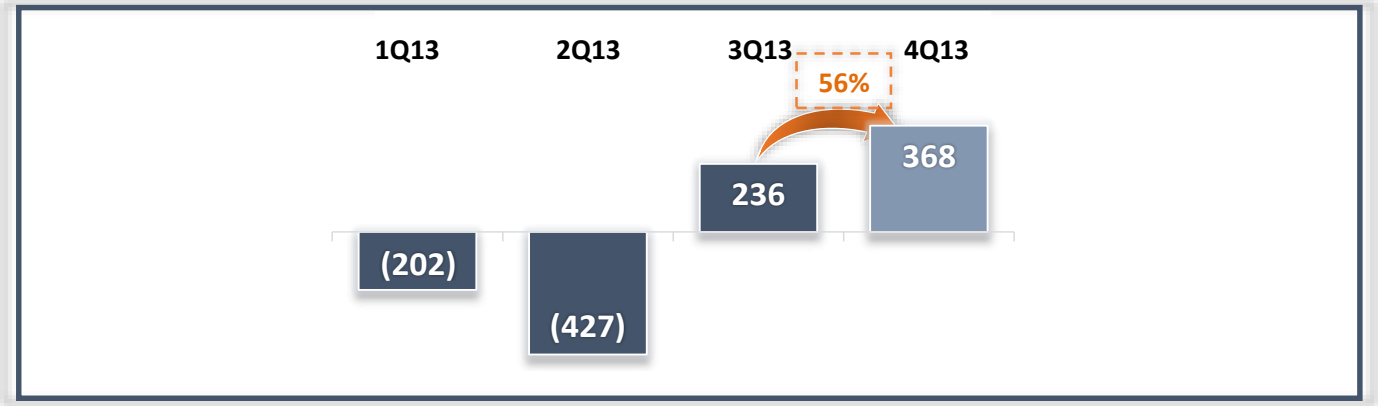
6.7. NET INCOME/LOSS

The Corporation posted a net loss for the year of R$816 million, compared to net income of R$264 million in 2012. The negative result in 2013 was due to: (i) the noncash exchange variation loss of approximately R$590.0 million resulting from the depreciation in the Brazilian Real against the U.S. dollar; and (ii) the nonrecurring loss from derivative operations, which, although transferred when the Seara and Zenda operations were divested, still impacted the result in 2013.

6.8. OPERATING CASH FLOW

Cash flow (before interest expenses and capital expenditure) improved gradually over the last few quarters to end 2013 at negative R$25 million. The improvement represents the sum of the joint efforts by all business units, with the highlight the Marfrig Beef segment, where the total focus on profitability and managing working capital led to significant improvement in the lines inventory, trade payables and receivables.

Operating Cash Flow (R$ million):



We continue to focus on delivering our guidance of free cash flow (after Capex and interest) of between R$0.0 and R$100 million in 2014.

6.9. INVESTMENTS

CAPEX (R$ million)	2013	2012	Change (%)
Fixed assets	650.6	603.5	8%
Breeding stock	151.1	142.7	6%
Intangible Assets	8.8	9.0	-2%
TOTAL	**810.6**	**754.9**	**7%**

Investments amounted to R$810.6 million in 2013, increasing 7% on the R$754.9 million invested in 2012.

In the year, investments in maintenance and expansion of production units came to R$650.6 million, while another R$151.5 million were invested in renewing breeding stocks.

6.10. CAPITAL STRUCTURE

Gross Debt:

The Corporation ended the year with consolidated gross debt of R$8.9 billion, compared to R$11.6 billion in December 2012. Considering the figures reported in 2012, which still included the discontinued operations of Seara and Zenda, gross debt decreased by over R$3.5 billion.

Of the total debt, 13% matures in the short term and 87% in the long term. Of the total debt, 4% is denominated in Brazilian Real and 96% in other currencies, while 21% of the Group's revenues are generated in Brazilian Real and 79% in other currencies.

At the end of 2013, the weighted average cost of our consolidated bank debt was 8.0%.

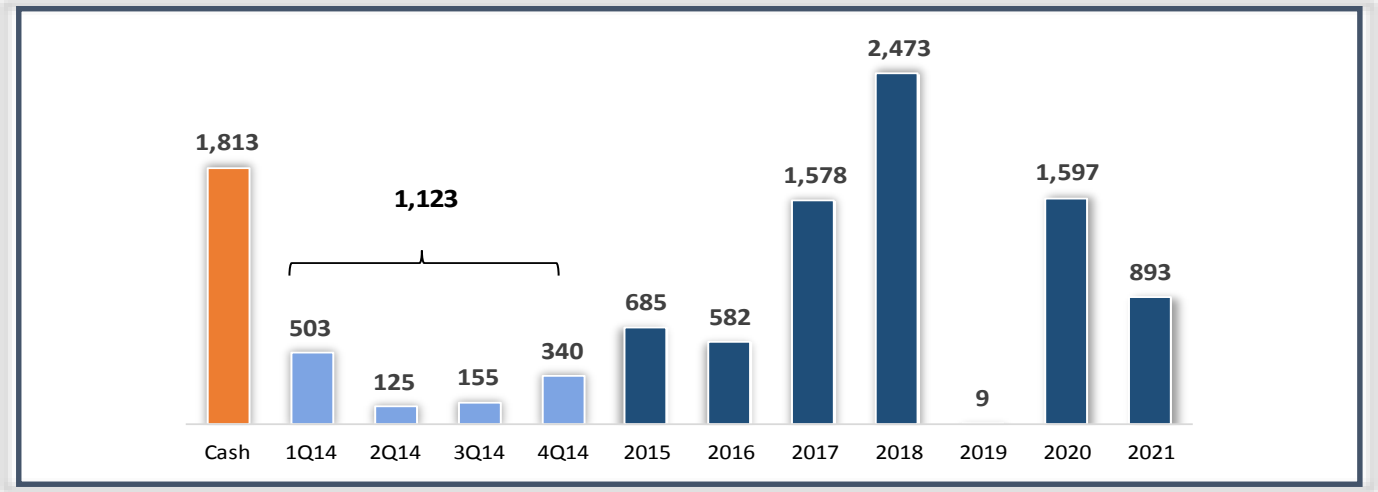
Net Debt and Leverage:

After the transfer of 100% of the debt involved in the Seara divestment, the leverage ratio (net debt/EBITDA) stood at 3.0x, compared to 4.3 at year-end 2012.

Debt:



Maturity Schedule:



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Tel: (55 11) 3792-8650/8600 www.marfrig.com.br/ir e-mail: ir@marfrig.com.br

Indicators:

	2013
Net Debt/EBITDA LTM	3.00
Net Debt/Adjusted EBITDA 4Q13 - Annualized	4.22
Gross Debt/EBITDA LTM	3.77
Cash and Equiv./Short-Term Debt	1.61
Net Debt/Total Assets	0.4 x
Current Liquidity	2.0

	2013
Duration (months)	54
Avg. Cost (p.a.)	8.0%
Short-Term Debt (%)	12.6%
Long-Term Debt (%)	87.4%
Debt in R$ (%)	4.5%
Debt in other Currencies (%)	95.5%

Credit Risk Rating – Global Scale

The three credit risk rating agencies (Moody's B2, Fitch B, S&P B) have now assigned either stable or positive outlooks to their respective international ratings for the Corporation.

7. Guidance

In October 2013, Marfrig announced to the market its projected consolidated results for 2013 (guidance), as well as its expectations for performance by business unit. All of the results delivered, both on a consolidated basis and by business unit, were in line with the estimates announced in October.

2013 Guidance – Consolidated and By Business Unit

Consolidated

	GUIDANCE 2013	FY 2013	% Achieved GUIDANCE
Revenue (R$ million)	18,500	18,752	101.4%
EBITDA Margin(1) (%)	7.5	7.7	102.7%

		GUIDANCE 2013	FY 2013	% Achieved GUIDANCE
Moy Park	Revenue Growth (%)	15.0	17.9	119.3%
	EBITDA Margin(1) (%)	6.2	6.5	104.8%
Keystone	Revenue Growth (%)	10.0	10.0	100%
	EBITDA Margin(1) (%)	6.3	6.4	101.6%
Marfrig Beef	Revenue Growth (%)	12.0	13.5	112.5%
	EBITDA Margin(1) (%)	8.9	9.2	103.4%

Note: (1) Excludes gains from divestments (Seara and Zenda) and non-recurring items.

8. Corporate Governance

Overview

The Marfrig Group is led by a seasoned management team committed to the highest standards of corporate governance. The Group conducts its business based on transparency in the reporting of information to its various stakeholders (shareholders, investors, clients, consumers, suppliers, employees and society) and adopts corporate governance practices that exceed legal recommendations and compliance.

As a public corporation, Marfrig complies with the rules of the Securities and Exchange Commission of Brazil (CVM) and with the regulations of the Novo Mercado, a listing segment on the Brazilian Stock Exchange (BM&FBovespa) formed by companies with differentiated corporate governance practices, as well as with the recommendations of the Brazilian Code of Corporate Governance Best Practices issued by the Brazilian Corporate Governance Institute (IBGC).

Marfrig's activities are guided by ethical commitments, its Mission, Vision and Values and its Code of Ethics, which are widely disseminated among all of its stakeholders. Marfrig has adapted its bylaws to the new provisions of the Novo Mercado Regulations and is always improving its management practices.

In November 2012, the Corporation announced to the market the hiring of Sérgio Rial to participate in a gradual transition process that would culminate in his appointment as chief executive officer of the Group. As expected, in early 2014, Management elected Sérgio Rial to the position of CEO of the Corporation, which represents yet another step toward strengthening the Corporation’s management and governance and complying with the rules of Novo Mercado regarding the separation of the positions of Chairman of the Board and CEO.

Board of Directors

The Board of Directors is the collegial decision-making body responsible for formulating and monitoring the implementation of the general business policies by designating and supervising the management activities of the executive officers and by hiring the independent auditors.

At the end of 2013, the board was composed of nine members, of whom 33% are independent members.

Composition of the Board of Directors on December 31, 2013:

Name	Title	End of Term
Marcos Antonio Molina dos Santos	Chairman of the Board	ASM of 2015
Alain Emilie Henry Martinet	Board Member	ASM of 2015
Antonio Maciel Neto	Independent Board Member	ASM of 2015
Carlos Geraldo Langoni	Independent Board Member	ASM of 2015
David G. McDonald	Board Member	ASM of 2015
Marcelo Maia de Azevedo Correa	Independent Board Member	ASM of 2015
Marcia A. P. Marçal dos Santos	Board Member	ASM of 2015
Rodrigo Marçal Filho	Board Member	ASM of 2015
Sergio Agapito Lires Rial[1]	Board Member	ASM of 2015

Note (1): On January 23, 2014, Sergio Agapito Lires Rial was elected Chief Executive Officer of the Corporation (a position established by the bylaws), for which he resigned as director.

Permanent Fiscal Council

The Fiscal Council is a permanent and independent management and external-audit body of the Corporation that is formed by a maximum of three and a minimum of five members and an equal number of alternates. It is responsible for supervising the actions of the management and for analyzing the financial statements, reporting its findings to the shareholders.

Composition of the Audit Board on December 31, 2013:

Name	Title	End of Term
Walfrido Marinho	Member	GSM of 2014
Roberto Lamb	Member	GSM of 2014
Axel Erhard Brod	Member	GSM of 2014
Carlos Roberto de Albuquerque Sá	Alternate Member	GSM of 2014
Marcello Froldi Negro	Alternate Member	GSM of 2014
Marcílio José da Silva	Alternate Member	GSM of 2014

Committees Supporting the Board of Directors

The Group's corporate governance structure includes specific committees created to advise the Board of Directors, which may be formed by directors or executives of the Corporation.

On December 31, 2013, the Corporation had three advisory committees, all of which are chaired by independent directors:

Audit Committee: Supports the execution of the internal and external audit processes and matters involving the accounting and disclosure of financial Information, and also assesses the effectiveness of the internal financial and legal compliance controls.

Financial Committee: responsible for periodically examining the investment and borrowing plans and their impacts on the capital structure of the Corporation and for monitoring the maintenance of the predetermined liquidity and capital structures. This Committee is also responsible for analyzing and approving transactions.

Compensation, Human Resources and Corporate Governance Committee: supports the decision-making process related to the strategies, policies and internal rules involving human resources, including determining the compensation and benefits offered to the managers, employees and outsourced service providers. It also supports the execution of processes and the control and development of corporate governance practices.

9. Business Management

Management Systems and Policies

Given the diverse regional, cultural and portfolio characteristics of the activities of the Marfrig Group, each division has a customized management model to take maximum advantage of the experience and knowledge of each of the businesses for the development of management systems and practices that meet the various needs of their clients and markets.

Marfrig encourages its employees to observe and include the pursuit of sustainability in all of their day-to-day activities. The Group believes that engagement in industry initiatives and intensifying its dialogue with stakeholders serve as the foundation for sustainable value creation over the long term and for supporting the Corporation's objective of becoming a global food company.

The management policies presented below seek to consolidate a unified corporate culture and to guide our conduct to ensure that sustainable development permeates all of the Marfrig Group's routines and strategies.

:: Code of Ethics ::

To strengthen its internal and external relationships, Marfrig instructs all its employees, regardless of the hierarchical level, to adopt high levels of professionalism in their conduct. The conduct of the Group's employees is governed by the Code of Ethics, a document that guides the paths, attitudes and commitment of all those involved with the Corporation in order to uphold its reputation and integrity as it carries out its business activities and processes throughout the entire chain.

Marfrig's stakeholders have easy access to the code and its application is everyone's responsibility. The Corporation also holds regular training and orientation initiatives on its use.

The full version of the code is available on the Corporation's Investor Relations website: www.marfrig.com.br/ir

:: Securities Trading Policy ::

This policy establishes the rules and procedures to be adopted by the Corporation and related persons regarding trading in the securities issued by the Group, assuring for all stakeholders ethical conduct by those with access to material information. The policy also seeks to prevent and punish the improper use of privileged information by those with access to it, which ensures equal conditions for all shareholders in the taking of decisions.

The full version of the policy is available on the Corporation's Investor Relations website: www.marfrig.com.br/ir

:: Dividend Policy ::

In accordance with Brazilian Corporation Law and Marfrig's bylaws, an Annual Shareholders' Meeting must be held within the first four months of each year to decide on the distribution of annual dividends. All shareholders are entitled to receive a minimum dividend corresponding to 25% of adjusted net income calculated based on the unconsolidated financial statements.

:: Disclosure Policy ::

Establishes practices for the disclosure and use of information to be adopted by the controlling shareholder, directors, executive officers, audit board members and any other persons that may have access to information concerning a material fact or event of the Corporation. The respective executive officer is responsible for disclosing the information in the high-circulation newspapers used by the Corporation and for making it immediately available to the Securities and Exchange Commission of Brazil (CVM) and the Brazilian Stock Exchange (BM&FBovespa) and on the Corporation's Investor Relations website (www.marfrig.com.br/ir), as well as for any other procedures that ensure broad access by the public to this information.

:: Climate Change and Natural Resources Policy ::

The main objective of this policy is to move Marfrig's industrial, commercial and service activities toward a low-carbon economy. To achieve this, it promotes a culture of sustainable development in all of the Group's units, which includes adopting practices that foster the rational use of natural resources and using instruments to assess the risks and opportunities associated with the adoption of these practices.

:: Global Policy on Occupational Safety and Health ::

This policy determines the fundamental commitments of the Corporation to be observed in its day-to-day operations to ensure a safe work environment that complies with the legislation and technical standards in force. The policy establishes the monitoring of performance indicators involving Occupational Safety and Health, the continuous assessment and identification of risks, the availability of the resources needed to ensure a safe work environment and the training and engagement of its employees, suppliers, partners and outsourced service providers in the Group's safety programs.

Management of Product Quality and Safety

Marfrig invests in forging solid and close relationships with the suppliers and partner producers in its business chain to ensure the safety and quality of its products. As part of this effort, it adopts initiatives such as implementing programs to develop these stakeholders, which is a pillar of fundamental importance to building healthy relationships that are based on ethics and on creating for all parties involved.

Management of Intangible Assets

The Corporation considers the intangible assets that it has built over the years to be essential for supporting sustainable value creation over long term, which is why it prudently manages the following aspects that it has identified as its main assets:

- Brands;
- Human Resources;
- Experience and knowing its clients;
- Research and development; and
- Management focused on sustainability.

Risk Management

The Marfrig Group identifies, monitors and develops strategies to mitigate the risks to which it is exposed in order to minimize their potential effects on the Corporation. Geographic diversification and meticulous analysis of credit and climate change are examples of the items included in its strategic planning used to mitigate potential negative scenarios and to ensure the sustainability of the Corporation's business.

To learn more about the complete risk matrix, please see the Reference Form of the Corporation available on its website at www.marfrig.com.br/iR.

10. Capital Markets

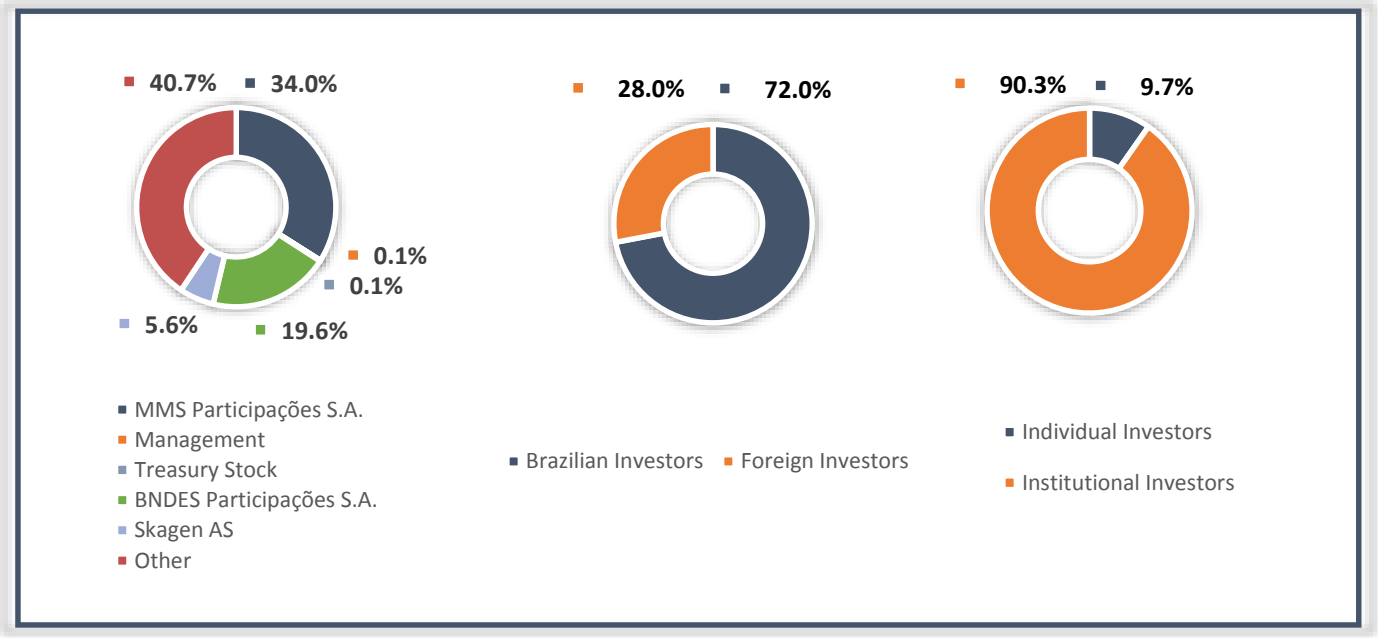
Stock Performance

Marfrig stock is traded under the symbol MRFG3 on the Novo Mercado special corporate governance segment of the Brazilian Stock Exchange (BM&FBovespa) and is a component of the following stock indexes: Broad Brazil Index (IBRA); Brazil Index (IBrX); Consumption Sector Index (ICON); Corporate Governance Trade Index (IGCT); Special Corporate Governance Stock Index (IGCX); Novo Mercado Corporate Governance Index (IGNM); Industrial Sector Index (INDX); Special Tag-Along Stock Index (ITAG); BM&FBovespa Value Index (IVBX); Small Cap Index (SMLL).

Marfrig stock ended the year quoted at R$4.00, which represented market capitalization of R$2.1 billion at the end of 2013. Liquidity improved in the period, with the average number of trades per day increasing from 4,600 in 2012 to 6,500 in 2013. Average daily trading volume also increased in the year, from 2.7 million shares to 3.5 million shares per day.

Capital and Ownership Structure

At the end of 2013, Marfrig's subscribed and paid-in capital amounted to R$5.27 billion represented by 520,747,405 common shares. The shareholder base was formed by 7,179 shareholders.



11. Social and Environmental Performance

Sustainability is one of the pillars of the corporate strategy of the Marfrig Global Foods and permeates all of its activities and divisions. The Corporation is committed to always balancing the economic, social and environmental aspects of its business in order to contribute to the development of society and help preserve the planet.

Marfrig is a reference in sustainability in its industry and market segments. Always respecting local cultural aspects and business practices, it adopts a strategy of continuous improvement and technological innovation combined with high levels of transparency and robust corporate governance practices.

The Corporation's sustainability strategy is based on six dimensions:

- **Social:** conducting actions that benefit the communities surrounding the Corporation's facilities, encouraging diversity throughout the organization and promoting a healthy and safe workplace.
- **Supply Chain:** fostering sustainable cattle raising practices, maintaining healthy relationships with suppliers and ensuring the welfare of the animals.
- **Environmental:** managing the use of natural resources, the energy matrix and the disposal of waste, while protecting biodiversity and minimizing the impacts of its activities that contribute to climate change.
- **Technology:** investing in research and development, innovation and new engineering processes, while contributing to the industry's development.
- **Economic:** manage risks, opportunities and costs with a long-term vision.
- **Product:** developing quality products that guarantee high nutritional value and food safety.

These six dimensions encompass the Company's stakeholders (i.e., suppliers, partners, clients, employees, shareholders and society) and were created to enable the capture of synergies among them, create value and ensure the best results for the Group.

To measure its environmental footprint, the Corporation has conducted a Global Inventory of Greenhouse Gas Emissions (GHG) since 2010. The global inventory includes emissions up to scope 3, which includes emission sources not directly controlled by the Corporation. For the second consecutive year, Marfrig was awarded the Gold Seal of the Brazil GHG Protocol Program for its Greenhouse Gas Emissions Report for 2012. The recognition is conferred to companies that not only accounted all emissions in their inventories, but also submitted the inventory to external verification. All of the Corporation's units have adopted the use of bio-digesters, wastewater treatment and solid waste recycling, which reduces the amount of waste disposed of in landfills.

Promoting sustainable activities and engaging the entire supply chain is essential to the success of our strategy. These efforts led Marfrig to be ranked an Industry Leader in Packaged Food and Meat Products for its commitment to best practices in managing environmental risks in the 2012 Annual Report of the Forest Footprint Disclosure (FFD), which is considered the most complete global study of the impacts of production activities on tropical forests.

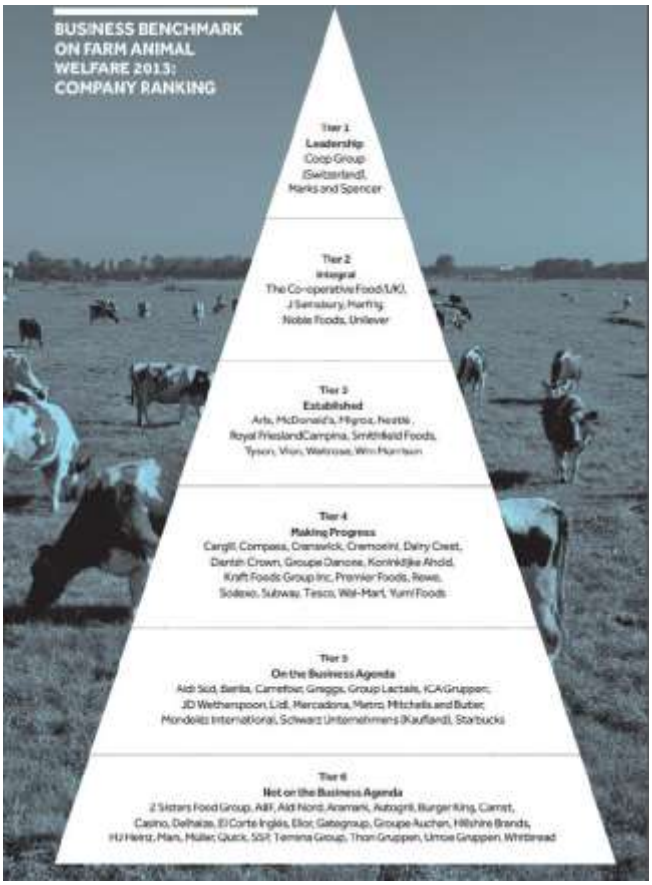
The company's efforts also include promoting sustainable agricultural and cattle raising practices. Through programs like the Marfrig Club, the Company acknowledges and awards conscientious producers, orienting them

on how to achieve the most modern property certifications for food production and also awarding animals from farms with good agricultural and management practices. Through a professional relationship with suppliers, Marfrig is able to track animal origins, which guarantees, for example, that there are no further deforestations and invasions of indigenous land in its supply chain.

As result of such efforts, in June 2012, Marfrig Beef became the world's first food company in the animal protein industry to track its complete beef production cycle in accordance with the standards developed by the Agriculture and Forest Management and Certification Institute (Imaflora), which entitled the Company to use the Rainforest Alliance seal. This seal authorizes four units of Marfrig Beef (Tangará da Serra in Mato Gross; Pampeano - Hulha Negra in Rio Grande do Sul; and Promissão I and II in São Paulo) to produce and sell products with the "green cattle farm seal" in the international market.

The Company also entered into, in 2013, a partnership with The Nature Conservancy (TNC), one of the world's largest environmental organizations, and Walmart, the world's leading retailer, to foster sustainable cattle production in the southeastern region of the state of Pará, which will help preserve the Amazon biome and promote the adoption of good social and environmental practices.

Marfrig Global Foods is one of the world's best companies in animal welfare practices, according to "The Business Benchmark on Farm Animal Welfare" (BBFAW), an important report of global scope on the topic that is prepared by the World Society for the Protection of Animals (WSPA) and by Compassion in World Farming. In 2013, for the second consecutive year, Marfrig was the only Brazilian company cited in the report and reached the status of "Integral."



In December 2013, Marfrig, in partnership with Greenpeace, signed a Technical Reference Agreement (TdR) to improve the audit processes for assessing the public commitments undertaken to purchase environmentally responsible cattle originating from the Amazon biome. The first audit under the TdR model will be published by March 2014.

In June 2013, Marfrig Global Foods became the first producer of foods based on animal proteins to sign an individual commitment with the São Paulo State Environmental Department to create a reverse logistics system for recycling and to properly dispose of the packaging of products sold in the state. Under the commitment, the company will implement recycling projects in cities in São Paulo where it has industrial operations and that do not yet have recycling programs, where it will provide training to cooperatives of recyclable-material collectors and work in partnership with municipal governments.

To foster opportunities for educational development and recreation for children, adolescents and the elderly in communities in situations of social and economic vulnerability in the cities where its industrial facilities are located, the Corporation created the "Fazer e Ser Feliz" program of the Marfrig Institute. The program currently offers afterschool activities involving education, sports, culture, health and nutrition, which benefit some 100 children at its units located in the cities of Promissão, São Paulo and Bataguassú, Mato Grosso.

For more information on the Marfrig Group's sustainability strategy and results, please go to www.marfrig.com.br/sustentabilidade.

12. People Management

The performance of the Marfrig Group's businesses is the product of the efforts of its 45,771 employees around the world. The Corporation provides guidelines to help its professionals advance their careers, including at the international level, in the various different business units and departments. These guidelines involve attracting, retaining and developing talent, as well as promoting diversity in an environment in which people feel that their ideas and contributions are respected.

Employees by Business Unit:

	2013	2012	Change %
Holding	95	112	-15%
Marfrig Beef	21,850	24,594	-11%
Moy Park	12,136	8,866	37%
Keystone	11,690	11,724	0%
Total	**45,771**	**45,296**	**1%**

Net revenue per employee/year	**R$ 410,000**	**R$ 365,000**	**12%**

Human Resources

The Human Resources department works to strengthen the commitment of making Marfrig a company that inspires a sense of pride in its professionals. To achieve this, it engages its leaders through projects and initiatives to develop its employees that promote greater fulfillment at work, greater engagement in delivering the organization's results, targets and guidelines and building a healthy work climate based on respect and guided by continuous improvement in management-employee relations.

Careers and Managing Professional Performance

The Performance Management Plan (Nine Box) was created to align the global strategies of the business with individual goals. It was applied over the course of 2013 and has become more dynamic with a greater emphasis placed on communication between employees and managers.

The Marfrig Group provides its employees with formal mechanisms to encourage and support career advancement within the Corporation. The Corporation's management is based on the Marfrig Group Leadership Model, which presents the competencies and values required by employees to exercise leadership in their various functions, with the support of their managers.

Compensation

The Marfrig Group seeks to attract, motivate, reward and retain employees that contribute to the Corporation's success, with this process conducted in partnership with their managers with the aim of guiding careers through compensation policies. These policies are aligned with the Corporation's objectives and strategies and guided by industry best practices and trends. This results in a package that includes, in addition to the monthly salary, variable compensation programs, long-term incentives and a competitive benefit package.

To map these practices and trends, the Marfrig Group regularly conducts market surveys in the regions where it operates. The Corporation is also concerned with monitoring annual market growth through economic indicators and consulting firms specializing in the field. The variable compensation programs aim to reward employees for the excellent results achieved in the year.

Profit Sharing Program (Local and Corporate): includes all employees, except managers and the sales team. The targets are defined at the start of the fiscal year and monitored over the course of the period.

Management Incentive Plan (Leadership Bonus): aimed at employees at the managerial level, which, like the Local and Corporate Profit Sharing Program, also has targets set at the start of each fiscal year. In this program, individual performance can increase the amount received as bonus.

Variable Compensation Program for the Sales Team: monthly or quarterly programs with targets established in accordance with the commercial strategy of each business.

Long-Term Incentives: for senior management and executive officers, the Marfrig Group offers long-term incentives based on individual performance.

In addition to fixed and variable compensation, the Corporation also offers its employees a benefit package that is competitive with market practices, which includes health and dental plans, life insurance, school materials for dependents, transportation, a credit cooperative and private pension plans. The packages also include programs for retirees, which are formed by an assistance plan and a post-career program to better prepare them for this new stage in their life.

Occupational Health and Safety

The Marfrig Group conducts its business activities in a way that prioritizes the health and safety of its employees, outsourced workers and visitors to its facilities. Beyond complying with all laws and regulations involving worker well-being, it has established internal health and safety rules for each job category. Training, adequate facilities

and resources for executing tasks with safety are an integral part of all of the company's routines. The Corporation also carries out safety initiatives that are aligned with its strategic guidelines, which seek to reestablish the control of illnesses, stabilize the evolution of clinical symptoms and ensure the existence of a physician for routine care.

We involve and engage all or our employees, service providers, suppliers and partners in the group safety programs to ensure that each Marfrig Group employee or partner assumes personal responsibility for Safety and Health, with this effort supported by training, information and instruction.

The Corporation's safety communication is conducted through regular video conferences and audio conferences with the technical team at set intervals (weekly, monthly and bimonthly), in which managers and senior executives are involved in order to define strategies. To support the decision-making process involving Occupational Health and Safety in all of the Group's businesses, measurements are taken using key performance indicators (Occupational Safety Index and Occupational Health Index) to support planning, initiatives, programs and activities. Our results in Occupational Health and Safety are measured periodically, with priority given to proactive indicators and to making available adequate resources and infrastructure, which is essential to ensuring a safe workplace and for implementing workplace accident prevention initiatives.

Through the use of monthly indicators, we incorporated a culture based on analysis of the risks involved in tasks and operations and adequately investigating and recording all incidents. The initiatives in this area include: regular training for employees and service providers on relevant topics in Occupational Health and Safety practiced throughout the organization; analyzing job categories; identifying ergonomic and occupational health risks; incorporating tools and actions that mitigate the risk of workplace injuries and improve the well-being of employees and partners; promoting open and constructive relationships with employees and partners, regulatory agencies, industry associations, clients, suppliers and the Group's other stakeholders; and conducting internal and external audits to ensure the continuity of the processes implemented and ensuring OHSAS 18001 certification of all industrial facilities of the Marfrig Group.

To protect worker health through preventative measures, we conduct annual flu vaccine campaigns, lectures on preventing illnesses for employees and their family members and other events addressing the topic.

SESMT Corporativo is responsible for formulating and reviewing the Marfrig Group's Health and Safety Policy and for determining the corporate guidelines in this area to ensure effective implementation of Occupational Health and Safety programs.

The objective of these programs is to ensure compliance with all applicable laws and rules, effectively manage risks and promote and maintain a safe and healthy working environment for all employees and service providers.

13. Submission to the Market Arbitration Chamber

The Corporation and its officers and directors have committed to resolve through arbitration any dispute or controversy arising between them that relates to or originates from, in particular, the application, validity, effectiveness, interpretation, breach and the effects thereof of the provisions in the agreement to adopt Novo Mercado requirements, in the Novo Mercado Listing Regulations, in the Bylaws, in Brazilian Corporation Law, in

the regulations issued by the National Monetary Council, by the Central Bank of Brazil or by the Securities and Exchange Commission of Brazil (CVM), in the regulations of the Brazilian Stock Exchange (BM&FBOVESPA), in the other rules applicable to the functioning of the capital markets in general, in the Arbitration Commitment and in the Arbitration Regulations of the Market Arbitration Chamber, with said arbitration conducted in compliance with these latter Regulations.

14. Relationship with the Independent Auditors

Pursuant to CVM Instruction 381/2003, which refers to the rendering of services by our independent auditors – BDO RCS Auditores Independentes SS – we hereby declare that fees related to services other than those associated with the independent audit represented less than 9% of the total fees paid to the group of auditors by Marfrig Global Foods S.A. and its subsidiaries.

15. Subsequent Events

Marfrig renegotiated the 2nd Issue of Convertible Debentures by carrying out the 5th Issue of Convertible Debentures in the same amount of R$2,150,000,000.00 due on Jan. 25, 2017, as per the Material Fact notice of Jan. 3, 2014.

16. Directors Statement

Chief Executive Officer Statement

I, Sergio Agapito Lires Rial, hereby declare that: 1 - Based on my knowledge, the planning presented by the auditors and the subsequent discussions on the auditing results, I have revised and agree, with no restrictions, with the opinions expressed in the report prepared by BDO RCS Auditores Independentes. 2 – I have reviewed this report of the Financial Statements of Marfrig Global Foods S.A. for the fiscal year ended December 31, 2013, and based on subsequent discussions, I agree that these Statements adequately reflect all material aspects and the financial position for the periods presented.

São Paulo, March 9, 2014.

Sergio Agapito Lires Rial

Chief Financial and Investor Relations Officer Statement

I, Ricardo Florence do Santos, hereby declare: 1 - Based on my knowledge, the planning presented by the auditors and the subsequent discussions on the auditing results, I have revised and agree, with no restrictions, with the opinions expressed in the report prepared by BDO RCS Auditores Independentes. 2 – I have reviewed this report of the Financial Statements of Marfrig Global Foods S.A. for the fiscal year ended December 31, 2013, and based on subsequent discussions, I agree that these Statements adequately reflect all material aspects and the financial position for the periods presented.

São Paulo, March 9, 2014.

Ricardo Florence dos Santos

Chief Counsel Statement

I, Heraldo Geres, hereby declare that: 1 - Based on my knowledge, the planning presented by the auditors and the subsequent discussions on the auditing results, I have revised and agree, with no restrictions, with the opinions expressed in the report prepared by BDO RCS Auditores Independentes. 2 – I have reviewed this report of the Financial Statements of Marfrig Global Foods S.A. for the fiscal year ended December 31, 2013, and based on subsequent discussions, I agree that these Statements adequately reflect all material aspects and the financial position for the periods presented.

São Paulo, March 9, 2014.

Heraldo Geres

Executive Officer with No Specific Designation Statement

I, Tang David, hereby declare that: 1 - Based on my knowledge, the planning presented by the auditors and the subsequent discussions on the auditing results, I have revised and agree, with no restrictions, with the opinions expressed in the report prepared by BDO RCS Auditores Independentes. 2 – I have reviewed this report of the Financial Statements of Marfrig Global Foods S.A. for the fiscal year ended December 31, 2013, and based on subsequent discussions, I agree that these Statements adequately reflect all material aspects and the financial position for the periods presented.

São Paulo, March 9, 2014.

Tang David

Executive Officer with No Specific Designation Statement

I, Rodrigo Marçal Filho, hereby declare that: 1 - Based on my knowledge, the planning presented by the auditors and the subsequent discussions on the auditing results, I have revised and agree, with no restrictions, with the opinions expressed in the report prepared by BDO RCS Auditores Independentes. 2 – I have reviewed this report of the Financial Statements of Marfrig Global Foods S.A. for the fiscal year ended December 31, 2013, and based on subsequent discussions, I agree that these Statements adequately reflect all material aspects and the financial position for the periods presented.

São Paulo, March 9, 2014.

Rodrigo Marçal Filho