



MANAGEMENT REPORT – 2016

Dear shareholders,

In compliance with legislation, Fertilizantes Heringer S.A. presents its Management Report and Financial Statements for the period ended December 31, 2016, accompanied by the report from the Independent auditors and the corresponding explanatory notes.

The ongoing economic and political crisis made 2016 a difficult year for Brazil. GDP fell for the second consecutive year, the country's unemployment rate reached approximately 12.0% and federal public debt rose 11.4%, reaching R\$3.11 trillion. In 2017, the country's GDP is expected to grow 0.5% compared to the previous year, and the agribusiness sector will be important for Brazilian economic recovery due to the record grain harvest also expected for the year.

Brazil's grain crop reached 186 million metric tons in 2016, down from the 209 million metric tons in 2015 due to the weather impact in some of the country's producing regions, but despite this, it recorded an agribusiness trade surplus of USD70 billion. Almost half of Brazil's exports in 2016 were from agribusiness, such as soy, meat, coffee, sugar, among others.

In 2016, fertilizer deliveries in Brazil totaled 34.1 million metric tons, an increase of 12.9% in relation to 2015, which recorded 30.2 million metric tons, a new record. The good barter ratio between agricultural products vs. fertilizers was the main factor responsible for the consumption increase combined with the favorable climate expectation. Also due to the increased fertilizer consumption in 2016, the Brazilian grain production is expected to rise to 219 million metric tons in 2017, a record figure.

With solutions to many different crops in virtually all producing regions in Brazil, Heringer recorded net revenue of R\$5.2 billion in 2016, delivering 4.3 million metric tons of fertilizers to approximately 40 thousand clients. EBITDA came to R\$250 million and net income was R\$43.2 million in 2016. In addition to providing clients with quality products, the Company develops its activities with a view to disseminating the best fertilization practices, based on environmental protection, and enabling farmers to expand production and increase profitability.

Heringer's specialty products have agronomic characteristics superior to market standards, which, combined with customized client services, has increased the Company's share in the Brazilian fertilizer market and boosted its competitiveness, thanks to their higher value added.

FERTILIZANTES



HERINGER



Heringer's focus has been on increasing sales of specialty products (Linha Solo, Linha Fertirrigação and Linha Foliar), which reached a share of 49% of the Company's total deliveries in 2016 with a volume of 2.1 million metric tons, a growth of 11.4% over 2015, a new record. In 2016, Heringer published its fifth Sustainability Report, an opportunity to reinforce the Company's engagement in all sustainability issues and to disclose its indicators, goals and social, economic and environmental accomplishments.

Heringer estimates that the Brazilian market will record 35 million metric tons in 2017, an increase of nearly 3.0% against 2016 due to the good barter ratios (agricultural products vs. fertilizers).



COMPANY PROFILE AND STRUCTURE

Headquartered in the city of Viana, Espírito Santo State, Fertilizantes Heringer S.A. is a pioneer in producing, marketing and distributing fertilizers and has 48 years of experience in this industry.

Heringer has recorded strong growth throughout its history, thanks to investments in new production units, quality and special products, customized client service, an extensive marketing and distribution network, secure and stable access to raw materials, agile decision-making and opportune and strategic positioning in major regional markets.

The Company's operations comprises 19 mixing units in Brazil's main consuming regions, in addition to a unit that produces sulfuric acid and single super phosphate (SSP).

It has great capacity to develop new special fertilizers thanks to its technical staff and also runs two research centers; as a result, it can cater to different agribusiness segments.

Taking an important step in its expansion and modernization, Heringer went public and was listed on the Novo Mercado Special Corporate Governance segment of the São Paulo Stock Exchange (BM&FBovespa) under ticker symbol FHER3 in April 2007.

- 19 mixing units
- 1 SSP and sulfuric acid unit
- Installed capacity: 6.5 million metric tons/year





OUTLOOK

CONAB expects Brazilian grain production to amount to 219 million metric tons in the 2016/17 harvest in Brazil, thus rising by 17.6%, or 32.8 million metric tons, from the 2015/16 harvest.

Also according to CONAB, soybean will – once more – be the main crop in terms of grain production, with a projected total of 105.5 million metric tons, 10.6% up on the 2015/16 crop season. Corn may reach 87.3 million metric tons in the 2016/2017 harvest (58.5 million metric tons of second-crop corn and 28.8 million metric tons of summer-crop corn). Planted area is expected to grow by 2.1% over the prior crop year, reaching 59.5 million hectares.

For sugarcane, CONAB projects a harvest of 694 million metric tons, 4.4% up on 2015/16.

Since coffee producers had higher earnings in the previous harvest year, there was a rise in investments in coffee crops; however, drought and high temperatures in Brazil's main producing regions led to a drop in production in the 2015/2016 crop season. As a result, coffee prices have remained firm in the market.

The challenges for Brazil's agribusiness will probably continue to be the high transportation costs for the agricultural production as well as adequate financing to agricultural producers at competitive costs to support agricultural production growth.

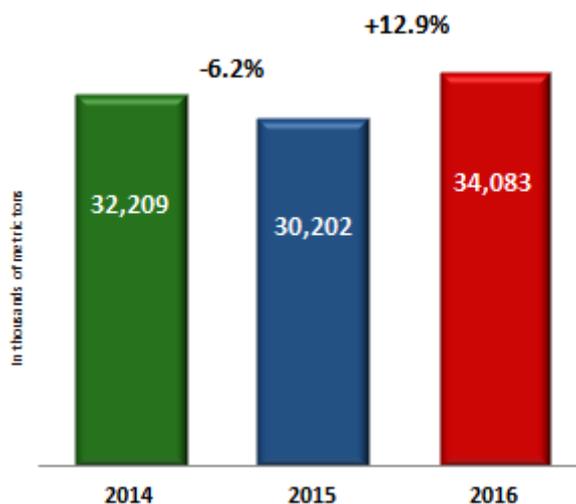
As in 2016, fertilizer imports should remain at 70% of fertilizers consumed in Brazil in 2017, since domestic production has fallen short to meet market demand.

In 2017, fertilizer deliveries in Brazil are expected to reach 35.0 million metric tons, about 3.0% higher than in 2016 and a new record.



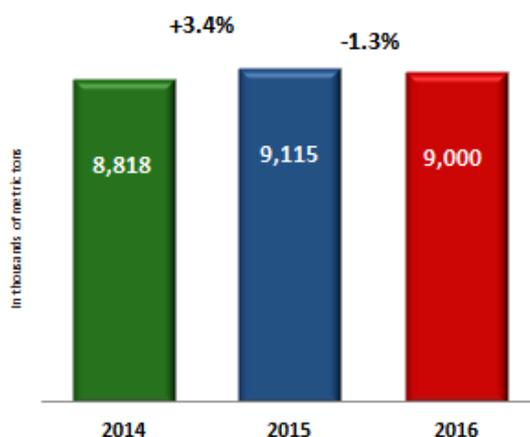
BRAZILIAN MARKET

In 2016, the Brazilian fertilizer market grew by 12.9% over 2015, with deliveries totaling 34,083 thousand metric tons.



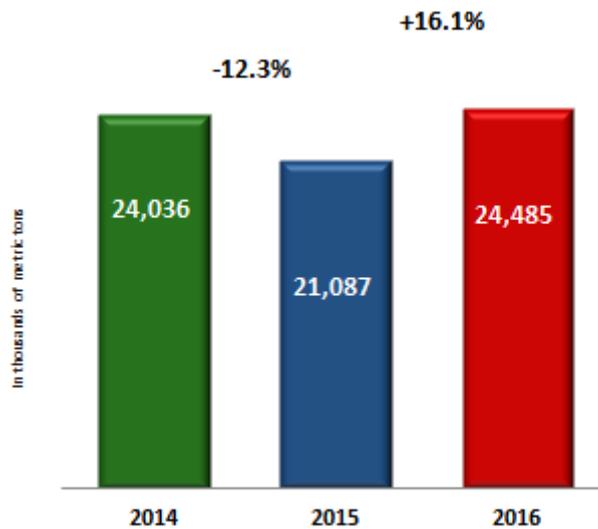
According to the National Fertilizer Association (ANDA), fertilizer deliveries in Brazil totaled 9,654 thousand metric tons in 4Q16, 22.1% higher than the 7,908 thousand metric tons in 4Q15. In 2016, deliveries came to 34,083 thousand metric tons, an increase of 12.9% year-on-year, or 3,881 thousand metric tons.

Brazilian fertilizer production in 2016 was 1.3% lower in relation to 2015, reaching 9,000 thousand metric tons, although still not enough to meet demand, which exceeds 34,000 thousand metric tons.

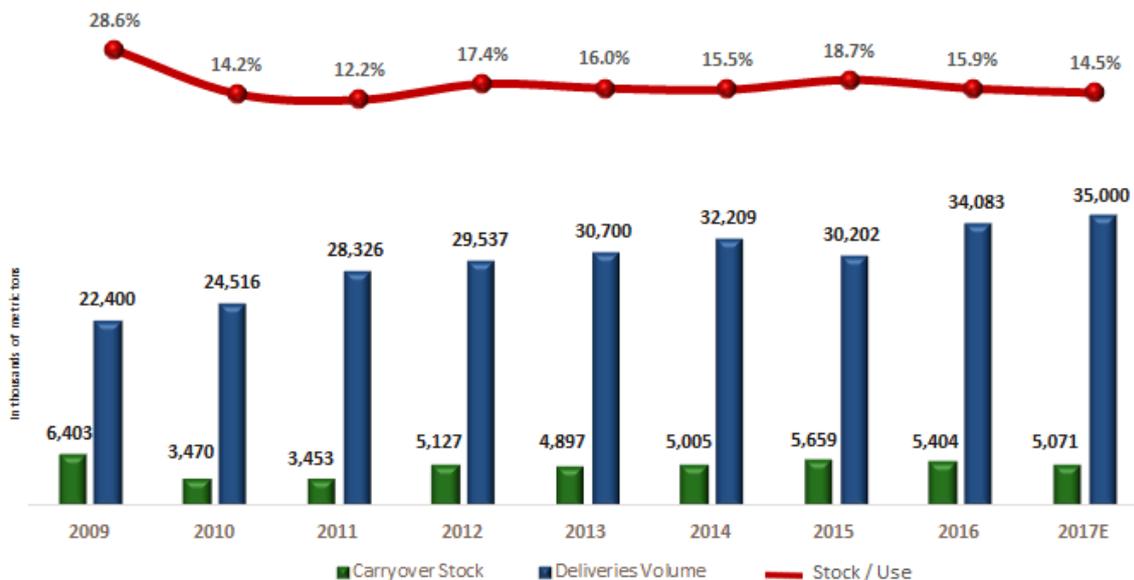




Since domestic production has been falling short of demand in Brazil, imports of fertilizer raw materials increased by 16.1% in 2016, reaching 24,485 thousand metric tons to cope with demand.



Carryover stocks fell from 5,404 thousand metric tons in 2015 to 5,071 thousand metric tons in 2016. Deliveries increased from 30,202 thousand metric tons in 2015 to 34,083 thousand metric tons in 2016 and Heringer estimates that the market will record 35,000 thousand metric tons in 2017. Accordingly, the inventory/use ratio, which in 2016 was 15.9%, would drop to 14.5% in 2017.

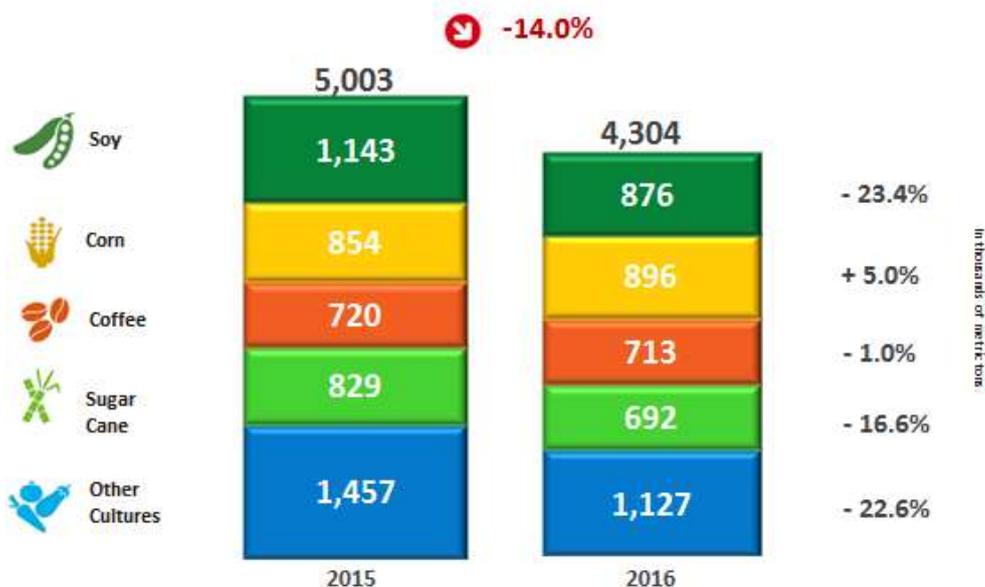


As we have highlighted above, the company estimates that the Brazilian fertilizer market will resume growth in 2017 (+3.0%), reaching 35,000 thousand metric tons, a new record.



DELIVERIES – HERINGER

In 2016, Heringer's delivery volumes totaled 4,304 thousand metric tons, down 14.0% from 2015.



ECONOMIC AND FINANCIAL INDICATORS

Deliveries fell by 14.0% in 2016 when compared with 2015, totaling 4,304 thousand metric tons, of which 4,270 thousand metric tons was for the Brazilian market and 34 thousand was for the export market.

Net revenue was R\$5,194.9 million, 17.7% lower compared to the R\$6,308.4 million in 2015. Net revenue in 2016 decreased year-over-year, due to a 14.0% reduction in delivery volume, lower fertilizer raw material prices and the appreciation of the real.

Gross profit came to R\$637.2 million in 2016, 15.5% up on the R\$551.6 million recorded in 2015, while the gross margin stood at 12.3% in 2016, higher than 8.7% in 2015.

Freight and commissions totaled R\$241.4 million in 2016, corresponding to 4.6% of net revenue, lower than the R\$272.9 million in 2015, or 4.3% of net revenue.

SG&A expenses (excluding freight and commissions) fell by 1.2% in 2016, reaching R\$199.9 million (3.8% of net revenue) compared to R\$202.3 million in 2015 (3.2% of net revenue).

EBITDA came to R\$249.6 million in 2016, with a margin of 4.8%, 25.9% higher than the R\$198.2 million recorded in 2015, with a margin of 3.1%.



Heringer's net financial expense fell substantially in 2016 due to the debt reduction and the appreciation of the real in the period, totaling R\$137.5 million, versus R\$662.0 million in 2015 (impacted by the strong exchange rate devaluation). This amount comprises net interest, discounts granted and expenses related to adjustment to present value, among others, totaling a negative R\$105.1 million, a positive exchange variation of R\$261.8 million and losses from hedge operations amounting to R\$294.2 million.

In 2016, Heringer posted a net income of R\$43.2 million, a significant improvement over the net loss of R\$335.7 million reported in 2015.

	2016	% NR	2015	% NR	Δ % 16/15
Volume	4,304,385		5,003,330		-14.0%
Net Revenue	5,194,970	100.0%	6,308,405	100.0%	-17.7%
Cost of Goods Sold	(4,557,742)	-87.7%	(5,756,787)	-91.3%	-20.8%
Gross Profit	637,228	12.3%	551,619	8.7%	15.5%
Freight and Commission	(241,444)	-4.6%	(272,941)	-4.3%	-11.5%
SG&A	(199,859)	-3.8%	(202,319)	-3.2%	-1.2%
EBITDA	249,578	4.8%	198,163	3.1%	25.9%
Net Financial Income (Expense)	(137,485)	-2.6%	(662,038)	-10.5%	-79.2%
Net Income	43,190	0.8%	(335,967)	-5.3%	112.9%

Even though the SSP and sulfuric acid production unit remains temporarily halted, the units are at an appropriate maintenance level.

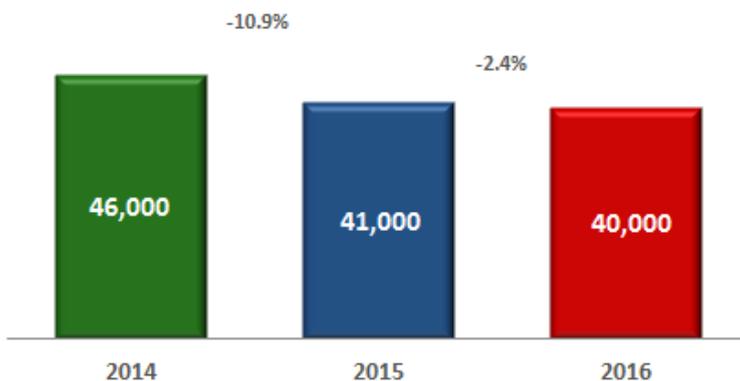
Regarding the public civil lawsuit of Paranaguá - PR, the evidentiary stage has been concluded and the case is pending a decision by the judge of first instance.

	Fertilizer Sales				SSP and Sulfuric Acid Production				Heringer Total	
	2016	% NR	2015	% NR	2016	% NR	2015	% NR	2016	2015
Net Revenue	5,194,970	100.0%	6,308,405	100.0%	-	0.0%	-	0.0%	5,194,970	6,308,405
Cost of Goods Sold	(4,536,008)	-87.3%	(5,734,161)	-90.9%	(21,735)	-100.0%	(22,626)	-100.0%	(4,557,742)	(5,756,787)
Gross Profit	658,962	12.7%	574,244	9.1%	(21,735)	-100.0%	(22,626)	-100.0%	637,228	551,619
Freight and Commission	(241,444)	-4.6%	(272,941)	-4.3%	-	0.0%	-	0.0%	(241,444)	(272,941)
SG&A	(199,859)	-3.8%	(202,319)	-3.2%	-	0.0%	-	0.0%	(199,859)	(202,319)
EBITDA	260,633	5.0%	210,074	3.3%	(11,055)	-100.0%	(11,911)	-100.0%	249,578	198,163



NUMBER OF CLIENTS

In 2016, the number of clients remained basically in line with the same period last year, about 40 thousand clients.



INVESTMENTS

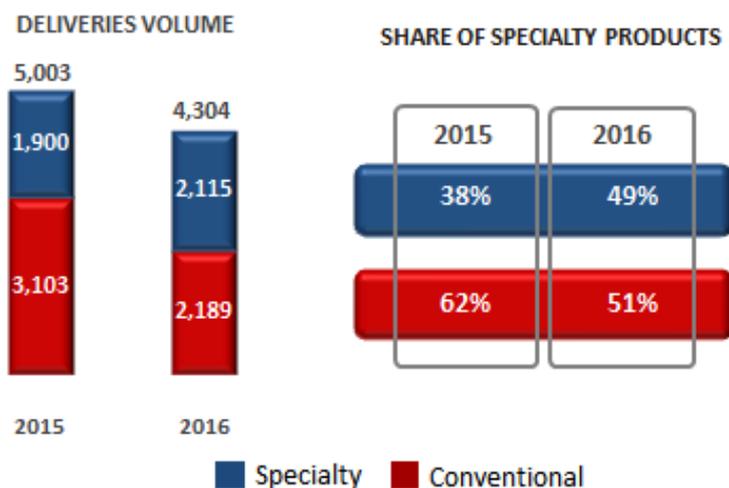
On December 31, 2016, Heringer’s Property, Plant & Equipment, investments and intangible assets amounted to R\$556.1 million.



INNOVATION AND TECHNOLOGY

In addition to conventional products, Heringer offers its clients a line of special fertilizers to boost and improve crop productivity. These top-performing products provide higher-yielding crops and have a better cost-benefit ratio, specialty products have contributed to customer loyalty.

In 2016, the sales volume totaled 4,304 thousand metric tons, a decrease of 14.0% from 5,003 thousand metric tons in 2015. Specialty products accounted for 49% of total sales, 11.4% higher compared to 2015, reaching a record volume of 2,115 thousand metric tons.



Heringer invests continuously in R&D to create new technologies that can be used to produce fertilizers. This effort allows us to have a complete line of solid (**specialty FH Humics, FH Micro Total and FH Nitro Mais®**), fertigation and foliar fertilizers, that is, products with different nutrient contents tailored to the specific needs of different crops. They provide better productivity and, as a result, better financial results for farmers.

The Company has a highly skilled technical team formed by agronomists, agricultural technicians and zootechnicians, professionals always up-to-date on the latest trends in terms of fertilizers for the different crops.

In addition, Heringer has three research and study centers, one dedicated to coffee cultivation, one to pasture management and the other to agribusiness studies. The results achieved by these centers ensure closer relations with farmers while providing technical support for the Company to sell specialty products. Heringer's technical staff and expert consultants make research conducted internally public in talks, field days and other events of the farming industry.



CEPEC (The Eloy Carlos Heringer Experimental Extension and Coffee Research Center), located in Martins Soares, Minas Gerais State, was created in 1994 and is a joint initiative of Heringer and MAPA (the Ministry of Agriculture, Livestock and Food Supply). Considered a reference in the whole of Brazil in technological development for coffee produced on mountains, it receives about 1,000 farmers and technicians per year at its meetings to discuss research results.

CEMAP (Pasture Handling and Fertilization Center), since 2003, has been organizing visits and meetings with farmers, researchers, livestock producers and technicians to disseminate its results and knowledge. It has an extensive pasture area, which is intended for the production system and simulates the real conditions of the field. Different levels of fertilization are tested on different species of grasses in an effort to generate knowledge on the nutritional requirements of each.

CEAGRO (Agribusiness Research Center), located in Vila Velha, Espírito Santo State, is one of the pillars of Heringer's operational excellence, with a structure dedicated to studying and developing new farming techniques.



CAPITAL MARKET AND INVESTOR RELATIONS

FHER3 is currently the only fertilizer company listed on the São Paulo Stock Exchange (BM&FBovespa), which makes it an attractive investment opportunity.

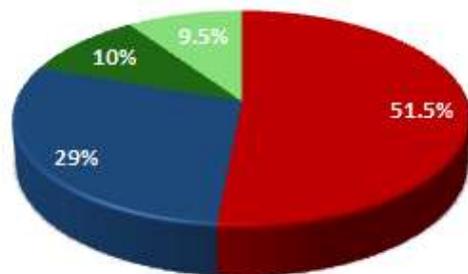
Since April 2007, Heringer stock has been listed on the Novo Mercado special corporate governance segment of the São Paulo Stock Exchange (BM&FBovespa) under ticker symbol FHER3. The Company is included in the Special Tag-Along Index (ITAG), Special Corporate Governance Stock Index (IGC) and Novo Mercado Corporate Governance Equity Index (IGC-NM).

Heringer has solid fundamentals, such as significant growth potential in a competitive market, geographically evenly distributed sales, a diversified client base, a focus on retail sales, effective logistics and distribution infrastructure, a highly recognized brand, a broad portfolio of specialty products and solid management, among other attributes.

In 2015, the Company added two important partners to its shareholder base: OCP, a global leader in the production of phosphate rock, with a 10% share in the Company's capital stock, and PCS, the world leader in the production of potassium chloride, with a share of 9.5%.



OWNERSHIP BREAKDOWN



■ Controlling Group ■ Free Float ■ OCP ■ PCS

FHER3 (53,857,284) Shares



✓ Free Float: 91% Brazilian (1,966 investors) and 9% foreign (11 investors)



SHAREHOLDERS' RIGHTS

In accordance with the Company's Bylaws, shareholders are ensured the right to receive an annual mandatory dividend of no less than 25% of net income for the fiscal year, after offsetting any accrued losses, if applicable, and deducting or adding the following amounts: (i) the amount allocated to the legal reserve; (ii) the amount allocated to reserves for contingencies or reversal of the same reserves recorded in previous years; and (iii) the amount resulting from the reversal of the unrealized income reserve booked in previous years, pursuant to Section 202, subsection II of the Brazilian Business Corporation Act.

According to the Company's Bylaws, up to one-tenth of net income from the fiscal year may be allocated to Management. The Company may have, under the terms of the bylaws, an income reserve known as the "Investment Reserve" to finance its expansion. This reserve may not exceed 80% of the Company's subscribed capital, and shall receive no less than 5% and no more than 75% of the net income remaining after the legal deductions and those prescribed by the Bylaws.

The remaining balance of the year's net income after dividends are paid and the bylaw-required reserve is booked, is allocated in accordance with the decision of the Shareholders' Meeting, subject to all legal provisions.

On December 31, 2016, the amount that would be allocated to the Income reserve – Tax incentives, totaling R\$23,144, was used to absorb accrued losses. These tax incentives have been used to absorb accrued losses since December 31, 2008.

On December 31, 2016, the annual amounts of tax incentives that were used to absorb accrued losses and, as previously mentioned, must be reclassified under the income reserve when the Company records sufficient earnings, are as follows:

	<u>2008 to 2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>TOTAL</u>
PSDI (i)	134,389	25,099	19,575	17,970	197,033
Development Program (ii)	0	0	0	3,946	3,946
Other Tax Incentives/Benefits	5,457	0	0	1,228	6,685
	<u>139,846</u>	<u>25,099</u>	<u>19,575</u>	<u>23,144</u>	<u>207,664</u>

State VAT (ICMS) reduction:

- (i) Approval granted to the Company in September 2003 to participate in the Sergipe State Industrial Development Program (PSDI) - Government of Sergipe State, which offers a tax benefit corresponding to a 92% discount in the ICMS calculated in the plant located in Rosário do Catete, State of Sergipe. The program ends on September 26, 2028.
- (ii) Approval granted to the Company in November 2014 to participate in the Development Program - Government of the State of Bahia, which offers a tax benefit corresponding to a 90% discount in the ICMS calculated in the plant located in Candeias, State of Bahia. The program ends on October 31, 2026.



SUSTAINABILITY

Heringer published its 5th Sustainability Report, following the GRI (Global Reporting Initiative) guidelines, in 2016 to make its sustainability practices more transparent.

The report shows the Company's engagement and commitment to sustainability, its employees, clients, investors, suppliers, partners and society in general.

It contains information about the social, financial and environmental performance of all units, in continuation to the first report, published in 2011, and is now an annual publication.

HUMAN RESOURCES

Heringer complies with the Consolidation of Labor Laws (CLT), so all of its employees are covered by collective bargaining agreements, except for contractors and interns.

On December 31, 2016, Heringer had a total of 3,041 direct employees, including 2,932 company employees, 6 interns and 103 apprentices. In addition, there were 28 apprentices registered with authorized institutions and 218 employees from outsourced companies.

Employees' salaries are calculated under the terms of the law and comprise a basic amount (nominal) and a variable portion, which includes overtime, additional allowances for nighttime work, hazard pay and bonuses.

The benefit policy is intended to provide well-being and security for employees both at work and in their personal lives. All employees are offered a benefit package that comprises health care, life insurance, private pension, and meal and transportation vouchers.

Heringer also has a profit sharing program through which it distributes 10% of net income adjusted for any accrued losses from prior periods to its employees. Before the end of the fiscal year, the Company pays a nominal monthly salary as an advance, regardless of whether it recorded earnings or losses. Employees admitted during the year receive a share proportional to their length of service.



RELATIONSHIP WITH THE EXTERNAL AUDITORS

In compliance with CVM Instruction 381/03, Heringer did not receive from the independent auditors, or any persons related to them, any services other than those related to the external audit in 2016:

1. Review of direct, indirect, labor taxes and risks
2. Diagnosis ICVM 552 - Diagnosis of the Company's Risk Management and Internal Control Policies.
3. Previously Agreed Procedures regarding the measurement of financial covenants.
4. Assessment of accounting considerations relating to the possibility of adoption of Hedge Accounting.

The fees related to these services totaled R\$520,062.

In addition, Heringer's policy complies with the principles that preserve the auditor's independence, in accordance with internationally accepted criteria, namely: the auditors may not audit their own work, perform managerial tasks for their clients or promote their clients' interests.



CLOSING REMARKS

Heringer's Management would like to thank its shareholders, clients, suppliers and employees for their confidence and support over the course of yet another year.

We remain confident that Brazilian agribusiness will continue to perform strongly and play a prominent role in the country's economy.

In this context, Fertilizantes Heringer will remain focused on pursuing excellence in all its activities, through the efforts and dedication of its entire team, always seeking to offer high-quality products and services to its clients.

Management