

Offering memorandum



## **BRF S.A.**

**(Formerly Known as BRF — Brasil Foods S.A.)**  
*(Incorporated in the Federative Republic of Brazil)*

**U.S.\$500,000,000**

**3.95% Senior Notes due 2023**

**Interest payable: May 22 and November 22**

**Issue price: 98.497%**

We are offering U.S.\$500.0 million aggregate principal amount of 3.95% senior notes due 2023. The notes will bear interest at the rate of 3.95% per year. Interest on the notes will be payable on May 22 and November 22 of each year, beginning on November 22, 2013. The notes will mature on May 22, 2023.

We may redeem the notes, in whole or in part, at any time after May 22, 2014 at a redemption price based on a “make-whole” amount plus accrued and unpaid interest. We may also redeem the notes, in whole but not in part, at 100% of their principal amount plus accrued and unpaid interest in the event of specified events relating to applicable tax laws.

The notes will be our senior unsecured obligations and will rank equally with all of our existing and future senior and unsecured indebtedness. The notes will be structurally subordinated to all existing and future liabilities of our subsidiaries.

For a more detailed description of the notes, see “Description of the Notes” beginning on page 63.

**See “Risk Factors” beginning on page 18 for a discussion of certain risks that you should consider in connection with an investment in the notes.**

The notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or the “Securities Act,” or the securities laws of any other jurisdiction. The notes are being offered only to qualified institutional buyers under Rule 144A under the Securities Act, or “Rule 144A,” and to persons outside the United States under Regulation S under the Securities Act, or “Regulation S.”

There is currently no market for the notes. Application has been made to list the notes on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF Market. This offering memorandum constitutes a prospectus for the purposes of Luxembourg law dated July 10, 2005 on prospectuses for securities, as amended.

Delivery of the notes is expected to be made to investors in book-entry form through The Depository Trust Company and its direct and indirect participants, including Clearstream Banking, *société anonyme*, and Euroclear S.A./N.V., as operator of the Euroclear System, on or about May 22, 2013.

*Joint Book-Running Managers*

**BB Securities Bradesco BBI Itaú BBA Morgan Stanley Santander**

May 29, 2013

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**You should rely only on the information contained in this offering memorandum. Neither we nor the initial purchasers have authorized anyone to provide you with different information. Neither we nor the initial purchasers are making an offer of the notes in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum, regardless of the time of delivery of this offering memorandum or any sale of the notes.**

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the notes described in this offering memorandum. BB Securities Ltd., Banco Bradesco BBI S.A., Itau BBA USA Securities, Inc., Morgan Stanley & Co. LLC and Santander Investment Securities Inc. will act as initial purchasers with respect to the offering of the notes. This offering memorandum does not constitute an offer to the public in general to subscribe for or otherwise acquire the notes. You are authorized to use this offering memorandum solely for the purpose of considering the purchase of the notes.

You must (1) comply with all applicable laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the notes, and (2) obtain any required consent, approval or permission for the purchase, offer or sale by you of the notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither we nor the initial purchasers or their agents have any responsibility therefor.

You acknowledge that:

- you have been afforded an opportunity to request from us, and to review, all additional information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained in this offering memorandum;
- you have not relied on the initial purchasers or their agents or any person affiliated with the initial purchasers or their agents in connection with your investigation of the accuracy of such information or your investment decision; and
- no person has been authorized to give any information or to make any representation concerning us or the notes other than those as set forth in this offering memorandum. If given or made, any such other information or representation should not be relied upon as having been authorized by us, the initial purchasers or their agents.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future. We have furnished the information contained in this offering memorandum.

None of the U.S. Securities and Exchange Commission, or the “SEC,” any state securities commission or any other regulatory authority, has approved or disapproved the notes, nor has any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

The notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. See “Plan of Distribution” and “Transfer Restrictions.”

The notes have not been, and will not be, registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the “CVM.” The notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or distribution under Brazilian laws and regulations.

The notes may not be offered or sold in or into the United Kingdom except in circumstances that do not constitute an offer to the public within the meaning of the Public Offers of Securities Regulations 1995. All applicable provisions of the Financial Services and Markets Act 2000 must be complied with in respect of anything done in relation to the notes in, from or otherwise involving the United Kingdom.

The Luxembourg Stock Exchange takes no responsibility for the contents of this offering memorandum, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

We confirm that, after having made all reasonable inquiries, the information contained in this offering memorandum with regards to us is true and accurate in all material respects and that there are no omissions of any other facts from this offering memorandum which, by their absence herefrom, make this offering memorandum misleading in any material respect. We accept responsibility accordingly for the information contained in this offering memorandum.

**In making an investment decision, prospective investors must rely on their own examination of the company and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the notes under applicable legal investment or similar laws or regulations.**

This offering memorandum contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of documents referred to herein will be made available to prospective investors upon request to us or the initial purchasers.

## **NOTICE TO NEW HAMPSHIRE RESIDENTS**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATION OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## **NOTICE TO PROSPECTIVE INVESTORS WITHIN BRAZIL**

THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE CVM. THE NOTES MAY NOT BE OFFERED OR SOLD IN BRAZIL, EXCEPT IN CIRCUMSTANCES THAT DO NOT CONSTITUTE A PUBLIC OFFERING OR UNAUTHORIZED DISTRIBUTION UNDER BRAZILIAN LAWS AND REGULATIONS. THE NOTES ARE NOT BEING OFFERED INTO BRAZIL. DOCUMENTS RELATING TO THE OFFERING OF THE NOTES, AS WELL AS INFORMATION CONTAINED THEREIN, MAY NOT BE SUPPLIED TO THE PUBLIC IN BRAZIL, NOR BE USED IN CONNECTION WITH ANY OFFER FOR SUBSCRIPTION OR SALE OF THE NOTES TO THE GENERAL PUBLIC IN BRAZIL.

## **NOTICE TO RESIDENTS OF PERU**

THE NOTES AND THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM ARE NOT BEING PUBLICLY MARKETED OR OFFERED IN PERU AND WILL NOT BE DISTRIBUTED OR CAUSED TO BE DISTRIBUTED TO THE GENERAL PUBLIC IN PERU. PERUVIAN SECURITIES LAWS AND REGULATIONS ON PUBLIC OFFERINGS WILL NOT BE APPLICABLE TO THE OFFERING OF THE NOTES AND THEREFORE, THE DISCLOSURE OBLIGATIONS SET FORTH THEREIN WILL NOT BE APPLICABLE TO THE ISSUER OR THE SELLERS OF THE NOTES BEFORE OR AFTER THEIR ACQUISITION BY PROSPECTIVE INVESTORS. THE NOTES AND THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM HAVE NOT BEEN AND WILL NOT BE REVIEWED, CONFIRMED, APPROVED OR IN ANY WAY SUBMITTED TO THE PERUVIAN SUPERINTENDENCY OF CAPITAL MARKETS (*SUPERINTENDENCIA DEL MERCADO DE VALORES*), OR THE SMV NOR HAVE THEY BEEN REGISTERED UNDER THE SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*) OR ANY OTHER PERUVIAN REGULATIONS. ACCORDINGLY, THE NOTES CANNOT BE OFFERED OR SOLD WITHIN PERUVIAN TERRITORY EXCEPT TO THE EXTENT ANY SUCH OFFERING OR SALE QUALIFIES AS A PRIVATE OFFERING UNDER PERUVIAN REGULATIONS AND COMPLIES WITH THE PROVISIONS ON PRIVATE OFFERINGS SET FORTH THEREIN.

WE INTEND TO REGISTER THE NOTES WITH THE FOREIGN INVESTMENT AND DERIVATIVES INSTRUMENTS REGISTRY (*REGISTRO DE INSTRUMENTOS DE INVERSIÓN Y DE OPERACIONES DE COBERTURA DE RIESGO EXTRANJEROS*) OF THE PERUVIAN SUPERINTENDENCY OF BANKS, INSURANCE AND PRIVATE PENSION FUNDS ADMINISTRATORS (*SUPERINTENDENCIA DE BANCOS, SEGUROS Y ADMINISTRADORAS PRIVADAS DE FONDOS DE PENSIONES*) IN ORDER TO MAKE THE NOTES ELIGIBLE FOR INVESTMENT BY PERUVIAN PRIVATE PENSION FUNDS ADMINISTRATORS. THE NOTES MAY NOT BE OFFERED OR SOLD IN THE REPUBLIC OF PERU EXCEPT IN COMPLIANCE WITH THE SECURITIES LAW THEREOF.

## INTERNAL REVENUE SERVICE CIRCULAR 230

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT ANY DISCUSSION OF U.S. FEDERAL INCOME TAX MATTERS SET FORTH IN THIS OFFERING MEMORANDUM WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN AND WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY PROSPECTIVE INVESTOR, FOR THE PURPOSE OF AVOIDING TAX-RELATED PENALTIES UNDER FEDERAL, STATE OR LOCAL TAX LAW. EACH PROSPECTIVE INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

### INCORPORATION BY REFERENCE

We are incorporating by reference into this offering memorandum our annual report on Form 20-F for the year ended December 31, 2012, or our “2012 Form 20-F,” which we filed with the SEC on April 4, 2013 (SEC File No. 001-15148), including the following sections:

- the information under the caption “Introduction” of our 2012 Form 20-F;
- the information contained in “Item 3: Key Information” of our 2012 Form 20-F;
- the information contained in “Item 4: Information on the Company” of our 2012 Form 20-F;
- the information contained in “Item 5: Operating and Financial Review and Prospects” of our 2012 Form 20-F;
- the information contained in “Item 6: Directors, Senior Management and Employees” of our 2012 Form 20-F;
- the information contained in “Item 7: Major Shareholders and Related Party Transactions” of our 2012 Form 20-F;
- the information contained in “Item 8: Financial Information” of our 2012 Form 20-F;
- the information contained in “Item 11: Quantitative and Qualitative Disclosures About Market Risk” of our 2012 Form 20-F; and
- the audited consolidated financial statements of our company and our subsidiaries, including the report thereon, contained in our 2012 Form 20-F.

The information below can be found on the indicated sections of our 2012 Form 20-F:

<u>Information</u>	<u>Section in our 2012 Form 20-F</u>
Our date of incorporation and length of life	Item 4. Information on the Company — A. History and Development of the Company — Corporate History Exhibit 1.01 (Amended and Restated Bylaws), Section Four
Legislation under which we operate and our legal form	Exhibit 1.01 (Amended and Restated Bylaws), Section One
Description of our subsidiaries	Item 4. Information on the Company — A. History and Development of the Company — Corporate Structure Exhibit 8.01 (List of Subsidiaries)

Incorporation by reference of our 2012 Form 20-F means that our 2012 Form 20-F is considered part of this offering memorandum.

The information in our 2012 Form 20-F is an important part of this offering memorandum. Our 2012 Form 20-F contains important information about our company and our results of operations and financial condition.

Any statement contained in our 2012 Form 20-F will be deemed to be modified or superseded for purposes of this offering memorandum to the extent that a statement contained herein modifies or supersedes that statement.

You should read “Available Information” for information on how to obtain our 2012 Form 20-F or other information relating to our company.

### AVAILABLE INFORMATION

We are a reporting company under Section 13 or Section 15(d) of the U.S. Securities and Exchange Act of 1934, as amended, or the “Exchange Act,” and file periodic reports with the SEC. However, if at any time we cease to be a reporting company under Section 13 or Section 15(d) of the Exchange Act, or are not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, we will be required to furnish to any holder of a note which is a “restricted security” (within the meaning of Rule 144 under the Securities Act), or to any prospective purchaser thereof designated by such a holder, upon the request of such a holder or prospective purchaser, in connection with a transfer or proposed transfer of any such note pursuant to Rule 144A under the Securities Act or otherwise, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Our 2012 Form 20-F and our other periodic reports filed with the SEC, including any interim financial reports, are available free of charge from the SEC at its website ([www.sec.gov](http://www.sec.gov)) or from our website, [www.brf-br.com](http://www.brf-br.com). In addition, our 2012 Form 20-F is available free of charge at the office of the Luxembourg listing agent and published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

### PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to (1) “BRF S.A.,” “BRF,” the “company,” the “issuer,” “we,” “our,” “ours,” “us” or similar terms are to BRF S.A. (formerly known as BRF – Brasil Foods, S.A.), the issuer of the notes, and its consolidated subsidiaries and jointly controlled companies; and (2) references to “Sadia” are to Sadia S.A., formerly a wholly-owned subsidiary of BRF, which merged with and into BRF on December 31, 2012.

On April 9, 2013, our shareholders approved the change of our corporate name from BRF – Brasil Foods S.A. to BRF S.A. Following recording of the appropriate documentation in the State of Santa Catarina on April 16, 2013, where our registered office is located, the change became effective retroactively as of April 9, 2013.

All references in this offering memorandum to the “*real*,” “*reais*” or “R\$” are to the Brazilian *real*, the official currency of Brazil. All references to “U.S. dollars,” “dollars” or “U.S.\$” are to U.S. dollars.

The exchange rate for *reais* into U.S. dollars based on the selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*, or the “Central Bank”) was R\$2.0233 to U.S.\$1.00 at May 15, 2013, R\$2.0138 to U.S.\$1.00 at March 31, 2013, R\$2.0435 to U.S.\$1.00 at December 31, 2012, R\$1.8758 to U.S.\$1.00 at December 31, 2011 and R\$1.6662 to U.S.\$1.00 at December 31, 2010. See “Exchange Rates” for information regarding exchange rates for the Brazilian currency since January 1, 2008. The *real*/U.S. dollar exchange rate fluctuates widely, and the selling rate at May 15, 2013 or any other date may not be indicative of future exchange rates.

Solely for the convenience of the reader, we have translated certain amounts included in this offering memorandum from *reais* into U.S. dollars using the selling rate as reported by the Central Bank at March 31, 2013. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. In addition, translations should not be construed as representations that the *real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

We maintain our books and records in *reais*.

Our audited consolidated financial statements incorporated by reference in this offering memorandum have been prepared in accordance with International Financial Reporting Standards, or “IFRS,” issued by the

International Accounting Standards Board, or “IASB.” Our unaudited interim consolidated financial statements included in this offering memorandum have been prepared in conformity with IFRS for interim financial reporting in accordance with IAS 34 — *Interim Financial Reporting*. IFRS differs in certain significant respects from generally accepted accounting principles in the United States, or “U.S. GAAP.”

KPMG Auditores Independentes, or “KPMG,” was appointed as our independent public accounting firm for a five-year period to audit our consolidated financial statements for the fiscal years ended December 31, 2011, 2010, 2009, 2008 and 2007. Pursuant to CVM regulations, Brazilian public companies are required to rotate their independent public accounting firm every five years. On November 24, 2011, our Board of Directors, as recommended by our Fiscal Council, approved the appointment of Ernst & Young Terco Auditores Independentes S/S, or “EYT,” as our independent accountant firm beginning as of January 1, 2012.

Our audited consolidated financial statements as of December 31, 2011 and for the two years ended December 31, 2011 are incorporated by reference in this offering memorandum and have been audited by KPMG, as stated in their report incorporated by reference in this offering memorandum.

Our audited consolidated financial statements as of and for the year ended December 31, 2012 are incorporated by reference in this offering memorandum and have been audited by EYT, as stated in their report incorporated by reference in this offering memorandum. Our unaudited interim consolidated financial statements as of and for the three-month period ended March 31, 2013 are included in this offering memorandum and have been reviewed by EYT, as stated in their report included in this offering memorandum.

Some percentages and amounts included in this offering memorandum have been rounded for ease of presentation. As a result, figures shown as totals in certain tables may not be arithmetic aggregations of the figures that precede them.

### **Non-IFRS Financial Measures**

This offering memorandum includes EBITDA, Adjusted EBITDA and net debt, which are not financial measures computed under IFRS. The presentations of EBITDA, Adjusted EBITDA and net debt included in this offering memorandum may not be comparable to those of other companies. For our definitions of EBITDA, Adjusted EBITDA and net debt and reconciliations to net income of EBITDA and Adjusted EBITDA, see “Summary — Summary Financial and Other Information.”

### **Market and Other Information**

Industry and market data included in this offering memorandum is based on industry publications, government publications, reports by market research firms or other published sources. Some industry and market data is also based on our estimates, which are derived from internal analyses as well as third-party sources. Although we believe these sources are reliable, we have not independently verified the information and cannot assure you of its accuracy or completeness. Data regarding our industry and markets is intended to provide general guidance but is inherently imprecise. In addition, although we believe these estimates were reasonably derived, you should not place undue reliance on estimates, as they are inherently uncertain.

### **Trademarks**

Unless the context otherwise requires, all brand names included in this offering memorandum are registered trademarks of our company.

## FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements, including within the meaning of the Securities Act or the Exchange Act.

Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates” and similar expressions are forward-looking statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks, known and unknown, and uncertainties and are made in light of information currently available to us.

Our forward-looking statements are subject to risks and uncertainties, including as a result of the following factors:

- the implementation of the principal operating strategies of our company, including integration of recent acquisitions as well as acquisition or investment opportunities that may occur in the future;
- general economic, political and business conditions in the markets in which we do business, both in Brazil and abroad, that affect prices of and demand for our products;
- the cyclical and volatility of raw materials and selling prices;
- health risks related to the food industry;
- the risk of outbreak of animal diseases, in particular avian influenza and A(H1N1) influenza;
- export duties and tariffs, as well as more stringent trade barriers, in key export markets and increased regulation of food safety and security;
- strong international and domestic competition;
- the effects of the global financial market and economic crisis;
- interest rate fluctuations, inflation and exchange rate movements of the *real* in relation to the U.S. dollar and other currencies;
- the declaration or payment of dividends;
- the direction and future operation of our company;
- the implementation of our company’s financing strategy and capital expenditure plans;
- the factors or trends affecting our company’s financial condition or results of operations;
- changes in environmental, labor and tax policies and legislation;
- the cost and availability of financing and our ability to obtain financing on satisfactory terms;
- compliance with existing and future government regulations; and
- other factors identified or discussed under “Risk Factors.”

Because they involve risks and uncertainties, forward-looking statements are not guarantees of future performance, and our actual results or other developments may differ materially from the expectations expressed in the forward-looking statements. With respect to forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events. In light of such limitations, you should not make any investment decision on the basis of the forward-looking statements contained herein.



## SERVICE OF PROCESS AND ENFORCEMENT OF JUDGMENTS

BRF is incorporated under the laws of Brazil. All, or substantially all, of its directors and officers reside outside the United States. Substantially all of the assets of BRF are located in Brazil. As a result, it may not be possible (or it may be difficult) for you to effect service of process upon us or these other persons within the United States or to enforce judgments obtained in United States courts against us or them, including those predicated upon the civil liability provisions of the federal securities laws of the United States.

In the terms and conditions of the notes, BRF will (1) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, The City of New York, will have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the notes and, for such purposes, irrevocably submit to the jurisdiction of such courts and (2) name an agent for service of process in the Borough of Manhattan, The City of New York. We have been advised by Machado, Meyer, Sendacz e Opice Advogados, our Brazilian counsel, that a judgment of a United States court for the payment of money, including for civil liabilities predicated upon the federal securities laws of the United States, may be enforced in Brazil, subject to certain requirements described below. Such counsel has advised that a judgment against BRF, its directors and officers thereof, or certain advisors named herein obtained in the United States would be enforceable in Brazil upon confirmation of that judgment by the Superior Court of Justice (*Superior Tribunal de Justiça*). That confirmation will be available only if the U.S. judgment:

- fulfills all formalities required for its enforceability under the laws of the United States;
- is issued by a court of competent jurisdiction after proper service of process is made or sufficient evidence of our or these other persons absence is given, in accordance with Brazilian law;
- is final and therefore not subject to appeal;
- is for payment of a specified sum of money;
- is authenticated by a Brazilian diplomatic office in the United States and is accompanied by a sworn translation into Portuguese; and
- is not against Brazilian national sovereignty or public policy or equitable principles (as set forth in Brazilian law).

The confirmation process may be time-consuming and may also give rise to difficulties in enforcing the foreign judgment in Brazil. Accordingly, we cannot assure you that confirmation would be obtained, that the confirmation process would be conducted in a timely manner or that a Brazilian court would enforce a monetary judgment, including for violation of the securities laws of countries other than Brazil, including the federal securities laws of the United States.

We have been further advised by our Brazilian counsel that (1) original actions may be brought in connection with this offering memorandum predicated solely on the federal securities laws of the United States in Brazilian courts and that, subject to applicable law, Brazilian courts may enforce liabilities in such actions against BRF or its directors and officers thereof and certain advisors named herein, provided that provisions of the federal securities laws of the United States do not contravene Brazilian public policy, national sovereignty or equitable principles and provided further that Brazilian courts can assert jurisdiction over such actions; and (2) the ability of a creditor to satisfy a judgment by attaching certain assets of BRF or the other persons named above is limited by provisions of Brazilian law, given that assets are located in Brazil.

In addition, a plaintiff (whether Brazilian or non-Brazilian) that resides outside Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that could secure payment. This bond must have a value sufficient to satisfy the payment of court fees and defendant attorney's fees, as determined by the Brazilian judge, except in such instances involving (1) enforcement of foreign judgments that have been duly confirmed by the Superior Court of Justice (*Superior Tribunal de Justiça*), (2) collection of claims based on instruments that may be enforced in Brazil without review of merit (*título executivo extrajudicial*), which does not include the notes, and (3) counterclaims (*reconvenção*). Notwithstanding the foregoing, we cannot assure you that confirmation of any judgment will be obtained, that the process described above can be conducted in a timely manner, or that Brazilian courts will enforce a judgment for violation of the federal securities laws of the United States with respect to the notes.

## SUMMARY

*This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not contain all the information you should consider before investing in the notes. You should carefully read this entire offering memorandum before investing, including our 2012 Form 20-F incorporated by reference in this offering memorandum (copies of which may be obtained as indicated under “Available Information”), “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements.*

### **Our Company**

We are one of Brazil’s largest food companies, with a focus on the production and sale of poultry, pork, beef cuts, milk, dairy products and processed food products. We are a vertically integrated business that produces more than 3,300 SKUs, which we distribute to customers in Brazil and in more than 120 other countries. In 2012, we recorded net sales of R\$28,517.4 million, net income of R\$820.6 million and Adjusted EBITDA of R\$2.7 billion. For a reconciliation to our net income of Adjusted EBITDA, see “— Summary Financial and Other Information.” Our products currently include:

- Meat products:
  - frozen whole and cut chickens, or *in natura* poultry
  - frozen pork cuts and beef cuts, or *in natura* pork and *in natura* beef, respectively
  - processed food products, such as the following:
    - marinated frozen whole and cut chickens, roosters (sold under the *Chester*<sup>®</sup> brand) and turkeys
    - specialty meats, such as sausages, ham products, bologna, frankfurters, salami, bacon and other smoked products
    - frozen processed meats, such as hamburgers, steaks, breaded meat products, *kibes* and meatballs and frozen processed vegetarian foods
- Other processed products:
  - frozen prepared entrees, such as lasagna and pizzas, as well as other frozen foods, including vegetables, cheese breads and pies
  - juices, soy milk and soy juices
  - margarine
  - mayonnaise, mustard and ketchup
- Dairy products:
  - milk (UHT and pasteurized)
  - cheeses, powdered milk, yogurts and other dairy products
- Other:
  - soy meal and refined soy flour, as well as animal feed.

In the year ended December 31, 2012, we generated 31.3% of our net sales from *in natura* poultry, 9.7% from *in natura* pork and *in natura* beef, 30.7% from processed meat products, 10.1% from other processed products, 9.5% from dairy products, 5.5% from food services and 3.2% from other products.

In the Brazilian market, which accounted for 58.4% of our total net sales in the year ended December 31, 2012, we operate under such brand names as *Sadia*, *Perdigão*, *Chester*, *Batavo*, *Elegê*, *Miss Daisy*, *Qualy* and *Becel* (through a strategic joint venture with Unilever), which are among the most recognized names in Brazil. In our export markets, which accounted for the remaining 41.6% of our total net sales in 2012, our leading brands are *Perdix*, *Sadia*, *Hilal*, *Halal*, *Corcovado*, *Batavo*, *Fazenda*, *Borella* and *Confidence*.

We are a leading producer in Brazil of specialty meats (market share of approximately 52.1% from January 2012 to December 2012), frozen processed meats (market share of approximately 63.6% from December 2011 to November 2012), dairy processed products (market share of approximately 10.5% from December 2011 to November 2012), frozen pizzas (market share of approximately 61.7% from January 2012 to December 2012), frozen pastas (market share of approximately 69.4% from December 2011 to November 2012) and margarines (market share of approximately 57.5% from December 2011 to November 2012), in each case based on sales volume, according to A.C. Nielsen do Brasil S.A., or “A.C. Nielsen.” We also sell our frozen poultry, pork and beef products in the Brazilian market. We are able to reach substantially all of the Brazilian population through a nationwide network of 33 distribution centers. In Brazil, we operate 30 meat processing plants, 11 dairy processing plants, two margarine processing plants, three pasta processing plants, one dessert processing plant and three soybean crushing plants, all of them near our raw material suppliers or the main consumer centers. In our export markets, we operate six meat processing plants, one margarine and oil processing plant, one sauces and mayonnaise processing plant, one pasta and pastries processing plant, one frozen vegetables processing plant and one cheese processing plant.

We have operated with local production facilities in Argentina since the fourth quarter of 2011, when we acquired Avex S.A., or “Avex,” and Flora Dánica S.A., or “Flora Dánica.” In June 2012, we acquired Quickfood S.A. as part of our transaction with Marfrig Alimentos S.A., or “Marfrig,” described in “Item 4. Information on the Company — A. History and Development of the Company — Business Combination with Sadia — Agreement with Marfrig” of our 2012 Form 20-F. Our portfolio in the country includes *in natura* poultry, meat cuts, breaded chicken, ham, sausage, beef products (hamburgers and sausages), sauces, mayonnaise, margarine, pastries and frozen vegetables. We operate in Argentina using brand names such as *Dánica*, *Sadia* and *Paty*. We are the leader in margarines (market share of approximately 59.3% from October 2011 to September 2012) and hamburgers (market share of approximately 60.7% from October 2011 to September 2012) and hold the second leading market position in sauces (market share of approximately 12.9% from October 2011 to September 2012), according to CCR.

We are one of the largest Brazilian exporters of poultry products and are among the largest such exporters in the world, according to the Brazilian Secretariat for External Commerce (*Secretariado de Comércio Exterior*, or “SECEX”), an agency of the Brazilian Ministry of Development, Industry and External Commerce (*Ministério do Desenvolvimento, Indústria e Comércio Exterior*). We have been one of the leading Brazilian exporters of pork products, based on export sales volumes since 2009, according to SECEX.

In the milk and dairy products industry, we are a leader in sales of UHT milk in Brazil, with a 12.8% market share, based on volumes of sales from December 2011 to December 2012, according to A.C. Nielsen. In 2012, we had a 6.4% market share of the Brazilian production of powdered milk, according to the U.S. Department of Agriculture, or “USDA.”

We export primarily to distributors, the institutional market (which includes restaurants and food service chains) and food processing companies. In 2012, our exports accounted for 41.6% of our total net sales. We export to more than 5,000 clients, with customers in Europe accounting for 16.2% of our export net sales in 2012; the Far East, 20.3%; Eurasia (including Russia and Ukraine), 8.9%; the Middle East, 33.6 % and the Americas, Africa and other regions, 21.0%.

## **Our Industry**

We manage our business to target both the Brazilian market and the international export markets.

### ***Brazilian Market***

Brazil is the fifth largest country in the world, both in terms of land mass and population. As of July 2012, Brazil had an estimated population of 194.0 million people, according to data from the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or “IBGE.” According to IBGE, Brazil had a gross domestic product (*produto interno bruto*), or “GDP,” of R\$4.4 trillion for 2012 versus R\$4.1 trillion in 2011, representing an increase of 6.8% over its GDP of R\$4.1 trillion for 2011, in each case in nominal terms.

IBGE has announced that the Brazilian GDP for 2012 increased 0.9% in real terms when compared to GDP for 2011.

The inflation rate, as measured by the National Extended Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), or “IPCA,” published by the IBGE, was 5.91% in 2010, 6.50% in 2011 and 5.84% in 2012, continuing a trend of relatively high rates of inflation. The Brazilian government has implemented fiscal and monetary policies in order to mitigate the impact of the global economic crisis on the Brazilian economy and to minimize inflation and to endeavor to keep inflation within a target range.

Brazil is one of the largest consumers of meat, with per capita meat consumption of 102.1 kilograms in 2012, including beef, chicken and pork, according to the USDA. Demand for poultry, pork and beef products in the Brazilian market is directly affected by economic conditions in Brazil. The overall trend towards improved economic conditions and the increased purchasing power of Brazil’s middle class in Brazil has generally supported increased demand in recent years for processed food products, as well as traditional fresh and frozen poultry and pork products.

According to the USDA, Brazil is the world’s sixth largest producer and consumer of milk, with 31.5 million tons of milk produced in 2012.

### ***Export Markets***

Despite market volatility caused by concerns over Europe’s sovereign debt crisis and the slow recovery of the U.S. economy, global trade in pork and beef products has improved since 2010. Higher urbanization rates and income levels, combined with population growth, have improved global consumption, primarily in emerging markets.

The volume of Brazilian beef exports increased 13.3% in 2012 to 1.24 million tons, an increase of 146.3 thousand tons over 2011, according to data from the Brazilian Beef Exporters Association (*Associação Brasileira das Indústrias Exportadoras de Carnes*), or “ABIEC.” Russia, Egypt and Venezuela were the main countries that contributed to the good performance of beef exports. In terms of net sales, beef exports increased approximately 7.3% in 2012, while chicken exports decreased 6.7%.

Total Brazilian pork exports increased 12.6% in 2012, according to ABIPECS, the first rise after two consecutive years of declines in exports. Brazil exported 540.4 thousand tons of pork in 2010, 516.4 thousand tons in 2011 and 581.5 thousand tons in 2012. Average prices of pork declined approximately 7.5% in 2012, but due to the higher volume, net sales were 4.2% higher in 2012.

Brazilian chicken exports decreased 0.6% in 2012 to 3.92 million tons, according to the Brazilian Association of Chicken Exporters (*Associação Brasileira de Exportadores de Frango*), or “ABEF.” The decrease was largely due to lower sales in Venezuela and certain countries in the Middle East and Europe. However, other markets, such as Singapore, South Korea and Saudi Arabia demonstrated solid performance.

We believe global meat consumption will increase over time, particularly with respect to pork meat and chicken meat. This expected increase should support Brazilian exports and production, as Brazilian companies continue to become established in these markets. Moreover, new markets, such as Japan and the United States for pork, are expected to open, which should affect Brazilian exports favorably. Furthermore, markets that are already opened, like the Chinese market for pork and chicken, are expected to expand the number of production units authorized to export, which is expected to contribute positively to Brazilian exports. On the other hand, some large chicken meat importers are increasing their local production to minimize import dependency as well as sourcing from new suppliers, such as Thailand producers, which may threaten Brazilian exports.

Brazil has become a leading participant in export markets for food products on a global basis, due in part to its competitive advantages, which include low animal feed and labor costs and increasing efficiencies in animal production. We, like other large Brazilian producers, have built on these advantages to develop the scope and scale of our businesses.

Traditionally, Brazilian producers have emphasized exports of frozen whole and cut poultry as well as frozen pork and beef cuts. These products are considered commodities and continue to account for a substantial portion of export volumes. More recently, Brazilian food companies have begun to expand sales of processed

food products. We anticipate that over the upcoming years, we will sell higher volumes of frozen whole poultry, frozen cut poultry, frozen pork, frozen beef cuts and increasing volumes of processed products.

### **Competitive Strengths**

We believe our major competitive strengths are as follows:

- ***Leading Brazilian Food Company with Strong Brands and Global Market Presence.*** We are one of Brazil's largest food industry companies, with a size and scale that enable us to compete both in Brazil and globally. We believe that our leading position allows us to take advantage of market opportunities by enabling us to expand our business, increase our offering of value-added products and increase our share of international markets. In 2012, we slaughtered approximately 1.8 billion chickens and other poultry and 11.0 million hogs and cattle. We sold nearly 6.3 million tons of poultry, pork, beef, milk and processed food products, including dairy products and other processed products, in the same year. Our own and licensed brands are highly recognized in Brazil, and our export brands are well established in their respective markets.
- ***Extensive Distribution Network in Brazil and in Export Markets.*** We believe that we are one of the only companies with an established distribution network capable of distributing frozen and refrigerated products in virtually any area of Brazil. In addition, we export products to over 120 countries, and we have begun to develop our own distribution network in Europe, where we sell directly to food processing and food service companies and to local distributors, and in Asia through a joint venture. Our established distribution capabilities and logistics expertise enable us to expand both our domestic and foreign businesses, resulting in increased sales volumes and a broader reach of our product lines.
- ***Low-Cost Producer in an Increasingly Global Market.*** We believe that we have a competitive advantage over producers in some of our export markets due to generally lower feed and labor costs and to efficiency gains in animal production in Brazil. We have also achieved a scale and quality of production that enables us to compete effectively with major producers in Brazil and other countries. We have implemented a number of programs designed to maintain and improve our cost-effectiveness, including our ATP-Total Service program to optimize our supply chain by integrating demand, production, inventory management and client service functions; our CSP-Shared Services Center, which centralizes our corporate and administrative functions; our MVP-More Value program to provide our managers with more efficient use of fixed and working capital; and matrix-based budgeting intended to improve the efficiency of cost management.
- ***Diversified and Strategic Geographical Location.*** In the meat business, our slaughterhouses are strategically located in different regions of Brazil (South- and Mid-West), which enables us to mitigate the risks arising from export restrictions that may occur in certain regions of the country due to sanitary concerns. The geographical diversity of our plants in ten Brazilian states also enables us to reduce transportation costs due to the proximity to grain-producing regions, while also being close to the country's main export ports. Our dairy operations are based in the main milk-producing areas of different regions of Brazil, allowing easy access to the consumer market.
- ***Emphasis on Product Quality and Safety and on a Diversified Product Portfolio.*** We focus on quality and food safety in all our operations in order to meet customers' specifications, prevent contamination and minimize the risk of outbreaks of animal diseases. We employ traceability systems that allow us to quickly identify and isolate any farm on which a quality or health concern may arise. We also monitor the health and treatment of the poultry and hogs that we raise at all stages of their lives and throughout the production process. We were the first Brazilian company approved by the European Food Safety Inspection System as qualified to sell processed poultry products to European consumers. We have a diversified product range, which gives us the flexibility to channel our production according to market demand and the seasonality of our products.
- ***Experienced Management Team.*** Our senior management is highly experienced and has transformed our company during the last decade into a global business. Some members of our senior management have

worked with us for over ten years, and the members of our senior management who joined our company during that period have seasoned experience in their professional capacities. Our management seeks to emphasize best practices in our operations as well as corporate governance, as demonstrated by the listing of our common shares on the *Novo Mercado* of the São Paulo Stock Exchange (*BM&FBOVESPA S.A. — Bolsa de Valores Mercadorias e Futuros*), or “BM&FBOVESPA,” which requires adherence to the highest corporate governance standards of that stock exchange.

### **Business Strategy**

Our overall strategy is to use our competitive advantages as a food company with one of the most diversified chilled and frozen food product portfolios to pursue opportunities for long-term growth, diversifying our sales and reducing our costs with the aim of reducing volatility in our results. We will continue to seek balanced growth and consolidation among the business segments and product lines in which we operate, including, with regard to both the domestic and external market, while seeking growth opportunities through food processing activities overseas. The main elements of our strategy are as follows:

- ***Strengthen Our Global Distribution Network.*** We continue to develop our distribution capabilities outside Brazil to enable us to improve our services to existing customers and to expand our foreign customer base. In 2013, we expect to continue executing a long-term international distribution strategy in order to increase our brand awareness globally and expand into countries where we believe we can distribute our products profitably. We are focusing on expanding our distribution network in Europe, the Middle East and Asia so as to broaden our coverage and to support more targeted marketing efforts in these key regions. We are also considering processing some products abroad to allow us to deliver those products directly to customers in those markets. We may consider selective acquisitions as one way to achieve this goal. For example, we entered into a joint venture in China with Dah Chong Hong Limited, or “DCH,” and began exporting pork to this joint venture in March 2012, allowing us access to DCH’s distribution network.
- ***Further Develop Our Domestic and International Customer Base.*** We seek to continue to strengthen our domestic and international customer base through superior service and quality as well as increased product offerings. We believe that there are considerable opportunities to increase penetration of export markets, particularly as we broaden our product lines to include beef products, milk and dairy products and additional processed food products. We are also positioning our company to enter new export markets when existing trade barriers are relaxed or eliminated. Our objective is to pursue balanced growth of our domestic and export businesses. Brazilian market sales represented 58.4% of our total net sales, while export market sales represented 41.6% in 2012.
- ***Expand Our Core Business.*** We intend to further develop our core business of producing and selling poultry, pork, beef, milk, dairy and processed food products by, among other methods, investing in additional production capacity to increase scale and efficiency. For example, we are expanding our Lucas do Rio Verde Agroindustrial Complex to increase our production capacity for poultry, pork and processed products to meet long-term demand for these segments.
- ***Diversify Our Product Lines, Focusing on Value-Added Processed Food Products.*** We intend to continue diversifying our product lines, focusing on processed food products whose prices tend to fluctuate less than our unprocessed poultry and pork cuts and that can be targeted to specific markets. In 2009, we entered into a business combination with Sadia, which brought a wide array of processed food products to our portfolio and is also one of the largest exporters of poultry products in the world. In 2011, we purchased two Argentine companies, Avex and Flora Dánica, in order to expand our competitive base, leverage our export platform and address the potential of the local Argentine market. Avex produces unprocessed poultry products, and Flora Dánica produces, among other items, mayonnaise, sauces and margarine. In 2012, we formed two joint ventures, Rising Star Food Company Limited in China and the Carbery Group in Brazil — and acquired two companies, Quickfood in Argentina and Federal Foods in the United Arab Emirates. In addition, we invested in a new technology center in Jundiaí (in the State of São Paulo) in order to develop new products and lines. We may also pursue other acquisitions and/or build new industrial plants to support these strategic goals.

- ***Continue to Seek Leadership in Low Costs.*** We are continuing to improve our cost structure in order to remain a low-cost producer and enhance the efficiency of our operations. We seek to achieve greater economies of scale by increasing our production capacity, and we are concentrating our expansion efforts primarily in the mid-western region of Brazil because the availability of raw materials, land, labor, favorable weather and other features allows us to minimize our production costs. We are also continuing to implement new technologies to streamline our production and distribution functions.
- ***Synergies.*** Our acquisitions in recent years, including our business combination with Sadia, have created synergies. Our business combination strategy aims to expand our businesses in both the Brazilian and international markets. We believe that we will achieve commercial, operational, financial and production synergies in both the medium and long term from our mergers and acquisitions. We select potential business combination transactions in line with our strategy of bringing to our company a diverse range of processed food, meat and dairy products, distribution networks and customer relationships in both our domestic and export markets that can be integrated with and leveraged from our own operations.
- ***Strategic Management.*** We have adopted a long-term strategic plan, the BRF 15 Strategic Plan, to be one of the world's premier food companies by 2015, recognized for its world-class brands, innovation and results. We also expect to begin internal discussions on the BRF 20 Strategic Plan, preparing us for the coming decade.

### **Our BRF 15 Strategic Plan**

We have formulated a long-term strategic plan focused on growth over the coming years. As we integrate the operations of BRF and Sadia, we expect to shift our focus to strategies for achieving organic growth. Although our investments will continue to be significant, we expect them to decrease during 2013 and 2014. We expect to focus our investments on increased productivity and optimization of, and return on, invested capital, using existing capacity to establish a global presence with a wide and innovative portfolio of products to satisfy diverse consumer profiles.

In Brazil, we expect to undertake efforts to identify the role and positioning of each product category. We expect to take advantage of the potential of the *Sadia* name as an iconic brand. At the same time, we expect to continue to use the *Perdigão* brand to maintain its prominence among customers in spite of the decrease in sales volumes of products using that brand following the transaction with Marfrig. We will endeavor to achieve synergies in our distribution, using our distribution centers to offer a full spectrum of brands, delivering products using the same trucks and invoicing products from a single legal entity.

Internationally, we expect to focus on four complementary themes: brand, portfolio, progress in distribution and local production. With long-term planning, we expect to change our international profile and position ourselves to focus less on commodities and more on processed goods. To this end, we expect any strategic transactions to be focused on acquisitions of processors and distributors in the international market, the construction of factories and the development of products and marketing campaigns for different cultures and tastes, consolidating *Sadia* as a premium brand.

The specific objectives under our BRF 15 Strategic Plan in each of our segments are set forth below.

#### ***Brazilian Market***

- Meat products:
  - consolidate our position in active markets;
  - grow in categories capable of expansion;
  - correctly position brands;
  - add new categories/innovation to the business;
  - focus on market share value; and
  - promote service excellence.

### ***Foreign Market***

- Expand operations through acquisitions of processing and distribution units and local brands, using raw materials produced especially in Brazil due to competitive production costs;
- Consolidate active markets, reaching retail and food-services customers and developing products according to each market's demands in order to reduce export margin volatility; and
- Maintain a specific strategy for each area of operations:
  - *Middle East*: Build a factory with capacity for 80 thousand tons of processed foods; consolidate our market position; strengthen our brands; and increase retail and food services penetration.
  - *Latin America*: Expand processed foods production; make progress on our distribution chain and brands; add synergies from newly acquired businesses; seek enriched brands and portfolios with a production base in Argentina.
  - *Far East*: Reposition the Sadia brand as a premium brand; strengthen the value-added product mix, particularly in Japan and China; maintain our joint venture to improve product distribution and processing; and focus on retail and food services.
  - *Europe*: Improve the product mix and customer portfolio and make progress along the distribution chain.
  - *Africa*: Strengthen the *Perdix* and *Sadia* brands and enter new markets with significant consumer potential.

### ***Dairy Products***

- Consolidate our market position in the cheeses segment;
- Capture synergies in the sales and distribution areas;
- Pursue return with lower capital requirements;
- Review dry goods positioning; and
- Increase our brands' competitive edge and our portfolio's added value.

### ***Food Services***

- Strengthen our competitive position in the food-services market, building basic and distinctive competencies at BRF, generating growing profitability.

## **Recent Developments**

### ***Private Exchange Offers and Consent Solicitation***

Following the pricing of this offering, our subsidiary Sadia Overseas Ltd. ("Sadia Overseas") intends to offer to eligible holders the opportunity to exchange up to U.S.\$150.0 million aggregate principal amount (the "Maximum Tender Amount," which maximum amount may be modified at our discretion) of outstanding 6.875% Notes due 2017 issued by Sadia Overseas and guaranteed by us (and formerly guaranteed by our subsidiary Sadia prior to its merger with and into us) (the "2017 Notes") and outstanding 7.250% Senior Notes due 2020 issued by our subsidiary BFF International Limited and guaranteed by us (and formerly guaranteed by Sadia prior to its merger with and into us) (the "2020 Notes" and, together with the 2017 Notes, the "Existing Notes") for an equal principal amount of notes to be issued in connection with this offering (the "notes" or "2023 U.S. Dollar Notes"). Sadia Overseas expects to accept Existing Notes validly tendered in the following order of priority: first, the 2017 Notes and, second, the 2020 Notes up to the Maximum Tender Amount. We refer to the offers to exchange Existing Notes for 2023 U.S. Dollar Notes as the "Private Exchange Offers."

Completion of the Private Exchange Offers is not a condition to the closing of this offering. No assurance can be given that the Private Exchange Offers will be commenced or completed or that particular amounts of the Existing Notes will be exchanged pursuant thereto.



In anticipation of the settlement of the Private Exchange Offers, the 2023 U.S. Dollar Notes to be delivered in connection with the Private Exchange Offers are expected to be purchased by Sadia Overseas as part of this offering. Accordingly, the 2023 U.S. Dollar Notes to be delivered in settlement of the Private Exchange Offers are expected to form a single series under the indenture with the 2023 U.S. Dollar Notes offered hereby and to have the same CUSIP number as the 2023 U.S. Dollar Notes offered hereby. If we do not commence and complete the Private Exchange Offers, we expect that Sadia Overseas will hold those 2023 U.S. Dollar Notes unless and until it transfers them in accordance with applicable law.

In addition, concurrently with the Private Exchange Offers, Sadia Overseas and BRF S.A. expect to solicit consents of holders of the 2017 Notes to amend the terms of the covenants and events of default contained in the indenture governing the 2017 Notes so that they are substantially identical to the covenants and events of default in the indenture that will govern the 2023 U.S. Dollar Notes offered hereby. Completion of the consent solicitation is not a condition to the closing of this offering. No assurance can be given that the consent solicitation will be successful.

Nothing contained in this offering memorandum shall constitute an offering of the 2023 U.S. Dollar Notes pursuant to the Private Exchange Offers or a solicitation of consents from the holders of the 2017 Notes.

#### ***Offering of Brazilian Real Senior Notes due 2018***

Concurrently with this offering, we are also offering to sell Brazilian *real*-denominated senior unsecured 7.75% notes due 2018, or the “2018 BRL Notes,” in an aggregate principal amount of R\$500.0 million (U.S.\$246.6 million at the applicable settlement rate of R\$2.0279 = U.S.\$1.00). The 2018 BRL Notes will be denominated in *reais*, but payment of principal and interest will be made in U.S. dollars. We intend to use the proceeds from the offering of the 2018 BRL Notes for general corporate purposes, which may include the repayment of short and medium-term indebtedness. Nothing in this offering memorandum shall constitute an offering of the 2018 BRL Notes. Neither the offering of the notes offered hereby nor the offering of the 2018 BRL Notes is conditioned upon the consummation of the other offering.

#### ***Election of New Board Members and Fiscal Council Members at Annual Shareholders’ Meeting and Name Change***

We held our annual shareholders’ meeting on April 9, 2013, and Abilio Diniz was elected as the new Chairman of our Board of Directors, Sérgio Rosa was elected as the new Vice Chairman of our Board of Directors, and Carlos Fernando Costa was elected as a new board member. In addition, Eduardo Rossi was elected as alternate to Abilio Diniz; Mauro José Periotto was elected as alternate to Paulo Assunção de Sousa; Sérgio Schwartz was elected as alternate to Décio da Silva; Manuela Cristina Lemos Marçal was elected as alternate to Luis Carlos Fernandes Afonso; Helena Kerr do Amaral was elected as alternate to Carlos Fernando Costa; Daniel Arduini Cavalcanti de Arruda was elected as alternate to José Carlos Reis de Magalhães Neto; and Fernando Shayer was elected as alternate to Pedro de Andrade Faria. See “Item 6. Directors, Senior Management and Employees” in our 2012 Form 20-F. At the same annual shareholders’ meeting, Paola Rocha Ferreira was elected as an alternate to Susana Hanna Stiphan Jabra on our Fiscal Council.

In addition, our shareholders approved the change of our corporate name from BRF — Brasil Foods S.A. to BRF S.A. Following recording of the appropriate corporate documents in the Commercial Registry of the State of Santa Catarina, on April 16, 2013 where our registered office is located, the name change became effective retroactively as of April 9, 2013.

#### ***Dividends***

At our annual shareholders’ meeting on April 9, 2013, our shareholders approved the distribution of supplementary dividends in the amount of R\$45.3 million, paid on April 30, 2013, corresponding to R\$0.05205085 per share based on the free float as of May 1, 2013 (870,302,791 shares).

### ***Rio de Janeiro Tax Assessment***

On April 30, 2013, the State of Rio de Janeiro filed a tax assessment in the amount of R\$70.0 million to collect the *Imposto Sobre a Circulação de Mercadorias e Serviços*, or “ICMS,” allegedly due in connection with the lack of evidence of the origin of the tax credits used by us from March to June 2010. Our legal advisors are still evaluating the new tax assessment in order to classify the risk of loss, as a response to the assessment is due on May 30, 2013.

### ***Sale of Doux Assets***

In November 2012, we agreed with the Brazilian Administrative Council for Economic Defense (*Conselho Administrativo de Defesa Econômica*, the Brazilian government agency with antitrust decision-making authority, or “CADE”) that we would sell certain assets (the “Doux assets”) related to the breeding, production and slaughtering of hogs that were pledged as collateral for advances made to Doux Frangosul S.A. Agro Avícola Industrial (now known as FRS S.A. Agro Avícola Industrial) in 2011, as described in Note 1.5 to our consolidated financial statements included in our 2012 Form 20-F and Note 1.2 to our unaudited interim consolidated financial statements included in this offering memorandum.

On May 7, 2013, we announced that we had entered into an agreement to sell these assets to JBS Aves Ltda., a subsidiary of JBS S.A. The total purchase price is R\$200.0 million, which is allocated as follows: (1) R\$120.0 million for the industrial unit in the City of Ana Rech in the State of Rio Grande do Sul and the Granja André Rocha property in Nova Prata in the State of Rio Grande do Sul and (2) R\$80.0 million for related biological assets, which consist of approximately 491 thousand hogs. The purchase price is expected to be paid in 50 consecutive monthly installments of R\$4.0 million, with interest calculated based on a specified inflation index. The first installment is due six months after definitive agreements are signed. The agreement is subject to certain conditions precedent, including approval from the CADE.

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Our principal executive offices are located at Rua Hungria, 1400, Jd. Europa, 01455-000, São Paulo, SP, Brazil, and our telephone number at this address is +55-11-2322-5052/5050/5061. Our internet address is [www.brf-br.com/ir](http://www.brf-br.com/ir). The information on our website is not incorporated by reference into this offering memorandum.

## The Offering

The following summary of the terms and conditions of the notes highlights information presented in greater detail elsewhere in this offering memorandum, including under “Description of the Notes.” This summary is not complete and does not contain all the information you should consider before investing in the notes.

<b>Issuer</b> .....	BRF S.A.
<b>Notes offered</b> .....	U.S.\$500.0 million aggregate principal amount of 3.95% senior notes due 2023.
<b>Issue price</b> .....	98.497%
<b>Issue date</b> .....	May 22, 2013.
<b>Maturity date</b> .....	May 22, 2023.
<b>Interest</b> .....	The notes will bear interest from May 22, 2013 at the rate of 3.95% per year, payable semi-annually in arrears on each interest payment date.
<b>Interest payment dates</b> .....	May 22 and November 22, beginning on November 22, 2013.
<b>Ranking</b> .....	The notes will: <ul style="list-style-type: none"><li>• be senior unsecured obligations of BRF;</li><li>• be effectively junior in right of payment to any secured indebtedness of BRF to the extent of the value of the assets securing such indebtedness;</li><li>• rank equally in right of payment with all of BRF’s existing and future unsecured unsubordinated indebtedness;</li><li>• be senior in right of payment to any future subordinated indebtedness of BRF; and</li><li>• be structurally subordinated to all of the existing and future liability of each of BRF’s subsidiaries.</li></ul>
	As of March 31, 2013, we had consolidated total indebtedness of R\$9,133.5 million (U.S.\$4,535.5 million). Of our consolidated total indebtedness, BRF S.A. had (1) R\$1,382.6 million (U.S.\$686.5 million) of secured indebtedness on an unconsolidated basis to which the notes will be effectively subordinated and (2) R\$5,033.9 million (U.S.\$2,499.7 million) of unsecured indebtedness on an unconsolidated basis, which will rank equally in right of payment with the notes; and our subsidiaries had R\$2,717.1 million (U.S.\$1,349.2 million) of total indebtedness (excluding trade payables and intercompany liabilities), all of which will be structurally senior to the notes. As of March 31, 2013, our investments in our subsidiaries amounted to R\$2,635.5 million, representing 8.7% of our consolidated total assets and 17.5% of our consolidated shareholders’ equity.
<b>Optional redemption</b> .....	We may redeem the notes, in whole or in part, at any time after May 22, 2014 at a redemption price based on a “make-whole” amount, plus accrued and unpaid interest and additional amounts, if any, to the redemption date, <i>provided</i> that no less than U.S.\$150 million in aggregate principal amount of notes must

	<p>remain outstanding immediately following any partial redemption. See “Description of the Notes — Redemption — Optional Redemption.”</p>
<b>Tax redemption</b> .....	<p>We may redeem the notes, in whole but not in part, at 100% of their principal amount, plus accrued and unpaid interest and additional amounts, if any, to the redemption date, upon the occurrence of specified events relating to applicable tax law. See “Description of the Notes — Redemption — Redemption for Tax Reasons.”</p>
<b>Additional amounts</b> .....	<p>We will pay additional amounts in respect of any payments of interest or principal so that the amount you receive under the notes, after applicable Brazilian withholding tax, if any, will equal the amount that you would have received if no withholding tax had been applicable, subject to certain exceptions as described under “Description of the Notes — Additional Amounts.”</p>
<b>Covenants</b> .....	<p>The indenture governing the notes will contain covenants that limit future actions to be taken, or transactions to be entered into, by us and our subsidiaries. The indenture will limit our and our subsidiaries’ ability to, among other things:</p> <ul style="list-style-type: none"> <li>• create certain liens;</li> <li>• enter into certain sale and leaseback transactions; and</li> <li>• merge, consolidate or sell substantially all of our assets.</li> </ul> <p>However, these covenants are subject to significant exceptions. See “Description of the Notes — Covenants.”</p>
<b>Events of default</b> .....	<p>The indenture will set forth the events of default applicable to the notes, including an event of default triggered by cross-acceleration of other debt in an amount of U.S.\$150.0 million or more.</p>
<b>Further issuances</b> .....	<p>We may from time to time, without notice to or consent of the holders of the notes, create and issue an unlimited principal amount of additional notes of the same series as the notes offered hereby, provided that if the additional notes are not fungible with the notes for United States federal income tax purposes, the additional notes will have a separate CUSIP number.</p>
<b>Use of proceeds</b> .....	<p>We expect the net proceeds from the sale of the notes to be approximately U.S.\$489.0 million after deducting estimated fees and expenses of the offering. We intend to use the net proceeds of this offering to extend our debt maturity profile by refinancing short and medium-term maturity indebtedness and to use any remainder for general corporate purposes. See “Use of Proceeds.”</p>
<b>Form and denomination</b> .....	<p>The notes will be issued in the form of global notes in fully registered form without interest coupons. The global notes will be exchangeable or transferable, as the case may be, for definitive certificated notes in fully registered form without interest coupons only in limited circumstances. The notes will be issued in registered form in denominations of U.S.\$200,000 and integral</p>

	<p>multiples of U.S.\$1,000 in excess thereof. See “Description of the Notes — Principal, Maturity and Interest” and “Form of the Notes.”</p>
<b>Settlement</b> .....	<p>The notes will be delivered in book-entry form through the facilities of The Depository Trust Company, or “DTC,” for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or “Euroclear,” and Clearstream Banking, <i>société anonyme</i>, or “Clearstream,” and will settle in DTC’s Same-Day Funds Settlement System.</p>
<b>Transfer restrictions</b> .....	<p>The notes have not been, and will not be, registered under the Securities Act and are subject to limitations on transfer, as described under “Transfer Restrictions.”</p>
<b>Listing of the notes</b> .....	<p>Application has been made to list the notes on the Luxembourg Stock Exchange for trading on the Euro MTF Market.</p> <p>If the listing of the notes on the Euro MTF Market would, in the future, require us to publish financial information either more regularly than we otherwise would be required to, or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our published financial information, we may delist the notes and, at our option, seek an alternative admission to listing, trading and/or quotation for the notes by another listing authority, stock exchange and/or quotation system.</p>
<b>Governing law</b> .....	<p>The indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York.</p>
<b>Trustee, registrar, transfer agent and paying agent</b> .....	<p>The Bank of New York Mellon.</p>
<b>Principal paying agent</b> .....	<p>The Bank of New York Mellon Trust (Japan), Ltd.</p>
<b>Luxembourg paying agent, transfer agent and listing agent</b> .....	<p>The Bank of New York Mellon (Luxembourg) S.A.</p>
<b>Risk factors</b> .....	<p>You should carefully consider all of the information contained in this offering memorandum prior to investing in the notes. In particular, we urge you to carefully consider the information set forth under “Risk Factors.”</p>

### Summary Financial and Other Information

The following summary financial data as of December 31, 2012 and 2011 and for the three years ended December 31, 2012 should be read in conjunction with our audited consolidated financial statements incorporated by reference in this offering memorandum. The summary financial data at March 31, 2013 and for the three-month periods ended March 31, 2013 and 2012 should be read in conjunction with our unaudited interim consolidated financial statements included in this offering memorandum. Our audited consolidated financial statements incorporated by reference in this offering memorandum have been prepared in accordance with IFRS, as issued by the IASB. Our unaudited interim consolidated financial statements included in this offering memorandum have been prepared in conformity with IFRS for interim financial reporting in accordance with IAS 34 — *Interim Financial Reporting*. The results for the three-month period ended March 31, 2013 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2013 or any other period.

The summary financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Presentation of Financial and Other Information.”

	Three Months Ended March 31,			Year Ended December 31,			
	2013(1)	2013	2012	2012(1)	2012	2011	2010
	(in millions of U.S.\$) (unaudited)	(in millions of reais) (unaudited)	(in millions of reais) (unaudited)	(in millions of U.S.\$) (unaudited)	(in millions of reais)	(in millions of reais)	(in millions of reais)
<b>Statement of Income Data:</b>							
Net sales	3,579.7	7,208.9	6,337.1	14,161.0	28,517.4	25,706.2	22,681.3
Cost of sales	(2,737.1)	(5,512.0)	(4,993.6)	(10,956.2)	(22,063.6)	(19,047.0)	(16,951.2)
<b>Gross profit</b>	<b>842.6</b>	<b>1,696.9</b>	<b>1,343.5</b>	<b>3,204.8</b>	<b>6,453.8</b>	<b>6,659.2</b>	<b>5,730.1</b>
Operating income (expenses):							
Selling expenses	(497.5)	(1,001.9)	(953.4)	(2,143.9)	(4,317.3)	(3,837.5)	(3,523.1)
General and administrative expenses	(51.1)	(103.0)	(85.7)	(193.1)	(388.9)	(426.9)	(332.9)
Other operating expenses, net	(33.9)	(68.3)	(42.0)	(189.2)	(381.1)	(402.7)	(393.9)
Equity interest in income of affiliates	3.7	7.4	5.7	11.1	22.4	9.0	4.4
<b>Operating income</b>	<b>263.7</b>	<b>531.1</b>	<b>268.1</b>	<b>689.7</b>	<b>1,388.9</b>	<b>2,001.1</b>	<b>1,484.6</b>
Financial expenses, net	(50.6)	(101.8)	(75.0)	(283.3)	(570.6)	(479.5)	(483.1)
<b>Income before taxes</b>	<b>213.2</b>	<b>429.3</b>	<b>193.1</b>	<b>406.3</b>	<b>818.3</b>	<b>1,521.6</b>	<b>1,001.5</b>
Income and social contribution tax expense	(31.6)	(63.7)	(38.2)	(9.4)	(19.0)	(39.9)	(130.6)
Deferred income and social contribution tax	(4.6)	(9.3)	(2.0)	10.6	21.3	(116.6)	(65.9)
<b>Net profit</b>	<b>176.9</b>	<b>356.3</b>	<b>152.9</b>	<b>407.5</b>	<b>820.6</b>	<b>1,365.1</b>	<b>805.0</b>
Attributable to:							
BRF shareholders	178.0	358.5	153.2	403.8	813.2	1,367.4	804.1
Non-controlling interest	(1.1)	(2.2)	(0.3)	3.7	7.4	(2.3)	0.9

(1) Translated for convenience only using the selling rate as reported by the Central Bank for *reais* into U.S. dollars at March 31, 2013 of R\$2.0138 = U.S.\$1.00.

	At March 31,		At December 31,		
	2013(1) (in millions of U.S.\$) (unaudited)	2013 (in millions of <i>reais</i> ) (unaudited)	2012(1) (in millions of U.S.\$) (unaudited)	2012 (in millions of <i>reais</i> )	2011 (in millions of <i>reais</i> )
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	685.9	1,381.3	958.7	1,930.7	1,366.8
Marketable securities	268.2	540.1	308.8	621.9	1,372.7
Trade accounts receivable, net	1,487.6	2,995.7	1,554.9	3,131.2	3,207.8
Inventories	1,584.9	3,191.7	1,499.0	3,018.6	2,679.2
Biological assets	654.9	1,318.9	680.8	1,371.0	1,156.1
Other current assets	765.8	1,542.1	753.1	1,516.6	1,341.2
<b>Total current assets</b>	<b>5,447.3</b>	<b>10,969.8</b>	<b>5,755.3</b>	<b>11,590.0</b>	<b>11,123.8</b>
Marketable securities and restricted cash	73.7	148.5	83.2	167.5	153.4
Trade accounts receivable, net	5.5	11.0	5.5	11.1	2.4
Biological assets	218.5	440.0	212.6	428.2	387.4
Other non-current assets	1,525.4	3,071.8	1,547.5	3,116.4	4,111.6
Investments	52.1	104.9	18.2	36.7	20.4
Property, plant and equipment, net	5,405.8	10,886.2	5,298.8	10,670.7	9,798.4
Intangible assets	2,361.4	4,755.3	2,359.6	4,751.7	4,386.1
<b>Total non-current assets</b>	<b>9,642.3</b>	<b>19,417.7</b>	<b>9,525.4</b>	<b>19,182.3</b>	<b>18,859.7</b>
<b>Total assets</b>	<b>15,089.6</b>	<b>30,387.5</b>	<b>15,280.7</b>	<b>30,772.3</b>	<b>29,983.5</b>
Short-term debt	1,251.5	2,520.3	1,212.0	2,440.8	3,452.5
Trade accounts payable	1,563.2	3,147.9	1,679.0	3,381.2	2,681.3
Other current liabilities	611.3	1,231.0	824.1	1,659.6	1,854.0
<b>Total current liabilities</b>	<b>3,426.0</b>	<b>6,899.2</b>	<b>3,715.2</b>	<b>7,481.6</b>	<b>7,987.8</b>
Long-term debt	3,283.9	6,613.2	3,514.5	7,077.5	4,601.1
Other non-current liabilities	922.4	1,857.6	812.9	1,637.1	3,284.6
<b>Total non-current liabilities</b>	<b>4,206.4</b>	<b>8,470.8</b>	<b>4,327.4</b>	<b>8,714.6</b>	<b>7,885.7</b>
<b>Total current and non-current liabilities</b>	<b>7,632.3</b>	<b>15,370.0</b>	<b>8,042.6</b>	<b>16,196.2</b>	<b>15,873.5</b>
Capital	6,187.6	12,460.5	6,187.6	12,460.5	12,460.5
Capital reserves	37.9	76.3	34.7	69.9	76.3
Income reserves	1,136.7	2,289.1	1,122.8	2,261.1	1,760.4
Retained earnings	164.1	330.5	—	—	—
Treasury shares	(23.5)	(47.4)	(25.8)	(51.9)	(65.3)
Other comprehensive loss	(62.4)	(125.6)	(99.8)	(201.0)	(161.4)
<b>Attributed to interest of controlling shareholders</b>	<b>7,440.4</b>	<b>14,983.4</b>	<b>7,219.5</b>	<b>14,538.6</b>	<b>14,070.4</b>
Non-controlling interest	16.9	34.1	18.6	37.5	39.6
<b>Shareholders' equity</b>	<b>7,457.3</b>	<b>15,017.5</b>	<b>7,238.1</b>	<b>14,576.1</b>	<b>14,110.0</b>
<b>Total liabilities</b>	<b>15,089.6</b>	<b>30,387.5</b>	<b>15,280.7</b>	<b>30,772.3</b>	<b>29,983.5</b>

(1) Translated for convenience only using the selling rate as reported by the Central Bank for *reais* into U.S. dollars at March 31, 2013 of R\$2.0138 = U.S.\$1.00.

	At and for the Three Months Ended March 31,			At and for the Year Ended December 31,			
	2013(1)	2013	2012	2012(1)	2012	2011	2010
	(in millions of U.S.\$)	(in millions of <i>reais</i> )	(in millions of <i>reais</i> )	(in millions of U.S.\$)	(in millions of <i>reais</i> )	(in millions of <i>reais</i> )	(in millions of <i>reais</i> )
<b>Other Financial Data (Unaudited):</b>							
Net debt (at period end)(2) . . . . .	3,551.5	7,152.1	5,974.0	3,485.2	7,018.4	5,407.9	3,634.4
Adjusted EBITDA(3) . . . . .	423.3	852.5	532.0	1,331.1	2,680.5	3,244.3	2,635.0
Net debt/Adjusted EBITDA(2)(3)(4) . . . . .	—	2.4x	2.0x	—	2.6x	1.7x	1.4x
Adjusted EBITDA margin(5) . . . . .	—	11.8%	8.4%	—	9.4%	12.6%	11.6%

	At and for the Three Months Ended March 31,			At and for the Year Ended December 31,			
	2013(1)	2013	2012	2012(1)	2012	2011	2010
	(in millions of U.S.\$)	(in millions of <i>reais</i> )	(in millions of <i>reais</i> )	(in millions of U.S.\$)	(in millions of <i>reais</i> )	(in millions of <i>reais</i> )	(in millions of <i>reais</i> )
<b>Operating Data:</b>							
Poultry slaughtered (million heads per period) . . . . .	—	441.9	464.1	—	1,792.4	1,756.4	1,623.2
Pork/beef slaughtered (thousand heads per period) . . . . .	—	2,474.7	2,914.5	—	10,874.1	10,847.9	10,563.4
Total sales of meat, dairy and other processed food products (thousand tons per period) . . . . .	—	1,338.1	1,472.8	—	5,872	5,712	5,666
Employees (at period end)(6) . . . . .	—	113,986	120,396	—	113,952	119,484	113,175

(1) Translated for convenience only using the selling rate as reported by the Central Bank for *reais* into U.S. dollars at March 31, 2013 of R\$2.0138 = U.S.\$1.00.

(2) We define net debt as short term debt minus other financial assets and liabilities, net plus long-term debt minus cash and cash equivalents (including restricted cash) and marketable securities. Net debt is a supplemental measure of our financial condition and used in making certain management decisions. It is not a prescribed measure under IFRS. However, our presentation of net debt is not meant to suggest that all of our cash, cash equivalents and marketable securities are available to service our debt, particularly as a portion of our cash, cash equivalents and marketable securities are necessary to provide working capital in connection with our business and certain of our cash constitutes restricted cash, as described in the notes to the table below. The following table sets forth our net debt at the dates indicated:

	At March 31,			At December 31,			
	2013(a)	2013	2012	2012(a)	2012	2011	2010
	(in millions of U.S.\$) (unaudited)	(in millions of <i>reais</i> ) (unaudited)	(in millions of <i>reais</i> ) (unaudited)	(in millions of U.S.\$) (unaudited)	(in millions of <i>reais</i> )	(in millions of <i>reais</i> )	(in millions of <i>reais</i> )
Short-term debt . . . . .	1,251.5	2,520.3	3,590.4	1,212.0	2,440.8	3,452.5	2,227.7
(-) Other financial assets and liabilities, net . . . . .	(43.9)	(88.5)	(115.9)	(109.3)	(220.2)	(247.2)	16.4
(+) Long-term debt . . . . .	3,283.9	6,613.2	4,494.6	3,514.5	7,077.5	4,601.1	4,975.2
(-) Cash, cash equivalents and marketable securities(b) . . . . .	1,027.9	2,069.9	2,226.8	1,350.7	2,720.1	2,892.9	3,552.1
<b>Net debt (unaudited) . . . . .</b>	<b>3,551.5</b>	<b>7,152.1</b>	<b>5,974.0</b>	<b>3,485.2</b>	<b>7,018.4</b>	<b>5,407.9</b>	<b>3,634.4</b>

(a) Translated for convenience only using the selling rate as reported by the Central Bank for *reais* into U.S. dollars at March 31, 2013 of R\$2.0138 = U.S.\$1.00.

(b) This line item includes restricted cash of (i) R\$95.9 million for the three-month period ended March 31, 2013, (ii) R\$72.1 million for the three-month period ended March 31, 2012, (iii) R\$93.0 million for the year ended December 31, 2012, (iv) R\$70.0 million for the year ended December 31, 2011 and (v) R\$61.0 million for the year ended December 31, 2010.



(3) We calculate EBITDA as net income attributable to BRF shareholders *plus* income and social contribution taxes *plus* financial expenses, net *plus* depreciation, amortization and depletion. We define Adjusted EBITDA as EBITDA *plus* other operating results, *plus* minority interest in income of subsidiaries, *plus* net income attributable to non-controlling interest. We use EBITDA and Adjusted EBITDA as supplemental measures of our financial performance as well as of our ability to generate cash from operations. We also use EBITDA and Adjusted EBITDA in making certain management decisions. Neither EBITDA nor Adjusted EBITDA are prescribed measures under IFRS and should not be considered as substitutes for net income or loss, cash flow from operations or other measures of operating performance or liquidity determined in accordance with IFRS. The use of EBITDA and Adjusted EBITDA has material limitations, including, among others, the following:

- EBITDA and Adjusted EBITDA add back financial expenses, including interest expense. However, because we borrow money to finance some of our operations and capital expenditures, interest is a necessary and ongoing part of our costs.
- EBITDA and Adjusted EBITDA add back income and social contribution taxes, but the payment of these taxes is a necessary and ongoing cost of our operations.
- EBITDA and Adjusted EBITDA add back depreciation, amortization or depletion, but because we use property, plant and equipment to generate revenues in our operations, depreciation is a necessary and ongoing component of our costs.
- Adjusted EBITDA adds back the other operating expenses set forth in the table below, and we may incur similar expenses in the future.
- EBITDA and Adjusted EBITDA as calculated by us may not be comparable to similarly titled measures of other companies.

The following table reconciles EBITDA and Adjusted EBITDA to our consolidated net income:

	Three Months Ended March 31,			Year Ended December 31,			
	2013(a)	2013	2012	2012(a)	2012	2011	2010
	(in millions of U.S.\$) (unaudited)	(in millions of <i>reais</i> ) (unaudited)	(in millions of <i>reais</i> ) (unaudited)	(in millions of U.S.\$) (unaudited)	(in millions of <i>reais</i> )	(in millions of <i>reais</i> )	(in millions of <i>reais</i> )
Net income attributable to BRF shareholders . . . . .	178.0	358.5	153.2	403.8	813.2	1,367.4	804.1
(+) Income and social contribution taxes(b) . . . . .	36.2	73.0	40.2	(1.1)	(2.3)	156.5	196.5
(+) Financial expenses, net . . . . .	50.6	101.8	75.0	283.3	570.6	479.5	483.1
(+) Depreciation, amortization and depletion . . . . .	134.3	270.5	237.6	480.0	966.7	886.3	780.0
<b>EBITDA (unaudited) . . . . .</b>	<b>399.1</b>	<b>803.8</b>	<b>506.0</b>	<b>1,166.1</b>	<b>2,348.2</b>	<b>2,889.7</b>	<b>2,263.7</b>
(+) Other operating expenses(c) . . . . .	29.0	58.3	32.0	172.5	347.3	365.9	374.8
(+) Equity interest in income of subsidiaries(d) . . . . .	(3.7)	(7.4)	(5.7)	(11.1)	(22.4)	(9.0)	(4.4)
(+) Non-controlling shareholders(e) . . . . .	(1.1)	(2.2)	(0.3)	3.7	7.4	(2.3)	0.9
<b>Adjusted EBITDA (unaudited) . . . . .</b>	<b>423.3</b>	<b>852.5</b>	<b>532.0</b>	<b>1,331.1</b>	<b>2,680.5</b>	<b>3,244.3</b>	<b>2,635.0</b>

(a) Translated for convenience only using the selling rate as reported by the Central Bank for *reais* into U.S. dollars at March 31, 2013 of R\$2.0138 = U.S.\$1.00.

(b) Includes deferred income and social contribution tax expense.

(c) Represents expenses or income that we believe do not reflect the direct costs of our ongoing operations. Certain of these expenses do recur in successive periods, including:

- costs incurred from losses or gains from sales of fixed assets;

- provisions for penalties and contingencies;
- costs incurred from idle facilities, or idling costs; and
- costs related to employee profit sharing and officers' bonuses.

We include provisions for penalties and contingencies in calculating Adjusted EBITDA because the amounts we record in any given period are unpredictable and vary according to the applicable stage of our legal and administrative proceedings. However, we expect to continue to record provisions for penalties and contingencies because we are involved in litigation in the ordinary course of our business. For more information about our litigation, see "Item 8. Financial Information — A. Consolidated Statements and Other Financial Information — Legal Proceedings" in our 2012 Form 20-F.

We include idling costs in calculating Adjusted EBITDA because we do not view these costs as reflective of our production of products for sale and because we do not expect any given facility to remain idle in the long term. However, in the ordinary course of business, we incur idling costs when we find it necessary to strategically reduce production of a given product or for a given market and cannot redirect sales of that product or market to a different market, particularly when we encounter weak demand, low selling prices or other challenges for a given product or market.

We include profit sharing payments in calculating Adjusted EBITDA because we view our employees as stakeholders in our business and do not view these payments as direct costs of our operations. In addition, these payments vary according to our profits and are controlled by our board of directors. However, to the extent we record profits, we expect to record profit sharing payments in future fiscal periods.

Because costs of these types are an inevitable part of our business, you should not assume that we will be able to eliminate similar costs in future periods. In the periods set forth in the table above, our other operating results mainly include the following:

- in the three months ended March 31, 2013, idling costs of R\$8.9 million, losses on sales of fixed assets of R\$5.6 million, employees' profit sharing of R\$34.7 million and other adjustments in the amount of R\$9.1 million;
  - in the three months ended March 31, 2012, idling costs of R\$20.0 million and employees' profit sharing of R\$17.0 million, partially offset by other adjustments in the amount of R\$5.0 million;
  - in the year ended December 31, 2012, provisions for contingencies of R\$19.7 million, employees' profit sharing of R\$111.4 million and idling costs of R\$60.0 million, losses on sales of fixed assets of R\$15.2 million, loss on the execution of the Performance Commitment Agreement (*Termo de Compromisso de Desempenho*, or "TCD") of R\$108.9 million, and other adjustments in the amount of R\$32.1 million;
  - in the year ended December 31, 2011, provisions for contingencies of R\$115.9 million, employees' profit sharing of R\$219.5 million and idling costs of R\$65.9 million, partially offset by gains on sales of fixed assets of R\$23.2 million and other adjustments in the amount of R\$12.2 million; and
  - in the year ended December 31, 2010, idling costs of R\$96.1 million, employees' profit sharing of R\$128.7 million, provision for contingencies of R\$73.9 million, losses on sales of fixed assets of R\$26.3 million and other adjustments in the amount of R\$49.8 million.
- (d) Represents gains recorded relating to equity pick-up with respect to the net income of our jointly-controlled subsidiaries.
- (e) Represents net income attributable to non-controlling shareholders' interests. We include net income attributable to non-controlling shareholders' interests in calculating Adjusted EBITDA because we are not legally or contractually obligated to distribute this net income to the non-controlling shareholders in any specified period. However, this portion of our net income is not included in calculating our consolidated net income attributable to BRF shareholders in accordance with IFRS.
- (4) Net debt/Adjusted EBITDA calculations for March 31, 2013 and 2012 are calculated using Adjusted EBITDA figures for the twelve months ended March 31, 2013 and 2012, respectively.
- (5) Represents Adjusted EBITDA divided by net sales.
- (6) The number of employees includes permanent and temporary employees.

## **RISK FACTORS**

*Prospective purchasers of notes should carefully consider the risks described below, as well as the other information in this offering memorandum, before deciding to purchase any notes. Our business, results of operations, financial condition or prospects could be negatively affected if any of these risks occurs, and, as a result, the trading price of the notes could decline and you could lose all or part of your investment.*

### **Risks Relating to Our Business and Industry**

***Our results of operations are subject to cyclical and volatility affecting both our raw material prices and our selling prices.***

Our business is largely dependent on the cost and supply of corn, soy meal, soybeans, hogs, cattle, milk and other raw materials, as well as the selling prices of our poultry, pork, beef and dairy products, all of which are determined by constantly changing market forces of supply and demand, which may fluctuate significantly, and other factors over which we have little or no control.

These other factors include, among others, fluctuations in local and global poultry, hog, cattle and milk production levels, environmental and conservation regulations, economic conditions, weather, animal and crop diseases, cost of international freight and exchange rate fluctuations. Our industry, both in Brazil and abroad, is also characterized by cyclical periods of higher prices and profitability, followed by overproduction, leading to periods of lower prices and profitability. We are not able to mitigate these risks by entering into long-term contracts with our customers and most of our suppliers because such contracts are not customary in our industry. Our financial performance is also affected by domestic and international freight costs, which are vulnerable to volatility in the price of oil. We may not be successful in addressing the effects of cyclical and volatility on costs and expenses or the pricing of our products, and our overall financial performance may be adversely affected.

The volatility of prices of our key materials has continued since the global economic crisis of 2008 and 2009. In 2012, the average corn price in Brazil was 5.0% higher than the average corn price in 2011, and prices were considerably higher during parts of the year. For example, corn prices in December 2012 were 26.3% higher than in December 2011. In 2012, the average Soybean meal price in Brazil was 61.4% higher than the average price in 2011, and comparing December 2011 to December 2012, soybean meal prices in Brazil were up by 95.9%. We have found it necessary, at times, to increase our selling prices of products in order to mitigate the impact of the increase in the costs of our raw materials.

***Health risks related to the food industry could adversely affect our ability to sell our products.***

We are subject to risks affecting the food industry generally, including risks posed by contamination or food spoilage, evolving nutritional and health-related concerns, consumer product liability claims, product tampering, the possible unavailability and expense of liability insurance and the potential cost and disruption of a product recall. Among such risks are those related to raising animals, including disease and adverse weather conditions. Meat is subject to contamination during processing and distribution. Contamination during processing could affect a large number of our products and therefore could have a significant impact on our operations.

Our sales are dependent on consumer preferences and any actual or perceived health risks associated with our products, including any adverse publicity concerning these risks, could cause customers to lose confidence in the safety and quality of our products, reducing the level of consumption of those products.

Even if our own products are not affected by contamination, our industry may face adverse publicity if the products of other producers become contaminated, which could result in reduced consumer demand for our products in the affected category. We maintain systems designed to monitor food safety risks throughout all stages of the production process (including the production of poultry, hogs, cattle and dairy products).

Our systems for compliance with governmental regulations may not be fully effective in mitigating risks related to food safety. Any product contamination could have a material adverse impact on our business, results of operations, financial condition and prospects.

***Deterioration of general economic conditions could negatively impact our business.***

Our business may be adversely affected by changes in Brazilian and global economic conditions. Our business was materially affected by the global economic crisis, which resulted in increased volatility in our markets and contributed to net losses in the fourth quarter of 2008 and in the first half of 2009. For instance, the global economic crisis led to an increase in raw material prices, such as corn and soybeans, which we could not pass on to our customers. In addition, there was a sharp decrease in demand in 2009, which forced us to cut 20.0% of our meat production for export in the first quarter of 2009. Although Brazilian and global economic conditions generally improved in 2010, the European sovereign debt crisis led to a significant slowdown in economic activity in Europe in 2011, increasing unemployment rates and decreasing meat consumption. Conditions continued to be challenging in 2012, with exports of Brazilian chicken to Europe and certain areas of the Middle East continued to decline, and exports of Brazilian pork to Argentina, Venezuela and certain other countries also declined. In Japan and the Middle East, the oversupply cause a decrease in prices and volumes, compromising our profitability. Although our net sales from exports increased in 2012, our operating margins declined significantly due to increases in production costs. Because of the global nature of our business, we remain subject to the risk of economic volatility worldwide, and economic and political disruptions around the world can have a material adverse effect on our business and results of operations.

***Raising animals and meat processing involve animal health and disease control risks, which could have an adverse impact on our results of operations and financial condition.***

Our operations involve raising poultry and hogs and processing meat from poultry, hogs and cattle, as well as the purchase of milk and the sale of milk and dairy products, which require us to maintain animal health and control disease. We could be required to destroy animals or suspend the sale of some of our products to customers in Brazil and abroad in the event of an outbreak of disease affecting animals, such as the following: (1) in the case of poultry, avian influenza (discussed below) and Newcastle disease; (2) in the case of hogs, cattle and certain other animals, foot-and-mouth disease and A(H1N1) influenza (discussed below); and (3) in the case of cattle, foot-and-mouth disease and bovine spongiform encephalopathy, or “BSE,” known as “mad cow disease.” Destruction of poultry, hogs or other animals would preclude recovery of costs incurred in raising or purchasing these animals and result in additional expense for the disposal of such animals. An outbreak of foot-and-mouth disease could have an effect on livestock we own, the availability of livestock for purchase, consumer perception of certain protein products or our ability to access certain markets, which would adversely impact our results of operations and financial condition. In addition, although Brazilian cattle is generally grass-fed and at less risk of contracting mad cow disease than cattle raised in some other countries, increases in Brazilian cattle production could lead to the use of cattle feed containing animal byproducts that could heighten the risk of an outbreak of mad cow disease.

Outbreaks, or fears of outbreaks, of any of these or other animal diseases may lead to cancellation of orders by our customers and, particularly if the disease has the potential to affect humans, create adverse publicity that may have a material adverse effect on consumer demand for our products. Moreover, outbreaks of animal disease in Brazil may result in foreign governmental action to close export markets to some or all of our products, relating to some or all of our regions. For example, due to foot-and-mouth disease cases affecting cattle in the States of Mato Grosso do Sul and Paraná, certain major export markets, including Russia (which has been the largest importer of Brazilian pork) banned imports of pork from the entire country in November 2005. Russia partially lifted this ban in the second quarter of 2006 for pork products from the State of Rio Grande do Sul, and this ban was completely lifted in December 2008. However, in 2011, Russia prohibited imports from several Brazilian states, citing health and sanitary reasons, and this ban remains in place. Any future outbreaks of animal diseases could have a material adverse effect on our results of operations and financial condition.

***Our pork business in our Brazilian and export markets could be negatively affected by concerns about A(H1N1) influenza.***

In 2009, A(H1N1) influenza spread to many countries. On June 11, 2009, the World Health Organization, or “WHO,” declared a flu alert level six, signaling a “global pandemic.” Many countries, including Russia and China, prohibited imports of pork from countries reporting a significant number of cases (Mexico, United States

and Canada). On August 10, 2010, the WHO terminated the level six influenza pandemic alert and shifted its focus to a post-pandemic period. During this period, localized outbreaks of different magnitudes may show significant levels of A(H1N1) transmission. In China, for instance, at least 20 people died of A(H1N1) influenza in 2011.

Any further outbreak of A(H1N1) influenza could lead to the imposition of costly preventive controls on pork imports in our export markets and could have a negative impact on the consumption of pork in those markets or in Brazil. In addition, any future significant outbreak of A(H1N1) influenza in Brazil could lead to pressure to destroy our hogs, even though no link between the influenza cases and pork consumption has been shown. Any such destruction of our hogs would result in decreased sales of pork, prevent recovery of costs incurred in raising or purchasing our hogs, and result in additional expense for the disposal of destroyed hogs. Accordingly, any spread of A(H1N1) influenza, or increasing concerns about this disease, may have a material and adverse effect on our company.

***Our poultry business in Brazilian and export markets could be negatively affected by avian influenza.***

Chicken and other birds in some countries, particularly in Asia but also in Europe and Africa, have become infected by highly pathogenic avian influenza (the H5N1 virus). In a small number of cases, the avian influenza has been transmitted from birds to humans, resulting in illness and, on occasion, death. Accordingly, health authorities in many countries have taken steps to prevent outbreaks of this viral disease, including destruction of afflicted poultry flocks.

Since 2003, there have been over 622 confirmed human cases of avian influenza and over 371 deaths, according to the WHO and the Food and Agriculture Organization, or “FAO.” Various countries in Asia, the Middle East and Africa reported human cases in the past five years, and several countries in Europe reported cases of avian influenza in birds. For example, Indonesia became the focus of international attention when the largest cluster of human H5N1 virus cases so far was identified. The H5N1 virus is considered firmly entrenched in poultry throughout much of Indonesia, and this widespread presence has resulted in a significant number of human cases. In addition, in late 2011, China suspended supplies of live poultry to Hong Kong after a dead chicken tested positive for avian influenza. In 2011, 62 cases were reported worldwide, with 34 deaths, according to the WHO.

More recently, between March 31, 2013 and May 2, 2013, there have been at least 128 laboratory-confirmed cases of human infection with avian influenza A (H7N9), a variation of the avian influenza virus, including 26 deaths in China and Taiwan, according to the WHO.

To date, Brazil has not had a documented case of avian influenza, although there are concerns that an outbreak of avian influenza may occur in the country in the future. Any outbreak of avian influenza in Brazil could lead to required destruction of our poultry flocks, which would result in decreased sales of poultry by us, prevent recovery of costs incurred in raising or purchasing such poultry, and result in additional expense for the disposal of destroyed poultry. In addition, any outbreak of avian influenza in Brazil would likely lead to immediate restrictions on the export of some of our products to key export markets. Preventive actions adopted by Brazilian authorities, if any, may not be effective in precluding the spread of avian influenza within Brazil.

Whether or not an outbreak of avian influenza occurs in Brazil, further outbreaks of avian influenza anywhere in the world could have a negative impact on the consumption of poultry in our key export markets or in Brazil, and a significant outbreak would negatively affect our net sales and overall financial performance. Any outbreak could lead to the imposition of costly preventive controls on poultry imports in our export markets. Accordingly, any spread of avian influenza, or increasing concerns about this disease, may have a material and adverse effect on our company.

***More stringent trade barriers in key export markets may negatively affect our results of operations.***

Because of the growing market share of Brazilian poultry, pork and beef products in the international markets, Brazilian exporters are increasingly being affected by measures taken by importing countries to protect local producers. The competitiveness of Brazilian companies has led certain countries to establish trade barriers

to limit the access of Brazilian companies to their markets. Trade barriers can consist of both tariff and non-tariff barriers. In our industry, non-tariff barriers are a particular concern, especially sanitary and technical restrictions.

Moreover, the recent global crisis has led to a rise in protectionist measures around the world, as national governments have attempted to alleviate the pressures of global economic conditions on their citizens and local producers. Some countries, such as Russia, have a history of erecting trade barriers to imports of food products. Since 2006, Russia has imposed quotas on Brazilian pork, beef and poultry products. Over the last two years, the Russian government has changed the allocation criteria for these quotas (particularly for pork and poultry products), which has negatively affected Brazil's total export volume. Russia is also developing its local production capabilities and increasing quantitative restrictions. In 2011, Russia prohibited imports from several Brazilian states for health and sanitary reasons, which has also decreased Brazil's total export volume. Currently, several restrictions on Brazilian exports remain, and Russia has intensified non-tariff requirements.

We have been affected by trade barriers imposed by a number of other countries from time to time. In June 2011, South Africa initiated an anti-dumping investigation against Brazilian chicken, specifically whole chicken and boneless cuts. In a preliminary determination, the South African government imposed substantial tariffs on these products (62.9% on whole chicken and 46.5% on boneless cuts), which temporarily halted Brazilian imports. Although the final resolution of the investigation announced in December 2012 withdrew those tariffs, there are strong indications that in 2013 the South African government will increase rates for all exporting countries equally (as opposed to anti-dumping measures targeted at Brazil), largely because of pressure from local producers.

In 2009, Ukraine initiated an anti-dumping investigation. Although the investigation was eventually halted and Brazil is once again permitted to export poultry and pork to that country, Ukraine announced in the second half of 2012 that it would increase tariffs for several products, including meats. Although these tariffs have not yet been implemented, we expect that these increases may occur in 2013. More recently, in March 2013, Ukraine suspended pork imports from Brazil alleging sanitary issues. In addition, at the end of 2011, Iraq introduced barriers to Brazilian chicken exports, and during 2012, Argentina imposed restrictions, such as embargos and administrative barriers, on Brazilian pork exports.

In Europe, another of our key markets, the European Union has adopted a quota system for certain chicken products and prohibitive tariffs for certain products that do not have quotas in order to mitigate the effects of Brazil's lower production costs on local producers over European producers. In addition, the European Union has a ban on certain types of Brazilian meat, including pork, fresh cuts and some premium cuts of frozen beef backs.

In addition, in spite of the determination by the Scientific Commission of the World Organization for Animal Health, or "OIE," that Brazil continues to pose a negligible risk, several countries have temporarily suspended imports of Brazilian beef due to a BSE case reported in early 2013 relating to a cow that died in 2010.

Developed countries also use direct and indirect subsidies to enhance the competitiveness of their producers in other markets. For example, French producers receive subsidies for their sales of poultry to countries such as Saudi Arabia, a major importer of poultry products. Trade barriers are sometimes applied indirectly to other parties that are crucial to the export of our products. In addition, local producers in a specific market may exert political pressure on their governments to prevent foreign producers from exporting to their market, particularly during unfavorable economic conditions. Any of the above restrictions could substantially affect our export volumes and, consequently, our export sales and financial performance. If new trade barriers arise in our key export markets, we may face difficulties in reallocating our products to other markets on favorable terms, and our business, financial condition and results of operations might be adversely affected.

***We face significant competition from Brazilian and foreign producers, which could adversely affect our financial performance.***

We face strong competition from other Brazilian producers in our domestic market and from Brazilian and foreign producers in our export markets. The Brazilian market for whole poultry, poultry cuts and pork cuts is highly fragmented. Small producers can also be important competitors, some of which operate in the informal economy and are able to offer lower prices by meeting lower quality standards. Competition from small

producers is a primary reason why we sell most of our frozen (*in natura*) meat products in the export markets and is a barrier to expanding our sales of those products in the domestic market. With respect to exports, we compete with other large, vertically integrated Brazilian producers that have the ability to produce quality products at low cost, as well as with foreign producers.

In addition, the potential growth of the Brazilian domestic market for processed food, poultry, pork and beef and Brazil's low production costs are attractive to international competitors. Although the main barrier to these companies has been the need to build a comprehensive distribution network and a network of outgrowers, international competitors with significant resources could undertake to build these networks or acquire and expand existing networks.

In the Brazilian dairy products markets, our main competitors are Nestlé Brasil Ltda., Danone Ltda., LBR (Lácteos Brasil S.A.) and Vigor Alimentos S.A., an affiliate of JBS S.A. To varying degrees, our competitors may have strengths in specific product lines and regions as well as greater financial resources. In addition, our poultry and pork cuts, in particular, are highly price-competitive and sensitive to product substitution. Even if we remain a low-cost producer, customers may seek to diversify their sources of supply by purchasing a portion of the products they need from producers in other countries, as some of our customers in key export markets have begun to do. We expect that we will continue to face strong competition in all of our markets and anticipate that existing or new competitors may broaden their product lines and extend their geographic scope. Any failure by us to respond to product, pricing and other moves by competitors may negatively affect our financial performance.

***Increased regulation of food safety could increase our costs and adversely affect our results of operations.***

Our manufacturing facilities and products are subject to regular Brazilian federal, state and local, as well as foreign, governmental inspections and extensive regulation in the food safety area, including governmental food processing controls. Changes in government regulations relating to food safety could require us to make additional investments or incur other costs to meet the necessary specifications for our products. Our products are often inspected by foreign food safety officials, and any failure to pass those inspections can result in our being required to return all or part of a shipment to Brazil, destroy all or part of a shipment or incur costs because of delays in delivering products to our customers. Any tightening of food safety regulations could result in increased costs and could have an adverse effect on our business and results of operations.

***Our export sales are subject to a broad range of risks associated with international operations.***

Export sales account for a significant portion of our net sales, representing 40.4% of our net sales in 2010, 40.0% in 2011 and 41.6% in 2012. Our major export markets include the European Union, the Middle East (particularly Saudi Arabia) and the Far East (particularly Japan, China, Russia and Ukraine), where we are subject to many of the same risks described below in relation to Brazil. Our future financial performance will depend, to a significant extent, on economic, political and social conditions in our main export markets.

Our future ability to conduct business in our export markets could be adversely affected by factors beyond our control, such as the following:

- exchange rate fluctuations;
- deterioration in international economic conditions;
- political risks, such as turmoil in the Middle East and North Africa, government policies in Argentina and political instability in Venezuela;
- imposition of increased tariffs, anti-dumping duties or other trade barriers;
- strikes or other events affecting ports and other transport facilities;
- compliance with differing foreign legal and regulatory regimes; and
- sabotage affecting our products.

We recently entered into a 50-50 joint venture in China, and we may decide to enter into other joint ventures in the future. To the extent we operate internationally through joint ventures, we will be subject to the risks inherent in joint venture structures, including the risk of disagreements with our joint venture partners, limitations on our ability to manage our business independently under the terms of the applicable joint venture agreements and the risk of encountering difficulty in exiting from joint venture arrangements if we wish to do so.

The market dynamics of our important export markets can change quickly and unpredictably due to these factors, the imposition of trade barriers of the type described above and other factors, which together can significantly affect our export volumes, selling prices and results of operations.

Our export sales are highly dependent on conditions at a small number of ports in southern Brazil. We export our products primarily through ports in southern Brazil (Paraná, Santa Catarina and Rio Grande do Sul). We have been affected from time to time by strikes of port employees or customs agents, sanitary inspection agents and other government agents at the Brazilian ports from which we export our products. For example, in the third quarter of 2007 and in March 2008, Brazilian federal government sanitary inspectors went on strike for approximately one month. In August 2011, a strike at the Itajaí port affected exports for approximately two months. More recently, in the middle of 2012, a strike of Brazilian Sanitary Inspection Agency (*Agência Nacional de Vigilância Sanitária*, or Anvisa) and a nationwide strike of truckers also hampered our export operations. A widespread or protracted strike in the future could adversely affect our business and our results of operations. In 2012, we had new strikes from Anvisa and employees of the federal government.

In addition, in the fourth quarter of 2008, flooding and damage at the ports of Itajaí and Navegantes damaged port infrastructure and required us to divert all our exports in the region of Santa Catarina to three other ports: Rio Grande in the State of Rio Grande do Sul, Paranaguá and São Francisco. These events resulted in reduced shipment levels in November 2008 and led to delays in exports that adversely affected our export revenues for the fourth quarter of 2008. Any similar events in the future affecting the infrastructure necessary for the export of our products could adversely affect our revenues and our results of operations.

***Our ability to complete construction of a new plant in the Middle East is subject to uncertainties, and our ability to expand our capacity in this region may be limited.***

Two important components of our strategy involve strengthening our global distribution network and further developing our international customer base. In line with that strategy, in 2012 we began construction of a new plant in Abu Dhabi in the United Arab Emirates in the Middle East, the first time we have undertaken a construction project in the Middle East. In addition to being subject to the general risks of international operations described above under “— Our export sales are subject to a broad range of risks associated with international operations,” we are now subject to the specific risks associated with undertaking a major construction project in a region where our activities to date have been limited to sales, marketing and distribution. Our construction project could be cancelled or postponed due to delays in, or failure to obtain, approval or permitting for plant construction, or the production and distribution capacity we hope to achieve through the project could be limited, in each case for a variety of reasons, including (1) governmental inertia, (2) geopolitical risk, (3) potentially stringent localization requirements, (4) imposition of exchange or price controls, (5) impositions of restrictions on exports of our products or imports of raw materials necessary for our production and the construction of our plant, (6) fluctuation of local currencies against the *real*, (7) nationalization of our property, increase in export tax and income tax rates for our products, and (8) unilateral (governmental) institutional and contractual changes, including controls on investments and limitations on new projects. As a result of these factors, the results of operations and financial conditions of our operations in the Middle East may be adversely affected, and we may experience in the future significant variability in our revenue on both an annual and a quarterly basis from those operations. The impact of these changes on our ability to deliver on our planned projects and execute our strategy cannot be ascertained with any degree of certainty, and these changes may, therefore, have an adverse effect on our operations and financial results.



***Political and economic risks in Argentina could limit the profitability of our operations and our ability to execute our strategy in that country.***

We have nine production facilities in Argentina, and we view growth of our business in Argentina as an important component of our strategy in South America. In the fourth quarter of 2011, we acquired two Argentine companies, Avex and Flora Dánica, demonstrating our commitment to expanding in Argentina. In June 2012, as part of our transaction with Marfrig, we acquired 90.05% of Quickfood, a leading Argentine processor and packager of meat, especially in the hamburger market with the brand *Paty*. We estimate that our integrated operations in the Argentine market represent over R\$1 billion of sales per year. However, executing our strategy in Argentina is subject to significant political and economic risks. Political and economic conditions have been volatile in that country for more than a decade. An economic crisis in 2001-2002 resulted in significant economic contraction and political and social unrest, as well as a sovereign debt default and a significant currency devaluation and subsequent inflation. After a period of recovery and growth in the following years, Argentina suffered an economic decline in 2009, in part because of global conditions. Economic uncertainty, inflation and other factors could lead to lower real salaries, lower consumption and unemployment, which could have an adverse effect on demand for our products. In addition, Argentine government policies may adversely affect our ability to realize a return on our investment in Argentina. For example, the government has imposed restrictions on the conversion of Argentine currency into foreign currencies and on the remittance to foreign investors of proceeds of their investments in Argentina. In April 2012, the Argentine government's effective nationalization of YPF S.A., Argentina's leading energy company, led to a dramatic decline in the prices of Argentine securities and great concern among international investors. Argentine government intervention, investor reactions and economic uncertainty in Argentina could adversely affect the profitability of our operations and our ability to execute our strategy in that country.

***Environmental laws and regulations require increasing expenditures for compliance.***

We, like other Brazilian food producers, are subject to extensive Brazilian federal, state and local environmental laws, regulations, authorizations and licenses concerning, among other things, the handling and disposal of waste, discharges of pollutants into the air, water and soil, and clean-up of contamination, all of which affect our business. Any failure to comply with these laws and regulations or any lack of authorizations or licenses could result in administrative and criminal penalties, such as fines, cancellation of authorizations or revocation of licenses, in addition to negative publicity and civil liability for remediation or for environmental damage. We cannot operate a plant if the required environmental permit is not valid or updated.

We have incurred, and will continue to incur, capital and operating expenditures to comply with these laws and regulations. Because of the possibility of unanticipated regulatory measures or other developments, particularly as environmental laws become more stringent in Brazil, the amount and timing of future expenditures required to maintain compliance could increase from current levels and could adversely affect the availability of funds for capital expenditures and other purposes. Compliance with existing or new environmental laws and regulations, as well as obligations in agreements with public entities, could result in increased costs and expenses.

Our plants are subject to environmental licensing, based on their pollution potential and usage of natural resources. If, for example, one of our plants is built or expanded without an environmental license or if our environmental licenses expire, are not renewed or have their solicitation of renewal dismissed by the competent environmental authority, we may incur fines ranging between R\$500.00 and R\$10.0 million and other administrative penalties, suspension of operations or closing of the facilities in question. Those same penalties may also be applicable in the case of failure to fulfill the conditions of validity foreseen in the environmental licenses already held by us. Currently, some of our environmental licenses are being renewed, and we cannot guarantee that environmental agencies will approve our renewal requests within the required legal period.

***Acquisitions may divert management resources or prove to be disruptive to our company.***

We regularly review and pursue opportunities for strategic growth through acquisitions and other business ventures. We have completed several acquisitions in recent years, as described under "Item 4. Information on the

Company — A. History and Development of the Company” of our 2012 Form 20-F. Acquisitions, especially involving sizeable enterprises, may present financial, managerial and operational challenges, including diversion of management attention from existing businesses, difficulty with integrating personnel and financial and other systems, increased compensation expenses for newly hired employees, assumption of unknown liabilities and potential disputes with the sellers. We could also experience financial or other challenges if any of the businesses that we have acquired or may acquire in the future give rise to liabilities or problems of which we are not aware. Acquisitions outside of Brazil may present additional difficulties, such as compliance with foreign legal and regulatory systems and integration of personnel to different managerial practices and would increase our exposure to risks associated with international operations.

In recent years, the size of our acquisitions has increased, which has increased the magnitude of the challenges described above. In 2009, we completed our business combination with Sadia, which was approved by the CADE in 2011. Since the Sadia transaction, we have continued to grow through acquisitions, in line with our strategy to increase the internationalization of the company. In 2011, we acquired two Argentine companies, Avex, a poultry producer, and Flora Dánica, a margarine producer and distributor, for R\$188.3 million, and we acquired the remaining one-third of Avex in December 2012. In September 2011, we announced that we had exercised an option to purchase the industrial unit of Coopercampos located in the city of Campos Novos in the State of Santa Catarina, and we have invested a total amount of R\$154.5 million in this project. In November 2011, we also acquired a Brazilian company named Heloísa Indústria e Comércio de Produtos Lácteos Ltda. for cash consideration of R\$55.0 million (and total consideration, including assumption of indebtedness, of R\$122.5 million), as a part of our strategy to increase our operations in the dairy business. In June 2012, we acquired a 90.05% interest in Quickfood, an Argentine company, as part of our transaction with Marfrig. We also acquired a 49% stake in Federal Foods Limited, a company headquartered in Abu Dhabi, United Arab Emirates, in January 2013 for U.S.\$37.1 million. We may not realize the benefits of the acquisitions we undertake, in the timeframe we anticipate or at all, because of integration or other challenges.

***We may not realize the expected benefits of our business combination with Sadia, whether because of lost revenues from businesses we were required to divest, difficulty in achieving projected synergies or other reasons.***

In July 2011, we received Brazilian antitrust approval for our business combination with Sadia from the CADE, but that approval was subject to a number of conditions set forth in the TCD, including, among others, the suspension of use of certain brands for a range from three to five years and the divestment of certain trademarks, plants, and distribution centers in our domestic market. In March 2012, we entered into an agreement with Marfrig, pursuant to which we agreed to transfer certain assets in compliance with the TCD. The initial closing of the transaction occurred in June 2012. See “Item 4. Information on the Company — A. History and Development of the Company — Business Combination with Sadia” of our 2012 Form 20-F.

The divestment and suspension of these brands has required us to refocus our marketing and sales efforts on our remaining brands in the Brazilian market and adjust our operations accordingly. The assets divested to Marfrig and the suspension of other brands under the TCD decreased our sales volumes in the Brazilian market by one-third in 2012 compared to 2011, and our strategy of increasing our marketing efforts using the *Sadia* brand in order to mitigate the impact of the loss of volume was one of the primary areas of focus of our management during 2012 and will remain an important focus in 2013.

Although we expect to achieve synergies from the integration of the Brazilian operations of BRF and Sadia, those synergies may not compensate for the lost revenue from the brands and assets divested to Marfrig or the suspended brands or any unanticipated costs. Our synergy projections are based on historical sales volumes, and if our sales volumes in future periods are lower than those we have assumed, our synergies could also be lower than our projections. In addition, we estimate that we will need to invest approximately R\$700 million from 2011 to 2013 to achieve our projected synergies. We may not achieve the full amount of our projected synergies for 2013, or it may take us longer to achieve these synergies than we currently anticipate.

Our integration of the Brazilian business of Sadia with our Brazilian business is ongoing, and any failure to effectively integrate those operations may increase our costs, adversely affect our margins or have other negative consequences. In addition to managing the impact on our sales volumes and business of the divestiture of assets to Marfrig and the suspension of other brands, we continue to face the challenge of continuing to integrate the BRF and Sadia customer distribution networks, the two largest such networks in Brazil and other aspects of the BRF and Sadia businesses.

The business combination with Sadia was significantly larger than any other transaction we have undertaken in the past, and the Brazilian antitrust approval raised more complex issues than we have faced in any other acquisition. The ongoing integration of the BRF and Sadia businesses is occurring at the same time that we are managing the impact of the divestiture of assets to Marfrig and the suspension of other brands. Any failure to balance the unique combination of the challenges described above could adversely affect our results of operations and prospects.

***Unfavorable outcomes in legal proceedings may reduce our liquidity and negatively affect us.***

We are defendants in civil, labor and tax proceedings and are also subject to consent agreements (*Termo de Ajustamento de Conduta*). Under IFRS, we classify the risk of adverse results in these proceedings as “remote,” “possible” or “probable.” We disclose the aggregate amounts of these proceedings that we have judged possible or probable, to the extent the amounts are known or reasonably estimable, and we record provisions only for losses that we consider probable. These disclosures for 2012 are included in “Item 8. Financial Information — A. Consolidated Statements and Other Financial Information — Legal Proceedings” of our 2012 Form 20-F incorporated by reference and Note 25 to our unaudited interim consolidated financial statements included in this offering memorandum.

We are not required to disclose or record provisions for proceedings in which our management judges the risk of loss to be remote. However, the amounts involved in certain of the proceedings in which we believe our risk of loss is remote are substantial, and the losses to us could be significantly higher than the amounts for which we have recorded provisions. Even for the amounts recorded as provisions for probable losses, a judgment against us would have an effect on our cash flow if we were required to pay those amounts. Unfavorable decisions in our legal proceedings may, therefore, reduce our liquidity and adversely affect our business, financial condition and results of operations.

We cannot assure you that we will obtain favorable decisions in these proceedings or that our reserves will be sufficient to cover potential liabilities resulting from unfavorable decisions. In the ordinary course of business, we outsource labor to third parties. See “Item 4. Information on the Company — B. Business Overview — Production Process” in our 2012 Form 20-F. If it were to become necessary to revisit this contractual structure, we could incur additional operating expenses.

***Our tax liabilities have increased due to more intense auditing and enforcement efforts by Brazilian tax authorities with respect to Brazilian companies.***

In 2012, we observed a more intense focus by the Brazilian federal tax authorities in issuing tax infraction notices and more aggressive enforcement efforts, including in instances where they might not have done so in the past. In particular, the number and amount of tax infraction notices relating to our use of tax credits under the federal Social Integration Program (*Programa de Integração Social*), or “PIS,” the federal Contribution for Social Security Financing (*Contribuição para Financiamento da Seguridade Social — COFINS*), or “COFINS,” to offset other federal tax liabilities increased significantly, causing our estimate of possible losses relating to those matters to increase from R\$582.9 million at the end of 2011 to R\$1,386.0 million at the end of 2012. These matters were a primary reason our estimate of consolidated tax contingencies classified as possible losses increased from R\$5,295.0 million at the end of 2011 to R\$6,582.1 million at the end of 2012. The bulk of the tax infraction notices to date relating to PIS and COFINS tax credits correspond to tax years through 2007. Although we intend to vigorously defend against these tax infraction notices and related administrative proceedings, we expect that the number of cases and the aggregate amount of possible losses will continue to increase as the tax authorities address later tax years.

We have also observed an increase in the speed of the issuance of notices and the initiation of administrative proceedings by the Brazilian federal tax authorities in recent years due to increased automation of Brazilian tax systems. The greater use of electronic filing and payment has increased the ability of the Brazilian federal tax authorities to analyze tax payment data and accelerate the initiation of proceedings against Brazilian companies. We believe this increased automation is one reason for the increase in tax infraction notices described above. If this increased automation leads to acceleration of the resolution of disputed tax amounts, we could be required to pay disputed amounts earlier than in the past, which could adversely affect our liquidity and results of operations.

***We depend on members of our senior management and on our ability to recruit and retain qualified professionals to implement our strategy.***

We depend on members of our senior management and other qualified professionals to implement our business strategies. Efforts to recruit and retain professionals may result in significant additional expenses, which could adversely affect us. In addition, the loss of key professionals may adversely affect our ability to implement our strategy.

***Damages not covered by our insurance might result in losses for us, which could have an adverse effect on our business.***

As is typical in our business, our plants, distribution centers, vehicles and our directors and officers, among others, are insured. However, certain kinds of losses cannot be insured against, and our insurance policies are subject to liability limits and exclusions. If an event that cannot be insured occurs, or the damages are higher than our policy limits, we may incur significant costs. In addition, we could be required to pay indemnification to parties affected by such an event.

In addition, even where we incur losses that are ultimately covered by insurance, we may incur additional expenses to mitigate the loss, such as shifting production to another facility. These costs may not be fully covered by our insurance. For example, in March 2011, a fire affected a part of the installations of our Nova Mutum, Mato Grosso unit, and on October 2011, another fire affected a part of the installations of our Brasília unit. Although the facilities are covered by fire insurance and the units' production was temporarily absorbed by other BRF plants, we cannot assure you that all of our direct and indirect costs will be covered by our insurance. Any similar event at other facilities in the future could adversely affect our revenues, expenses and our business.

## **Risks Relating to Our Indebtedness**

***We have substantial indebtedness, especially since our business combination with Sadia, and our leverage could negatively affect our ability to refinance our indebtedness and grow our business.***

At March 31, 2013, our total liabilities with respect to indebtedness and derivative instruments was R\$9,304.5 million (U.S.\$4,620.3 million). Our substantial indebtedness could have major consequences for us, including:

- requiring that a substantial portion of our cash flows from operations be used for the payment of principal and interest on our debt, reducing the funds available for our operations or other capital needs;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate because our available cash flow after paying principal and interest on our debt might not be sufficient to make the capital and other expenditures necessary to address these changes;
- increasing our vulnerability to general adverse economic and industry conditions because, during periods in which we experience lower earnings and cash flows, we would be required to devote a proportionally greater amount of our cash flows to paying principal and interest on debt;
- limiting our ability to obtain additional financing in the future to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- making it difficult for us to refinance our indebtedness or to refinance such indebtedness on terms favorable to us, including with respect to existing accounts receivable securitizations;

- placing us at a competitive disadvantage compared to competitors that are relatively less leveraged and that may be better positioned to withstand economic downturns; and
- exposing our current and future borrowings made at floating interest rates to increases in interest rates.

***We have substantial debt that matures in each of the next several years.***

As of March 31, 2013, we had R\$1,856.0 million of debt that matures in 2013, R\$1,253.6 million of debt that matures in 2014, R\$744.2 million of debt that matures in 2015, R\$424.1 million of debt that matures in 2016 and R\$4,855.6 million of debt that matures in 2017 and thereafter.

A substantial portion of our outstanding debt is denominated in foreign currencies, primarily U.S. dollars. As of March 31, 2013, we had R\$5,285.5 million of foreign currency debt, including R\$493.5 million of short-term foreign currency debt. Our U.S. dollar-denominated debt must be serviced by funds generated from sales by our subsidiaries, the majority of which are not denominated in U.S. dollars. Consequently, when we do not generate sufficient U.S. dollar revenues to cover that debt service, we must use revenues generated in *reais* or other currencies to service our U.S. dollar-denominated debt. Depreciation in the value of the *real* or any of the other currencies of the countries in which we operate, compared to the U.S. dollar, could adversely affect our ability to service our debt. Foreign currency hedge agreements may not be effective in covering these currency-related risks.

Any future uncertainty in the stock and credit markets could negatively impact our ability to access additional short-term and long-term financing, which could negatively impact our liquidity and financial condition. If, in future years:

- the pressures on credit return as a result of disruptions in the global stock and credit markets,
- our operating results worsen significantly,
- we are unable to complete any necessary divestitures of non-core assets and our cash flow or capital resources prove inadequate,
- we are unable to refinance any of our debt that becomes due, or
- we could face liquidity problems and may not be able to pay our outstanding debt when due, which could have a material adverse effect on our consolidated business and financial condition.

***The terms of our indebtedness impose significant restrictions on us.***

The instruments governing our consolidated indebtedness impose significant restrictions on us. These restrictions may limit, directly or indirectly, our ability, among other things, to undertake the following actions:

- borrow money;
- make investments;
- sell assets, including capital stock of subsidiaries;
- guarantee indebtedness;
- enter into agreements that restrict dividends or other distributions from certain subsidiaries;
- enter into transactions with affiliates;
- create or assume liens; and
- engage in mergers or consolidations.

Although the covenants to which we are subject have exceptions and qualifications, the breach of any of these covenants could result in a default under the terms of other existing debt obligations. Upon the occurrence of such an event of default, all amounts outstanding under the applicable debt instruments and the debt issued

under other debt instruments containing cross-default or cross-acceleration provisions, together with accrued and unpaid interest, if any, might become or be declared immediately due and payable. If such indebtedness were to be accelerated, we may have insufficient funds to repay in full any such indebtedness. In addition, in connection with the entry into new financings or amendments to existing financing arrangements, our subsidiaries' financial and operational flexibility may be further reduced as a result of the imposition of covenants that are more restrictive, the requirements for additional security, and other terms.

### **Risks Relating to Brazil**

***Brazilian economic, political and other conditions, and Brazilian government policies or actions in response to these conditions, may negatively affect our business and results of operations.***

The Brazilian economy has historically been characterized by interventions by the Brazilian government and unstable economic cycles. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Brazil's economy. For example, the government's actions to control inflation have at times involved setting wage and price controls, blocking access to bank accounts, imposing exchange controls and limiting imports into Brazil. We have no control over, and cannot predict, what policies or actions the Brazilian government may take in the future.

Our business, results of operations, financial condition and prospects as well as the market prices of our common shares or the ADRs may be adversely affected by, among others, the following factors:

- exchange rate movements;
- exchange control policies;
- expansion or contraction of the Brazilian economy, as measured by rates of growth in GDP;
- inflation;
- tax policies;
- other economic political, diplomatic and social developments in or affecting Brazil;
- interest rates;
- energy shortages;
- liquidity of domestic capital and lending markets;
- changes in environmental regulation; and
- social and political instability.

These factors, as well as uncertainty over whether the Brazilian government may implement changes in policy or regulations relating to these factors, may adversely affect us and our business and financial performance.

***Inflation, and government measures to curb inflation, may adversely affect the Brazilian economy, the Brazilian securities market, our business and operations and financial condition.***

Brazil experienced high rates of inflation in the past. According to the General Market Price Index (*Índice Geral de Preços do Mercado*), or "IGP-M," a general price inflation index, the inflation rates in Brazil were 7.7% in 2007, 9.8% in 2008, 1.7% in 2009, 11.3% in 2010, 5.1% in 2011 and 7.82% in 2012. In addition, according to the IPCA, published by the IBGE, Brazilian consumer price inflation rates were 5.9% in 2010, 6.5% in 2011 and 5.8% in 2012. In 2010, 2011 and 2012, the actual inflation rate was significantly higher than the Central Bank's target of 4.5%. Increases in personal expenses (which include services) and food and beverage prices were the main reason that consumer inflation did not meet the Central Bank's target in 2012. See "Item 5. Operating and Financial Review and Prospects — A. Operating Results — Principal Factors Affecting Our Results of Operations — Brazilian and Global Economic Conditions" and "— Effects of Exchange Rate Variations and Inflation" of our 2012 Form 20-F.

The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in Brazil in the past and to heightened volatility in the Brazilian securities markets.

Brazil may experience continuing higher levels of inflation in future periods. Periods of higher inflation may slow the rate of growth of the Brazilian economy, which could lead to reduced demand for our products in Brazil and decreased net sales. Inflation also is likely to increase some of our costs and expenses, which we may not be able to pass on to our customers and, as a result, may reduce our profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing our debt may increase, resulting in lower net income. In addition, inflation and its effect on domestic interest rates can lead to reduced liquidity in the domestic capital and lending markets, which could affect our ability to refinance our indebtedness in those markets and may have an adverse effect on our business, results of operations and financial condition.

***Exchange rate movements may adversely affect our financial condition and results of operations.***

From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. In 2008, the *real* depreciated 31.9% against the U.S. dollar. In 2009 and 2010, the *real* appreciated 25.5% and 4.3%, respectively, against the U.S. dollar. In 2011, the *real* depreciated 12.6% against the U.S. dollar. In 2012, the *real* depreciated 8.9% against the U.S. dollar.

Any appreciation of the *real* against the U.S. dollar may lead to a dampening of export-driven growth. Our production costs are denominated in *reais*, but our export sales are mostly denominated in U.S. dollars or euros. Financial revenues generated by exports are reduced when translated to *reais* in the periods in which the *real* appreciates in relation to the U.S. dollar. Any such appreciation could reduce the competitiveness of our exports and adversely affect our net sales and our cash flows from exports.

On the other hand, any depreciation of the *real* against the U.S. dollar could create additional inflationary pressures in Brazil by increasing the price of imported products and requiring deflationary government policies. In addition, the prices of soy meal and soybeans, important ingredients of our animal feedstock, are closely linked to the U.S. dollar, and many of the mineral nutrients added to our feedstock must be purchased in U.S. dollars. The price of corn, another important ingredient of our feedstock, is also linked to the U.S. dollar to a lesser degree. In addition to feedstock ingredients, we purchase sausage casings, breeder eggs, packaging and other raw materials, as well as equipment for use in our production facilities, from suppliers located outside Brazil whom we must pay in U.S. dollars or other foreign currencies. When the *real* depreciates against the U.S. dollar, the cost in *reais* of our U.S. dollar-linked raw materials and equipment increases, and these increases could materially adversely affect our results of operations.

We had total foreign currency-denominated debt obligations in an aggregate amount of R\$5,628.5 million at December 31, 2012, representing 57.6% of our total consolidated indebtedness at that date. A significant portion of our consolidated debt is denominated in foreign currencies because export credit facilities available in foreign currencies often have attractive financing conditions and costs compared to other financing sources. Foreign-currency denominated credit facilities expose us to a greater degree of foreign exchange risk. We manage a portion of our exchange rate risk through foreign currency swaps and investments and through cash flows from export sales are in U.S. dollars and other foreign currencies, but our foreign currency debt obligations are not completely hedged. At December 31, 2012, our short-term consolidated exchange rate exposure was R\$761.2 million of the amount described above. A significant devaluation of the *real* in relation to the U.S. dollar or other currencies could increase the debt service requirements of our foreign currency-denominated obligations.

***Fluctuations in interest rates may have an adverse effect on our business and financial condition.***

The Central Bank establishes the basic interest rate target for the Brazilian financial system by reference to the level of economic growth of the Brazilian economy, the level of inflation and other economic indicators.

At the end of former president Luiz Inácio Lula da Silva's administration, interest rates were lowered to stimulate economic growth. From 2008 to 2010, interest rates decreased from 13.75% to 10.75% and inflation was kept under 5.0%. With the transition to President Dilma Rousseff's administration in January 2011, the Brazilian government has set a goal of cutting public expenditures and stabilizing the economy. The low interest rates from previous years resulted in high inflation rates of 6.5% in 2011 and 5.8% in 2012, leading to the Central Bank's decision to increase interest rates to stabilize the economy.

At March 31, 2013, 27% of our total liabilities with respect to indebtedness and derivative instruments of R\$9,304.5 million was either (1) denominated in (or swapped into) *reais* and bears interest based on Brazilian floating interest rates, such as the Long-Term Interest Rate (*Taxa de Juros de Longo Prazo*), or "TJLP," the interest rate used in our financing agreements with Brazilian National Bank for Economic and Social Development (*Banco Nacional de Desenvolvimento Econômico e Social*), or "BNDES," and the Interbank Deposit Certificate Rate (*Certificado de Depósito Interbancário*), or "CDI" rate, an interbank certificate of deposit rate that applies to our foreign currency swaps and some of our other *real*-denominated indebtedness, or (2) U.S. dollar-denominated and bears interest based on the London Interbank Offered Rate, or "LIBOR." Any increase in the CDI, TJLP or LIBOR rates may have an adverse impact on our financial expenses and our results of operations.

***Changes in tax laws may increase our tax burden and, as a result, negatively affect our profitability.***

The Brazilian government regularly implements changes to tax regimes that may increase our and our customers' tax burdens. These changes include modifications in the rate of assessments and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. In the past, the Brazilian government has presented certain tax reform proposals, which have been mainly designed to simplify the Brazilian tax system, to avoid internal disputes within and between the Brazilian states and municipalities, and to redistribute tax revenues. The tax reform proposals provide for changes in the rules governing the federal PIS and COFINS taxes, the state Tax on the Circulation of Merchandise and Services (*Imposto Sobre a Circulação de Mercadorias e Serviços*), or "ICMS," and some other taxes. These proposals may not be approved and passed into law. The effects of these proposed tax reform measures and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified. However, some of these measures, if enacted, may result in increases in our overall tax burden, which could negatively affect our overall financial performance.

In addition, in 2012, a provisional tax measure was enacted that reduces PIS and COFINS taxes levied on a market basket of basic goods, including margarine and butter. When we acquire inputs and raw materials, we register tax credits. When we sell the final products, including margarine and butter, we accrue tax debts. When the goods are sold, the tax credits on inputs and raw materials previously acquired are used to offset the tax debts levied on the final products. To the extent that certain products will no longer be subject to taxes, we will not be able to monetize tax credits to the same extent as we did in the past. We support the Brazilian government initiative to reduce taxes and to reduce the complexity of the Brazilian tax system, especially when it relates to the basic goods. However, we believe that the inability to monetize the tax credits described above may have an adverse effect on us, which we are currently evaluating. We are currently discussing with the Brazilian government alternatives to mitigate the potential adverse impact associated with the provisional measure.

**Risks Relating to the Notes**

***Developments and the perception of risks in other countries, especially emerging markets, may adversely affect the market value of the notes.***

The market price of the notes may be adversely affected by declines in the international financial markets and world economic conditions. Brazilian securities markets are influenced, to varying degrees, by economic and market conditions in other emerging market countries, especially those in Latin America. Although economic conditions are different in each country, investors' reaction to developments in one country may cause the capital markets in other countries to fluctuate. Developments or adverse economic conditions in other emerging market countries have at times resulted in significant outflows of funds from, and declines in the amount of foreign



currency invested in, Brazil. For example, in 2001, after a prolonged recession, followed by political instability, Argentina announced that it would no longer continue to service its public debt. The economic crisis in Argentina negatively affected, for several years, investors' perceptions of Brazilian securities. Economic or political crises in Latin America or other emerging markets may significantly affect perceptions of the risk inherent in investing in the region, including Brazil.

The Brazilian economy, as well as the market for securities issued by Brazilian companies, is influenced, to a varying degree, by international economic and market conditions generally, especially in the United States. The prices of shares traded on the BM&FBOVESPA have been historically affected by the fluctuation of interest rates and stock exchange indexes in the United States. Developments in other countries and securities markets could adversely affect the market value of the notes and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

***Payments on the notes will be junior to our secured debt obligations and effectively junior to debt obligations of our subsidiaries.***

The notes will constitute our senior unsecured obligations. The notes will rank equal in right of payment with all of our existing and future senior unsecured indebtedness. However, the notes will be effectively subordinated to our secured debt to the extent of the assets and property securing such debt. Payment on the notes will also be structurally subordinated to the payment of secured and unsecured debt and other creditors of our subsidiaries.

At March 31, 2013, we had total consolidated debt of R\$9,133.5 million (U.S.\$4,535.5 million), of which R\$7,748.6 million (U.S.\$3,847.8 million) was unsecured debt and R\$1,384.9 million (U.S.\$687.7 million) was secured debt. Any right of the holders of the notes to participate in our assets and the assets of our subsidiaries upon any liquidation or reorganization will be subject to the prior claims of our secured creditors and the creditors of our subsidiaries. The indenture relating to the notes includes a limitation on our ability and those of our subsidiaries subject to the covenants under the indenture to create or suffer to exist liens, although this limitation is subject to certain significant exceptions.

We conduct a portion of our business operations through our subsidiaries, which will not guarantee the notes, including Perdigão Europe Ltd., Perdigão International Ltd. and Wellax Food. In making payments on the notes, we will rely, in part, on cash flows from these subsidiaries, mainly dividend payments. The ability of these subsidiaries to make dividend payments to us will be affected by, among other factors, the obligations of these entities to their creditors, requirements of The Brazilian Corporations Law and other applicable law, and restrictions contained in agreements entered into by or relating to these entities. As of March 31, 2013, the investments in our subsidiaries amounted to R\$2,635.4 million, representing 8.7% of our consolidated total assets and 17.5% of consolidated shareholders' equity.

***We cannot assure you that the credit ratings for the notes will not be lowered, suspended or withdrawn by the rating agencies.***

The credit ratings of the notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. We cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the notes.

***Payments under the notes are subject to our obtaining certain governmental authorizations.***

The issuance of the notes is subject to registration with the Brazilian Central Bank, namely (1) registration of the main financial terms under the relevant Declaratory Registry of Financial Operations (*Registro Declaratório de Operações Financeiras*), or ROF, on the Information System of the Central Bank, which will be obtained prior to any such issuance and (2) registration of the schedule of payments in connection with any such

issuance, which shall occur after the entry of the related proceeds into Brazil. In addition, further authorization from the Central Bank will be required to enable us to remit payments abroad in foreign currency under the notes other than scheduled payments of principal, interest, costs and expenses contemplated by the relevant ROF, such as the redemptions. We cannot assure you that we would be able to obtain further Central Bank authorization on a timely basis or at all.

***Restrictions on the movement of currency out of Brazil may impair the ability of holders of the notes to receive interest and other payments on the notes.***

The Brazilian government may impose temporary restrictions on the conversion of Brazilian currency into foreign currencies and on the remittance to foreign investors of proceeds of their investments in Brazil. Brazilian law permits the government to impose these restrictions whenever there is a serious imbalance in Brazil's balance of payments or there are reasons to foresee a serious imbalance.

The Brazilian government imposed remittance restrictions for approximately six months in 1990. Similar restrictions, if imposed in the future, would impair or prevent the conversion of interest or principal payments on the notes from *reais* into U.S. dollars and the remittance of U.S. dollars abroad to holders of the notes. The Brazilian government may take similar measures in the future.

***Judgments of Brazilian courts enforcing obligations under the notes would be payable only in reais.***

If proceedings are brought in the courts of Brazil seeking to enforce the notes, we would not be required to discharge such obligations in a currency other than *reais*. Any judgment obtained against us in Brazilian courts in respect of any payment obligations under the notes will be expressed in the *real* equivalent of the U.S. dollar amount of such sum at the exchange rate in effect (1) on the date of actual payment, (2) on the date on which such judgment is rendered or (3) on the date on which collection or enforcement proceedings are commenced. We cannot assure you that this amount in *reais* will afford you full compensation of the amount invested in the notes.

***We cannot assure you that a judgment of a U.S. court for liabilities under U.S. securities laws would be enforceable in Brazil, or that an original action can be brought in Brazil against BRF for liabilities under U.S. securities laws.***

BRF is incorporated under the laws of Brazil and substantially all of its assets are located in Brazil. In addition, all or substantially all of BRF's directors and officers and certain advisors named herein reside in Brazil. As a result, it may not be possible for investors to effect service of process within the United States upon BRF or its directors, officers and advisors or to enforce against them in U.S. courts any judgments predicated upon the civil liability provisions of the federal securities laws of the United States. See "Service of Process and Enforcement of Judgments."

***We cannot assure you that an active trading market for the notes will develop.***

The notes constitute a new issue of securities. Although application has been made to list the notes on the Luxembourg Stock Exchange for trading on the Euro MTF Market, we cannot provide you with any assurances regarding the future development of a market for the notes, the ability of holders of the notes to sell their notes, or the price at which such holders may be able to sell their notes. If such a market were to develop, the notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, our results of operations and financial condition, political and economic developments in and affecting Brazil and the market for similar securities. The initial purchasers have advised our company that they currently intend to make a market in the notes. However, the initial purchasers are not obligated to do so, and any market-making with respect to the notes may be discontinued at any time without notice.

***The notes are subject to transfer restrictions.***

The notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Such exemptions include offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act and in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers as defined under Rule 144A under the Securities Act. For a discussion of certain restrictions on resale and transfer, see “Transfer Restrictions.”

***Because our subsidiary Sadia Overseas is expected to purchase notes in this offering, the liquidity and transferability of the notes you hold may be adversely affected.***

Sadia Overseas is expected to purchase U.S.\$150.0 million aggregate principal amount of notes in the offering in anticipation of the Private Exchange Offers, as described in “Summary—Recent Developments.” To the extent Sadia Overseas does not deliver all of the notes it purchases in connection with the settlement of the Private Exchange Offers, we expect that Sadia Overseas will hold those notes unless and until it transfers them in accordance with applicable law. The liquidity of the notes would be affected to the extent that Sadia Overseas holds any notes, which could adversely affect the market price of the notes.

In addition, any notes acquired from Sadia Overseas would be “restricted securities” as defined in Rule 144 under the Securities Act. The resale restriction period described under “Transfer Restrictions” will continue until the date that is one year (in the case of Rule 144A notes) or 40 days (in the case of Regulation S notes) after the last date that Sadia Overseas owns any notes. If Sadia Overseas continues to hold any notes, the resale restriction period may continue indefinitely.

***Brazilian bankruptcy laws may be less favorable to you than U.S. bankruptcy and insolvency laws.***

If we are unable to pay our indebtedness, including the notes, then we may become subject to bankruptcy proceedings in Brazil. Brazilian bankruptcy laws are significantly different from, and may be less favorable to creditors than, those of the United States. In addition, any judgment obtained against us in Brazilian courts in respect of any payment obligations under the notes would be expressed in the *real* equivalent of the U.S. dollar amount of such sum at the exchange rate in effect (1) on the date of actual payment, (2) on the date on which such judgment is rendered or (3) on the date on which collection or enforcement proceedings are started against us. Consequently, in the event of our bankruptcy, all of our debt obligations that are denominated in foreign currency, including the notes, will be converted into *reais* at the prevailing exchange rate on the date of declaration of our bankruptcy by the court. We cannot assure that this exchange rate and the outcome of any bankruptcy proceedings will afford you full compensation for the amount of the notes.

## **USE OF PROCEEDS**

We expect the net proceeds from the sale of the notes will be approximately U.S.\$489.0 million after deducting estimated fees and expenses of the offering. We intend to use the net proceeds from this offering primarily to extend our debt maturity profile by refinancing part of our short and medium-term maturity indebtedness, which may include development bank credit lines and export pre-payment credit facilities, and to use any remainder for general corporate purposes. A portion of the indebtedness that we choose to repay with the net proceeds from this offering may be held by the initial purchasers or their affiliates. See “Plan of Distribution — Relationships with Initial Purchasers.” Pending any specific application, the net proceeds of this offering may be invested in cash equivalents and short-term marketable securities.

## EXCHANGE RATES

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures.

Since 1999, the Central Bank has allowed the U.S. dollar-*real* exchange rate to float freely, and, since then, the U.S. dollar-*real* exchange rate has fluctuated considerably.

In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to permit the *real* to float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar and/or the euro substantially. Furthermore, Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are serious reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that such measures will not be taken by the Brazilian government in the future. See "Risk Factors — Risks Relating to Brazil — Exchange rate movements may adversely affect our financial condition and results of operations" and "Risk Factors — Risks Relating to the Notes — Restrictions on the movement of currency out of Brazil may impair the ability of holders of the notes to receive interest and other payments on the notes."

The following table shows the selling rate for U.S. dollars for the periods and dates indicated. The information in the "Average" column represents the average of the daily exchange rates during the periods presented. The numbers in the "Period End" column are the quotes for the exchange rate as of the last business day of the period in question.

<u>Year</u>	<u>Reais per U.S. Dollar</u>			
	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period End</u>
2008 .....	2.5004	1.5593	1.8375	2.3370
2009 .....	2.4218	1.7024	1.9936	1.7412
2010 .....	1.8811	1.6554	1.7593	1.6662
2011 .....	1.9016	1.5345	1.6746	1.8758
2012 .....	2.1121	1.7024	1.9550	2.0435
<u>Month</u>	<u>Reais per U.S. Dollar</u>			
	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period End</u>
October 2012 .....			2.0382	2.0224
November 2012 .....			2.1074	2.0312
December 2012 .....			2.1121	2.0435
January 2013 .....			2.0471	1.9883
February 2013 .....			1.9893	1.9570
March 2013 .....			2.0185	1.9528
April 2013 .....			2.0244	1.9736
May 2013 (through May 15) .....			2.0233	2.0030

Source: Central Bank.

The exchange rate on May 15, 2013 was R\$2.0233 = U.S.\$1.00.

## CAPITALIZATION

The following table sets forth our consolidated debt and capitalization at March 31, 2013 derived or calculated from our unaudited interim consolidated financial statements included in this offering memorandum, which are prepared in conformity with IFRS for interim financial reporting in accordance with IAS 34 — *Interim Financial Reporting*:

- on an actual basis; and
- as adjusted for the sale of the notes, and the sale of R\$500.0 million in principal amount of 2018 BRL Notes, but without adjusting for the use of proceeds therefrom.

You should read this table in conjunction with “Presentation of Financial and Other Information,” “Selected Financial Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as well as with our audited consolidated financial statements incorporated by reference and our interim consolidated financial statements included in this offering memorandum.

	At March 31, 2013			
	Actual		As Adjusted(1)	
	(in millions of U.S.\$)(2)	(in millions of reais) (unaudited)	(in millions of U.S.\$)(2)	(in millions of reais)
<b>Short-term debt (including current portion of long-term debt)</b>				
<i>Real</i> -denominated debt:				
Secured . . . . .	187.0	376.5	187.0	376.5
Unsecured . . . . .	819.5	1,650.3	819.5	1,650.3
Total <i>real</i> -denominated debt . . . . .	1,006.4	2,026.8	1,006.4	2,026.8
Foreign currency-denominated debt:				
Secured . . . . .	21.0	42.2	21.0	42.2
Unsecured . . . . .	224.2	451.4	224.2	451.4
Total foreign currency-denominated debt . . . . .	245.2	493.6	245.2	493.6
Total short-term debt . . . . .	1,251.6	2,520.4	1,251.6	2,520.4
<b>Long-term debt</b>				
<i>Real</i> -denominated debt:				
Secured . . . . .	455.3	916.8	455.3	916.8
Unsecured . . . . .	449.1	904.4	697.4	1,404.4
Total <i>real</i> -denominated debt . . . . .	904.4	1,821.2	1,152.7	2,321.2
Foreign currency-denominated debt:				
Secured . . . . .	24.5	49.4	24.5	49.4
Unsecured . . . . .	2,355.1	4,742.6	2,855.0	5,749.5
Total foreign currency-denominated debt . . . . .	2,379.6	4,792.0	2,879.5	5,798.9
Total long-term debt . . . . .	3,283.9	6,613.2	4,032.2	8,120.1
<b>Total debt</b>				
Secured . . . . .	687.7	1,384.9	687.7	1,384.9
Unsecured . . . . .	3,847.8	7,748.6	4,596.0	9,255.6
Total debt . . . . .	4,535.5	9,133.5	5,283.7	10,640.5
<b>Shareholders’ equity</b> . . . . .	7,457.3	15,017.5	7,457.3	15,017.5
<b>Total capitalization</b> (long-term debt plus shareholders’ equity) . . . . .	10,741.2	21,630.7	11,489.5	23,137.6

- (1) The “As Adjusted” columns reflect the effect of the sale of the notes and the sale of the 2018 BRL Notes, but not the use of proceeds therefrom. See “Use of Proceeds.”
- (2) Translated for convenience only using the selling rate as reported by the Central Bank at March 31, 2013 for *reais* into U.S. dollars of R\$2.0138 to U.S.\$1.00.

## SELECTED FINANCIAL INFORMATION

The following selected financial data as of December 31, 2012 and 2011 and for the three years ended December 31, 2012 should be read in conjunction with our audited consolidated financial statements incorporated by reference in this offering memorandum. The selected financial data at March 31, 2013 and for the three-month periods ended March 31, 2013 and 2012 should be read in conjunction with our unaudited interim consolidated financial statements included in this offering memorandum. Our audited consolidated financial statements incorporated by reference in this offering memorandum have been prepared in accordance with IFRS. Our unaudited interim consolidated financial statements included in this offering memorandum have been prepared in conformity with IFRS for interim financial reporting in accordance with IAS 34 — *Interim Financial Reporting*. The results for the three-month period ended March 31, 2013 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2013 or any other period.

The selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Presentation of Financial and Other Information.”

	Three Months Ended March 31,			Year Ended December 31,			
	2013(1)	2013	2012	2012(1)	2012	2011	2010
	(in millions of U.S.\$) (unaudited)	(in millions of reais) (unaudited)	(in millions of reais) (unaudited)	(in millions of U.S.\$) (unaudited)	(in millions of reais)	(in millions of reais)	(in millions of reais)
<b>Statement of Income</b>							
<b>Data:</b>							
Net sales	3,579.7	7,208.9	6,337.1	14,161.0	28,517.4	25,706.2	22,681.3
Cost of sales	(2,737.1)	(5,512.0)	(4,993.6)	(10,956.2)	(22,063.6)	(19,047.0)	(16,951.2)
<b>Gross profit</b>	<b>842.6</b>	<b>1,696.9</b>	<b>1,343.5</b>	<b>3,204.8</b>	<b>6,453.8</b>	<b>6,659.2</b>	<b>5,730.1</b>
Operating income							
(expenses):							
Selling expenses	(497.5)	(1,001.9)	(953.4)	(2,143.9)	(4,317.3)	(3,837.5)	(3,523.1)
General and administrative expenses	(51.1)	(103.0)	(85.7)	(193.1)	(388.9)	(426.9)	(332.9)
Other operating expenses, net	(33.9)	(68.3)	(42.0)	(189.2)	(381.1)	(402.7)	(393.9)
Equity interest in income of affiliates	3.7	7.4	5.7	11.1	22.4	9.0	4.4
<b>Operating income</b>	<b>263.7</b>	<b>531.1</b>	<b>268.1</b>	<b>689.7</b>	<b>1,388.9</b>	<b>2,001.1</b>	<b>1,484.6</b>
Financial income (expenses), net	(50.6)	(101.8)	(75.0)	(283.3)	(570.6)	(479.5)	(483.1)
<b>Income before taxes</b>	<b>213.2</b>	<b>429.3</b>	<b>193.1</b>	<b>406.3</b>	<b>818.3</b>	<b>1,521.6</b>	<b>1,001.5</b>
Income and social contribution tax	(31.6)	(63.7)	(38.2)	(9.4)	(19.0)	(39.9)	(130.6)
Deferred income and social contribution tax	(4.6)	(9.3)	(2.0)	10.6	21.3	(116.6)	(65.9)
<b>Net profit</b>	<b>176.9</b>	<b>356.3</b>	<b>152.9</b>	<b>407.5</b>	<b>820.6</b>	<b>1,365.1</b>	<b>805.0</b>
Attributed to:							
BRF shareholders	178.0	358.5	153.2	403.8	813.2	1,367.4	804.1
Non-controlling interest	(1.1)	(2.2)	(0.3)	3.7	7.4	(2.3)	0.9

(1) Translated for convenience only using the selling rate as reported by the Central Bank for *reais* into U.S. dollars at March 31, 2013 of R\$2.0138 = U.S.\$1.00.

	At March 31,		At December 31,		
	2013(1)	2013	2012(1)	2012	2011
	(in millions of U.S.\$) (unaudited)	(in millions of <i>reais</i> ) (unaudited)	(in millions of U.S.\$) (unaudited)	(in millions of <i>reais</i> )	(in millions of <i>reais</i> )
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	685.9	1,381.3	958.7	1,930.7	1,366.8
Marketable securities	268.2	540.1	308.8	621.9	1,372.7
Trade accounts receivable, net	1,487.6	2,995.7	1,554.9	3,131.2	3,207.8
Inventories	1,584.9	3,191.7	1,499.0	3,018.6	2,679.2
Biological assets	654.9	1,318.9	680.8	1,371.0	1,156.1
Other current assets	765.8	1,542.1	753.1	1,516.6	1,341.2
<b>Total current assets</b>	<b>5,447.3</b>	<b>10,969.8</b>	<b>5,755.3</b>	<b>11,590.0</b>	<b>11,123.8</b>
Marketable securities and restricted cash	73.7	148.5	83.2	167.5	153.4
Trade accounts receivable, net	5.5	11.0	5.5	11.1	2.4
Biological assets	218.5	440.0	212.6	428.2	387.4
Other non-current assets	1,525.4	3,071.8	1,547.5	3,116.4	4,111.6
Investments	52.1	104.9	18.2	36.7	20.4
Property, plant and equipment, net	5,405.8	10,886.2	5,298.8	10,670.7	9,798.4
Intangible assets	2,361.4	4,755.3	2,359.6	4,751.7	4,386.1
<b>Total non-current assets</b>	<b>9,642.3</b>	<b>19,417.7</b>	<b>9,525.4</b>	<b>19,182.3</b>	<b>18,859.7</b>
<b>Total assets</b>	<b>15,089.6</b>	<b>30,387.5</b>	<b>15,280.7</b>	<b>30,772.3</b>	<b>29,983.5</b>
Short-term debt	1,251.5	2,520.3	1,212.0	2,440.8	3,452.5
Trade accounts payable	1,563.2	3,147.9	1,679.0	3,381.2	2,681.3
Other current liabilities	611.3	1,231.0	824.1	1,659.6	1,854.0
<b>Total current liabilities</b>	<b>3,426.0</b>	<b>6,899.2</b>	<b>3,715.2</b>	<b>7,481.6</b>	<b>7,987.8</b>
Long-term debt	3,283.9	6,613.2	3,514.5	7,077.5	4,601.1
Other non-current liabilities	922.4	1,857.6	812.9	1,637.1	3,284.6
<b>Total non-current liabilities</b>	<b>4,206.4</b>	<b>8,470.8</b>	<b>4,327.4</b>	<b>8,714.6</b>	<b>7,885.7</b>
<b>Total current and non-current liabilities</b>	<b>7,632.3</b>	<b>15,370.0</b>	<b>8,042.6</b>	<b>16,196.2</b>	<b>15,873.5</b>
Capital	6,187.6	12,460.5	6,187.6	12,460.5	12,460.5
Capital reserves	37.9	76.3	34.7	69.9	76.3
Income reserves	1,136.7	2,289.1	1,122.8	2,261.1	1,760.4
Retained earnings	164.1	330.5	—	—	—
Treasury shares	(23.5)	(47.4)	(25.8)	(51.9)	(65.3)
Other comprehensive loss	(62.4)	(125.6)	(99.8)	(201.0)	(161.4)
<b>Parent company shareholders' equity</b>	<b>7,440.4</b>	<b>14,983.4</b>	<b>7,219.5</b>	<b>14,538.6</b>	<b>14,070.4</b>
Non-controlling interest	16.9	34.1	18.6	37.5	39.6
<b>Shareholders' equity</b>	<b>7,457.3</b>	<b>15,017.5</b>	<b>7,238.1</b>	<b>14,576.1</b>	<b>14,110.0</b>
<b>Total liabilities</b>	<b>15,089.6</b>	<b>30,387.5</b>	<b>15,280.7</b>	<b>30,772.3</b>	<b>29,983.5</b>

(1) Translated for convenience only using the selling rate as reported by the Central Bank for *reais* into U.S. dollars at March 31, 2013 of R\$2.0138 = U.S.\$1.00.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements, our unaudited interim consolidated financial statements and the information presented under "Presentation of Financial and Other Information," "Summary — Summary Financial and Other Information" and "Selected Financial Information." This discussion and analysis should also be read in conjunction with "Item 5: Operating and Financial Review and Prospects" in our 2011 Form 20-F.*

*The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in "Risk Factors" and "Forward-Looking Statements."*

### Results of Operations

#### *Business Segments and Product Lines*

We report our results according to the following segments, divided according to the sales channel:

- **Domestic market**, which includes our sales within Brazil, except for dairy products and sales to food services customers;
- **Export market**, which includes our export sales and sales generated outside Brazil, except for dairy products and sales to food service customers;
- **Dairy products**, which includes our sales of milk and dairy products, produced both domestically and abroad; and
- **Food service**, which includes sales of all products in our portfolio, except for dairy products, in the domestic and export markets in the food service category, which includes fast food chains, restaurants, hotels and the institutional market.

Within these segments, we report net sales in important product categories, to the extent relevant to a given segment:

- **Poultry**, consisting of frozen whole and cut chickens and other poultry sold in both our domestic and export markets and in our food service segment;
- **Pork and Beef**, consisting of frozen pork cuts and beef cuts sold in both our domestic and export markets and in our food service segment;
- **Processed Food Products**, sold in both our domestic and export markets and in our food service segment, such as the following:
  - marinated frozen whole and cut chickens, roosters (sold under the *Chester*<sup>®</sup> brand) and turkeys;
  - specialty meats, such as sausages, ham products, bologna, frankfurters, salami, bacon and other smoked products; and
  - frozen processed meats, such as hamburgers, steaks, breaded meat products, *kibes* and meatballs, and frozen processed vegetarian foods;
- **Other Processed Products**, sold in both our domestic and export markets and in our food service segment:
  - frozen prepared entrees, such as lasagna and pizzas, as well as other frozen foods, including vegetables, cheese breads and pies;
  - juices, soy milk and soy juices; and
  - margarine;

- **Milk**, consisting of both UHT and pasteurized milk sold in Brazil in our dairy products segment;
- **Other Dairy Products**, such as flavored milk, yogurts, fruit juices, soy-based beverages, cheeses and desserts sold primarily in Brazil but also abroad in our dairy product segment; and
- **Other**, such as soy meal, refined soy flour and animal feed sold in our domestic and export markets.

In the three months ended March 31, 2013, we generated 33.7% of our net sales from *in natura* poultry, 9.2% from *in natura* pork and *in natura* beef, 39.5% from processed meat products, 8.9% from dairy products, 5.1% from food service and 3.6% from other products. No single customer or economic group represented more than 5% of our net sales in the three-month period ended March 31, 2013.

In the domestic market, which accounted for 56.5% of our net sales in the three months ended March 31, 2013, we operate under such brand names as *Sadia*, *Perdigão*, *Chester*, *Batavo*, *Elegê*, *Miss Daisy*, *Qualy* and *Becel* (through a strategic joint venture with Unilever), which are among the most recognized names in Brazil. In our export markets, which accounted for the remaining 43.5% of our total net sales in the three months ended March 31, 2013, the leading brands were *Perdix*, *Sadia*, *Hilal*, *Halal*, *Paty*, *Corcovado*, *Batavo*, *Fazenda*, *Borella* and *Confidence*.

We export to more than 5,000 clients, primarily to distributors, the institutional market (which includes restaurants and food service chains) and food processing companies. In the three months ended March 31, 2013, our exports accounted for 43.5% of our net sales, of which exports (1) 34.1% were to the Middle East, (2) 19.4% were to the Far East, (3) 13.3% were to Europe, (4) 8.3% were to Eurasia (including Russia and Ukraine) and (5) the remaining 24.9% were to the Americas, Africa and other regions. In export markets, our leading brands are *Perdix*, *Sadia*, *Hilal*, *Halal*, *Corcovado*, *Batavo*, *Fazenda*, *Borella* and *Confidence*.

***Results of Operations as a Percentage of Net Sales for the Three Months Ended March 31, 2013 Compared to the Three Months Ended March 31, 2012***

The following table sets forth the components of our results of operations as a percentage of net sales for the three months ended March 31, 2013 and 2012.

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	(unaudited)	
	(%)	(%)
Net sales . . . . .	100.0	100.0
Cost of sales . . . . .	(76.5)	(78.8)
<b>Gross profit</b> . . . . .	<b>23.5</b>	<b>21.2</b>
Operating expenses:		
Selling expenses . . . . .	(13.9)	(15.0)
General and administrative expenses . . . . .	(1.4)	(1.4)
Other operating expenses . . . . .	(0.9)	(0.7)
Equity interest in income of affiliates . . . . .	0.1	0.1
<b>Operating income</b> . . . . .	<b>7.4</b>	<b>4.2</b>
Financial income (expenses), net . . . . .	(1.4)	(1.2)
<b>Income before taxes</b> . . . . .	<b>6.0</b>	<b>3.0</b>
Income and social contribution taxes . . . . .	(1.0)	(0.6)
<b>Net income</b> . . . . .	<b>5.0</b>	<b>2.4</b>
<b>Attributable to:</b>		
BRF shareholders . . . . .	5.0	2.4
Non-controlling interest . . . . .	0.0	0.0

### **Presentation of Net Sales Information**

We report net sales after deducting taxes on gross sales and discounts and returns. Our total sales deductions can be broken down as follows:

- *ICMS Taxes* — ICMS is a state value-added tax on our gross sales in the domestic market at a rate that varies by state and product sold. Our average ICMS tax rate for the three months ended March 31, 2013 was 10.2%.
- *PIS and COFINS Taxes* — The PIS and the COFINS taxes are federal social contribution taxes on our gross sales in the domestic market that we incurred at an average combined rate of 5.2% for both PIS and COFINS for the three months ended March 31, 2013. However, we currently benefit from a suspension of these taxes for *in natura* meat of pork, poultry and beef cuts as well as a zero tax rate for some dairy products.
- *Discounts, Returns and Other Deductions* — Discounts, returns and other deductions are unconditional discounts granted to customers, product returns and other deductions from gross sales.

Most of our deductions from gross sales are attributable to the ICMS, PIS and COFINS taxes. As a result, our deductions from gross sales in the domestic market, which are subject to these taxes, are significantly greater than our deductions from gross sales in our export markets.

The table below sets forth our gross sales and deductions for the three months ended March 31, 2013 and 2012:

	<b>Three Months Ended March 31,</b>		<b>Change</b>
	<b>2013</b>	<b>2012</b>	
	<small>(in millions of reais) (unaudited)</small>		
<b>Gross sales:</b>			
Domestic sales .....	3,757.5	3,572.8	5.2
Foreign sales .....	3,229.0	2,417.5	33.6
Dairy products .....	765.0	766.6	(0.2)
Food service .....	417.3	399.7	4.4
	<u>8,168.8</u>	<u>7,156.6</u>	<u>14.1</u>
<b>Sales deductions</b>			
Domestic sales .....	(654.0)	(593.1)	10.3
Foreign sales .....	(136.2)	(58.4)	133.4
Dairy products .....	(117.4)	(121.1)	(3.1)
Food service .....	(52.3)	(46.9)	11.5
	<u>(959.9)</u>	<u>(819.5)</u>	<u>17.2</u>
<b>Net sales</b>			
Domestic sales .....	3,103.5	2,979.7	4.2
Foreign sales .....	3,092.8	2,359.1	31.1
Dairy products .....	647.6	645.5	0.3
Food service .....	365.0	352.8	3.5
	<u>7,208.9</u>	<u>6,337.1</u>	<u>13.8</u>

We report net sales by segment. We report the following four segments: domestic market, export markets, dairy products and food services. Within these segments, we report a breakdown of net sales by the following product categories: (1) poultry (*in natura* whole poultry and cuts), (2) pork and beef cuts (*in natura* cuts), (3) processed food products (processed foods, frozen and processed derivatives of poultry, pork and beef), (4) other processed food products (processed foods like margarine and vegetable and soybean-based products), (5) milk (including pasteurized and ultra-high temperature, or “UHT,” milk), (6) other dairy products (foods milk derivatives, including flavored milk, yogurts, cheeses and desserts) and other beverages (including fruit- and soybean-based beverages) and (7) others (including animal feed, soy meal and refined soy flour).

### Three Months Ended March 31, 2013 Compared with Three Months Ended March 31, 2012

The following provides a comparison of our results of operations for the three months ended March 31, 2013 against our results of operations for the three months ended March 31, 2012, based on our interim consolidated financial statements prepared in accordance with IFRS, as issued by the IASB.

As described in more detail below, our consolidated results of operations for the three months ended March 31, 2013 improved in comparison with the three months ended March 31, 2012, reflecting positive contributions of all segments of our business. Although in our export markets, we still see challenges in certain key markets, such as Japan and the Middle East, which continue to undergo a process of adjustment and normalization of inventory levels and merchandise flows, our results reflect the expected gradual recovery in this segment. At the same time, the performance of each of our domestic market, food service and dairy segments was positive in spite of weaker consumption in the Brazilian market in the first quarter of 2013.

#### Net Sales

Our net sales increased by R\$871.8 million, or 13.8%, to R\$7,208.9 million in the three months ended March 31, 2013 from R\$6,337.1 million in the corresponding period in 2012, primarily due to organic growth, the incorporation of companies acquired in Argentina, especially Quickfood, and an expanded portfolio due to the launch of various products and categories initially designed to minimize the impact of asset transfers in the third quarter of 2012 in accordance with the TCD, the agreement signed with the CADE.

#### Domestic Market

Net sales in the domestic market increased by R\$123.8 million, or 4.2%, to R\$3,103.5 million in the three months ended March 31, 2013, from R\$2,979.7 million in the corresponding period in 2012, primarily due to a 12.6% increase in average selling prices. Net sales increased primarily with respect to poultry, and, to a lesser extent, pork and beef and other products, while net sales of processed meats decreased. Such increases in net sales are mainly attributable to adjustments in pricing due to higher costs, especially for grains.

Sales volumes in the domestic market decreased by 45.8 thousand tons, or 7.5%, to 566.8 thousand tons in the three months ended March 31, 2013, from 612.6 thousand tons in the corresponding period in 2012, due to transfers and discontinuation of production in accordance with the TCD.

The following table provides a breakdown of changes in net sales and sales volumes in the domestic market.

	Net Sales			Sales Volumes		
	Three Months Ended March 31,			Three Months Ended March 31,		
	2013	2012	Change	2013	2012	Change
	(in millions of reais)		(%)	(in thousands of tons)		(%)
	(unaudited)					
<b>Domestic Market</b>						
<b>Meat:</b>						
<i>In natura:</i>						
Poultry .....	392.9	273.0	43.9	71.8	66.1	8.5
Pork/Beef .....	224.4	207.9	8.0	30.3	32.8	(7.7)
Total meats ( <i>in natura</i> ) .....	617.3	480.9	28.4	102.1	98.9	3.2
Processed meats .....	2,229.4	2,318.0	(3.8)	349.1	435.2	(19.8)
Other .....	256.8	180.8	42.0	115.6	78.5	47.2
Total .....	3,103.5	2,979.7	4.2	566.8	612.6	(7.5)

The following table sets forth our average selling prices in the domestic market.

	Average Selling Prices		
	Three Months Ended March 31,		
	2013	2012	Change
	(in reais per kg)		(%)
Domestic Market .....	5.48	4.86	12.6

#### Export Markets

Net sales to our export markets increased R\$733.7 million, or 31.1%, to R\$3,092.8 million in the three months ended March 31, 2013, from R\$2,359.1 million in the corresponding period in 2012. Performance of our poultry exports was generally favorable with the exception of Venezuela. With respect to pork exports, improved performance in smaller markets such as Angola and Singapore offset reduced sales to Russia and Ukraine, the leading markets for Brazilian pork. The three-month period ended March 31, 2013 was further characterized by events and market and economic conditions that negatively affected results in our export markets, including (1) logistical issues related to excess rainfall at ports located in the south of Brazil and a peak in shipments of grains through the port of Santos in the State of São Paulo, Brazil, (2) the prohibition by Ukraine on imports of Brazilian pork, (3) the slow recovery of the Japanese market and (4) excess volumes in the Venezuelan market.

During the first quarter of 2013, exports reached 602.1 thousand tons, a volume 4.1% higher than the first quarter of 2012. Equally, average prices also recovered, increasing by 25.9% in *real* terms.

The following table provides a breakdown of changes in net sales and sales volumes in our export markets.

	Net Sales			Sales Volumes		
	Three Months Ended March 31,			Three Months Ended March 31,		
	2013	2012	Change	2013	2012	Change
	(in millions of reais, unless otherwise specified) (unaudited)		(%)	(in thousands of tons, unless otherwise specified)		(%)
<b>Export Markets</b>						
<i>In natura</i> meat:						
Poultry .....	2,039.6	1,538.2	32.6	428.1	436.9	(2.0)
Pork/Beef .....	436.1	412.2	5.8	66.9	67.6	(1.9)
Total <i>in natura</i> meat .....	2,475.7	1,950.4	26.9	495.0	504.5	(1.9)
Processed meats .....	613.7	408.7	50.2	103.0	73.9	39.3
Others .....	3.4	0.0	100.0	4.1	0.0	100.0
Total .....	<u>3,092.8</u>	<u>2,359.1</u>	<u>31.1</u>	<u>602.1</u>	<u>578.4</u>	<u>4.1</u>

The following table sets forth our average selling prices in our export markets.

	Average Selling Prices		
	Three Months Ended March 31,		
	2013	2012	Change
	(in reais per kg)		(%)
Export Markets .....	5.14	4.08	25.9

We reported the following performance in our main overseas markets:

*Middle East* — Our net sales increased 45.7%, although our sales volumes decreased 1.3% in the three months ended March 31, 2013 compared to the corresponding period in 2012. Important destinations for exports of chicken, such as Egypt and Iraq, continue to face challenges that have directly affected consumption. The Saudi Arabian market remained a stable market for our exports.

*Far East* — In Japan, local inventories of imported products appear stable. Consumption has moderated following the Chinese New Year and the outbreak of avian influenza in China and Taiwan. Our sales volumes increased 11.2% in 2012 compared to 2011, and our net sales increased 4.4% in 2012 compared to 2011. Our sales volumes decreased 11.2% in the quarter, but our net sales increased 7.6% in the three months ended March 31, 2013 compared to the corresponding period in 2012.

*Europe* — Trends in Europe in the first quarter of 2013 were similar to prior periods, with growth in chicken sales, though turkey sales remained challenging due to oversupply and weak consumption. Our sales volumes and net sales decreased 2.9% and 4.4%, respectively, in the three months ended March 31, 2013 compared to the corresponding period in 2012. We continue to focus on adding value, especially for our *Plusfood* line of products.

*Eurasia* — In March 2013, Ukraine suspended pork imports from Brazil alleging sanitary issues. On the other hand, Russia, the largest market in the region, exhibited market stability in the first quarter of 2013. Our net sales in Eurasia increased 58.3% on higher sales volumes of 36.1% in the three months ended March 31, 2013 compared to the corresponding period in 2012.

*South America* — Our net sales increased 77.4%, and our sales volumes increased 46.6% in the three months ended March 31, 2013 compared to the corresponding period in 2012 due to our acquisition of Quickfood, with its *Paty* brand, in Argentina in 2012.

*Africa* — In Africa, we launched a new line of *Sadia*-branded processed products in some of the principal markets in the region, such as Angola, Ghana and Mauritius. Our net sales grew 13.6% in spite of 8.1% lower sales volumes in the three months ended March 31, 2013 compared to the corresponding period in 2012.

#### *Dairy Products*

Net sales of dairy products increased by R\$2.1 million, or 0.3%, to R\$647.6 million in the three months ended March 31, 2013, from R\$645.5 million in the corresponding period in 2012, despite a decrease in sales volumes of 16.5%, primarily in the fluid milk business, where sales volumes decreased due to our strategy for enhancing returns from the business by focusing on a higher value-added product mix and decreasing our dependence on UHT milk. We continue to seek to enhance the positioning of the *Batavo* brand in the market with the “thinking about your nature” campaign initiated in 2012. In addition, besides several launches of yogurt products, we introduced an innovative line of fruit juices under the *Batavo Hidra* brand. We launched the product line in the first quarter of 2013 in a test area, backed by an advertising campaign on broadcast TV channels, social media sites, leading news vehicles, as well as through tasting events. We are positioning *Batavo Hidra* as a differentiated product with milk whey nutrients that simultaneously refresh, provide nutrition and hydrate.

The following table provides a breakdown of changes in net sales and sales volumes of dairy products.

	Net Sales			Sales Volumes		
	Three Months Ended March 31,			Three Months Ended March 31,		
	2013	2012	Change	2013	2012	Change
	(in millions of reais)		(%)	(in thousands of tons)		(%)
	(unaudited)					
<b>Dairy Products:</b>						
Dry division	380.2	382.6	(0.6)	160.5	192.3	(16.6)
Fresh and frozen division	251.3	251.1	0.1	46.1	59.2	(22.2)
Others	16.1	11.8	36.4	21.1	21.1	0.5
Total dairy products	647.6	645.5	0.3	227.7	272.6	(16.5)

The following table sets forth our average selling prices of dairy products.

	Average Selling Prices		
	Three Months Ended March 31,		
	2013	2012	Change
	(in reais per kg)		(%)
Dairy products	2.84	2.37	19.8

### Food Service

Net sales in the food service segment increased by R\$12.2 million, or 3.5%, to R\$365.0 million in the three months ended March 31, 2013, from R\$352.8 million in the corresponding period in 2012. Net sales increased due to 21.2% higher average selling prices, which were partially offset by a 14.7% decrease in sales volumes. The first quarter of 2013 was a challenging one for the food services market, as lower consumer confidence, inflation in food and beverage prices and greater personal debt levels led to increased consumption of meals at home and reported decreases in same store sales at certain fast food restaurants. In addition, this year's Carnival holiday fell early in February, and consumers extended their summer vacations, negatively affecting revenues at food service establishments close to offices and business parks.

	Net Sales			Sales Volumes		
	Three Months Ended March 31,			Three Months Ended March 31,		
	2013	2012	Change	2013	2012	Change
	(in millions of reais) (unaudited)		(%)	(in thousands of tons)		(%)
Food service .....	365.0	352.8	3.5	48.9	57.3	(14.7)

The following table sets forth our average selling prices in our food service segment.

	Average Selling Prices		
	As of March 31,		
	2013	2012	Change
	(in reais per kg)		(%)
Food service .....	7.47	6.16	21.2

### Cost of Sales

Cost of sales increased 10.4% to R\$5,512.0 million in the three months ended March 31, 2013 from R\$4,993.6 million during the corresponding period in 2012. The increase in cost of sales occurred primarily due to (1) a spike in the cost of raw materials, especially in the price of corn in the fourth quarter of 2012 due to the hiatus between crops in Brazil, which was reflected in the average cost of production of *in natura* products in the first quarter of 2013, particularly for poultry and pork for export, (2) an increase in items whose cost varies with foreign exchange rates, including packaging, freight and vitamins, (3) our adjustment of production lines and productivity following asset transfers in accordance with the TCD and (4) the application of the new freight regulations under Brazilian law No. 12,619, dated as of April 30, 2012, also known as the "truck drivers' law."

### Gross Profit

Gross profit increased 26.3% to R\$1,696.9 million in the three months ended March 31, 2013 from R\$1,343.5 million in the corresponding period in 2012. Our cost of sales rose at a lesser rate than our net sales, leading to an improved gross margin. Our gross profit was 23.5% of net sales in the three months ended March 31, 2013, compared to 21.2% in the corresponding period in 2012. The gain in gross margin reflects the success in the management of measures adopted for repositioning our retail operations in the light of the TCD, savings in production costs and the gradual improvement shown in the leading international markets.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 6.3% to R\$1,104.8 million in the three months ended March 31, 2013 from R\$1,039.1 million in the corresponding period in 2012. Selling expenses increased only 5.1% in spite of a 13.8% increase in net sales. The increase was due to investments in the development of new lines and products, product launches and marketing campaigns and to the impact of new freight regulations involving the truck drivers' law described above, which increased variable selling expenses on transportation logistics. Administrative expenses were 1.4% of net sales, a higher percentage than in the corresponding period in 2012 and representing an increase of 20.2% over the first quarter of 2012 due to necessary non-recurring expenditures on the implementation of projects.

### ***Other Operating Expenses***

Other operating expenses increased 62.6% to R\$68.3 million in the three months ended March 31, 2013 from R\$42.0 million in the corresponding period in 2012 due to the pre-operational costs of new industrial units, insurance claims and provisions for tax contingencies. Profit sharing expenses are also classified under this item and recorded an increase in light of improved operating results.

### ***Operating Income***

Operating income before financial expenses (income) increased 98.1% to R\$531.1 million in the three months ended March 31, 2013 from R\$268.1 million in the corresponding period in 2012, representing an operating margin of 7.4% of net operating revenue over the 4.2% recorded in the same period 2012. The increase of 3.2 percentage points reflects the improvement in performance of all four segments: domestic market, food service, exports and dairy products, including decreases in production costs for those segments.

The table below sets forth our operating income on a segment basis:

	<b>Operating Income by Segment</b>		
	<b>Three Months Ended March 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>Change</b>
	<b>(in millions of reais)</b>	<b>(in millions of reais)</b>	<b>(%)</b>
	<b>(unaudited)</b>		
Domestic market .....	416.8	284.2	46.7
Export markets .....	34.5	(54.1)	n.m.
Dairy products .....	28.8	(0.8)	n.m.
Food service .....	<u>51.0</u>	<u>38.8</u>	<u>31.4</u>
Total .....	<u>531.1</u>	<u>268.1</u>	<u>98.1</u>

n.m. = not meaningful

In our domestic market, our operating results were R\$416.8 million, a 46.7% increase, representing an operating margin of 13.4% compared to 9.5%, a gain of 3.9 percentage points. The operating gain in the domestic market accounted for 78.5% of the consolidated results for the three months ended March 31, 2013 and was primarily due to the repositioning of categories and domestic market lines, which included specialty meats and frozen meats and ready-to-eat dishes, as well as the launch of special poultry cuts, which added 8.4% to the operating results in our domestic market. In our export markets and dairy products segments, we returned to positive operating income for the reasons described above. In our food services segment, profitability improved with a gain of 3.0 percentage points in the operating margin to 14.0% for the three months ended March 31, 2013 due to a realignment of the price-cost ratio of items sold.

### ***Financial Income (Expenses), net***

Financial income (expenses), net was R\$(101.8) million in the three months ended March 31, 2013, representing a 35.8% increase from R\$(75.0) million in the corresponding period in 2012, primarily due to the increase in interest due to higher gross debt and a reduction in remuneration on cash investments denominated in *reais*.

In light of the high level of exports, we enter into transactions with the specific purpose of currency hedging. In accordance with hedge accounting standards (CPC 38 and IAS 39), we use financial derivatives (for example, non-deliverable forwards) and non-derivative financial instruments (for example, foreign currency debt) for hedging purposes and to eliminate the related unrealized foreign exchange rate variations from the income statement (under the financial expenses line). As of March 31, 2013, our non-financial derivative instruments designated as hedge accounting instruments to cover foreign exchange risks amounted to U.S.\$533 million, reducing our book currency exposure by the same value. In addition, our financial derivative instruments designated as hedge accounting instruments, applying the concept of a cash flow hedge for coverage of highly probable exports, totaled U.S.\$966 million plus €150 million plus £43.3 million and contributed directly to a reduction in currency exposure. In both cases, the unrealized result for foreign exchange rate variation was recorded in shareholders' equity, avoiding an impact on financial expenses.



### ***Income Tax and Social Contribution***

Income tax and social contribution was R\$73.0 million in the three months ended March 31, 2013, representing a 81.6% increase as compared to R\$40.2 million in the corresponding period in 2012. Our income tax and social contribution in the first quarter of 2013 was 17% of our pre-tax results for the quarter.

### ***Net Income***

For the reasons described above, net income attributable to BRF shareholders was R\$358.5 million in the three months ended March 31, 2013, representing a 134.0% increase as compared to R\$153.2 million for the corresponding period in 2012. Our net margin for the three months ended March 31, 2013 was 5.0%, representing a 2.6 basis point increase as compared to our net margin of 2.4% for the corresponding period of 2012.

### **Liquidity and Capital Resources**

Our main cash requirements are the servicing of our debt, capital expenditures relating to expansion programs, acquisitions and the payment of dividends and interest on shareholders' equity. Our primary cash sources have been cash flow from operating activities, loans and other financings, offerings of our common shares and sales of marketable securities. We believe that these sources of cash will be sufficient to cover our working capital needs in the ordinary course of our business.

For a description of our cash flows for the year ended December 31, 2012, see "Item 5: Operating and Financial Review and Prospects — Liquidity and Capital Resources" in our 2012 Form 20-F.

#### ***Cash Flows from Operating Activities***

We recorded net cash flows from operating activities of R\$546.4 million in the three months ended March 31, 2013, compared to net cash flows from operating activities of R\$613.6 million in the corresponding period in 2012. Our operating cash flow for the three months ended March 31, 2013 reflects net income attributable to BRF shareholders of R\$358.5 million, net non-cash adjustments of R\$424.0 million and net changes in operating assets and liabilities of R\$236.1 million. The net changes in operating assets and liabilities in the three months ended March 31, 2013 included a decrease in trade accounts receivable of R\$128.9 million due to the collection of holiday sales from December 2012 and redemptions of trading securities of R\$68.7 million mainly used for capital expenditures and debt payments, which were more than offset by a decrease in inventories of R\$169.7 million, interest paid in the amount of R\$129.4 million and a decrease in trade accounts payable of R\$121.3 million.

#### ***Cash Flows Used in Investing Activities***

We recorded R\$602.6 million in net cash flows used in investing activities in the three months ended March 31, 2013, compared to R\$586.6 million in the corresponding period in 2012. In the three months ended March 31, 2013, our cash used in investing activities consisted primarily of (1) capital expenditures on property, plant and equipment in the amount of R\$419.0 million, mainly attributable to construction in progress, including expansion of industrial units, in the total amount of R\$255.5 million, and buildings and improvements of R\$118.4 million and (2) the acquisition and formation of breeding stock of R\$121.4 million.

#### ***Cash Flows Used in Financing Activities***

We recorded net cash flows used in financing activities of R\$474.2 million in the three months ended March 31, 2013, compared to R\$163.6 million provided by financing activities in the corresponding period in 2012. In the three months ended March 31, 2013, we received proceeds from loans and financings in the amount of R\$298.1 million, which was more than offset by repayments of debt totaling R\$602.1 million and interest payments on shareholders' equity in the amount of R\$174.7 million related to the 2012 fiscal year.

## Debt

Our principal debt instruments as of December 31, 2012 are described below. The descriptions below update and supersede the descriptions set forth in “Item 5. Operating and Financial Review and Prospects — B. Liquidity and Capital Resources — Debt” in our 2012 Form 20-F. For more information on these facilities, including information on average interest rates and weighted average maturities, see Note 19 to our audited consolidated financial statements included in our 2012 Form 20-F and Note 18 to our unaudited interim consolidated financial statements included in this offering memorandum.

	Short-Term Debt as of December 31, 2012	Long-Term Debt as of December 31, 2012	Total Debt as of December 31, 2012	Total Debt as of December 31, 2011
(in millions of reais)				
BNDES FINEM, other secured debt and development				
bank credit lines . . . . .	418.2	972.4	1,390.6	1,441.4
Export credit facilities . . . . .	15.2	1,032.9	1,048.1	737.1
Working capital facilities . . . . .	1,243.3	1.5	1,244.8	954.9
Sadia PESA loan facility . . . . .	2.9	191.0	193.9	181.5
Other . . . . .	—	12.4	12.4	14.9
<b>Local currency . . . . .</b>	<b><u>1,679.6</u></b>	<b><u>2,210.2</u></b>	<b><u>3,889.8</u></b>	<b><u>3,329.8</u></b>
Export credit facilities . . . . .	445.8	1,245.8	1,691.6	2,506.1
Bonds . . . . .	58.9	3,548.6	3,607.5	1,903.7
BNDES, FINEM, other secured debt and development				
banks credit lines . . . . .	51.3	58.1	109.5	160.0
ACC /ACE pre-export loans . . . . .	102.2	—	102.2	150.1
Working capital facilities . . . . .	103.0	14.8	117.8	3.9
<b>Foreign currency . . . . .</b>	<b><u>761.2</u></b>	<b><u>4,867.3</u></b>	<b><u>5,628.5</u></b>	<b><u>4,723.8</u></b>
<b>Total . . . . .</b>	<b><u>2,440.8</u></b>	<b><u>7,077.5</u></b>	<b><u>9,518.3</u></b>	<b><u>8,053.5</u></b>

### Local Currency Debt

#### *BNDES FINEM, Other Secured Debt and Development Bank Credit Lines*

*BNDES FINEM Facilities.* We have a number of outstanding obligations to BNDES, including loans under its FINEM program in the amount of R\$794.6 million as of December 31, 2012. The loans from BNDES were entered into to finance purchases of machinery and equipment and construction, improvement or expansion of our production facilities. Principal and interest on the loans are generally payable monthly, with maturity dates varying from 2013 through 2018. The principal amount of the loans is denominated in *reais*, the majority of which bears interest at the TJLP rate plus a margin.

*Industrial Credit Notes.* We had outstanding industrial credit notes (*Cédulas de Crédito Industrial*), receiving credits from government-sponsored funds (the Fund for Worker Support (*Fundo de Amparo ao Trabalhador*), the Constitutional Fund for Financing in the Midwest (*Fundo Constitucional de Financiamento de Centro-Oeste*) and the Constitutional Fund for the Financing of the Northeast (*Fundo Constitucional de Financiamento do Nordeste*, or “FNE”)) in the amount of R\$364.2 million as of December 31, 2012. These securities have maturity dates of up to five years, except that the industrial credit notes with respect to the FNE mature in 2023. These securities are secured by liens on machinery and equipment and real estate mortgages.

*FINEP Financing.* We obtained certain financing from *Financiadora de Estudos e Projetos* (“FINEP”), a public financing company under the Ministry of Science, Technology and Innovation. The outstanding debt under these credit lines as of December 31, 2012 was R\$141.0 million.

The other amounts set forth in the line “BNDES FINEM, other secured debt and development bank credit lines — Local currency” of the table above consist of secured finance leases and a small amount of funding obtained through the government-sponsored Special Agency for Industrial Financing (*Agência Especial de Financiamento Industrial*, or “FINAME”).

#### *Export Credit Facilities*

*Export Credit Notes.* We had outstanding export credit notes in *reais* in the amount of R\$713.7 million as of December 31, 2012. These notes bear interest at the CDI rate plus a margin and mature on various dates from 2014 to 2016.

*BNDES Facilities — Exim.* We have credit lines from BNDES to finance exports, with several commercial banks acting as intermediaries. The outstanding amount of debt on these credit lines as of December 31, 2012 was R\$334.4 million. Such funds are indexed to the TJLP plus a margin and mature in 2014. Settlement occurs in local currency without the risk associated with exchange rate variations.

#### *Working Capital Facilities*

*Rural Credit Financing.* We have short-term rural credit loans in the amount of R\$1,243.4 million as of December 31, 2012 with several commercial banks under a Brazilian federal government program that offers favorable interest rates as an incentive to invest in rural activities. We generally use the proceeds of these loans for working capital.

#### *Sadia PESA Loan Facility*

*PESA.* We are party to a loan facility obtained through the Special Sanitation Program for Agroindustrial Assets (*Programa Especial de Saneamento de Ativos*, or “PESA”) for an outstanding amount of R\$193.9 million as of December 31, 2012, subject to the variation of the IGP-M as of December 31, 2012, plus interest of 4.9% per year, secured by endorsements and pledges of public debt securities.

#### *Other Local Currency Financings*

*State Tax Incentive Financing Programs.* We also had R\$12.4 million outstanding as of December 31, 2012 under credit facilities offered under state tax incentive programs to promote investments in those states. Under these programs, we are granted credit proportional to the payment of ICMS tax generated by investments in the construction or expansion of manufacturing facilities in these states. The credit facilities have a 20-year term and fixed or variable interest rates based on the IGP-M plus a margin.

### ***Foreign Currency Debt***

#### *Export Credit Facilities*

*Export Prepayment Facilities.* We had several export prepayment facilities in an aggregate outstanding amount of R\$907.3 million as of December 31, 2012. The indebtedness under these facilities is generally denominated in U.S. dollars, with maturity dates varying from 2013 to 2019. Interest under these export prepayment facilities accrues at the LIBOR plus a spread. Under each of these facilities, we receive a loan from one or more lenders based on exports of our products to specific customers. The covenants under these agreements include limitations on liens and mergers.

*Business Loan Facilities.* We had several trade-related business loan facilities in an aggregate outstanding amount of R\$596.2 million as of December 31, 2012. The indebtedness under these facilities is denominated in U.S. dollars, and maturities vary from one year to six years. These facilities bear interest at LIBOR plus a margin, payable quarterly, semiannually or annually. The proceeds from these facilities are used to import raw materials or for other working capital needs. The principal covenants under these agreements include limitations on mergers and sales of assets.

*Export Credit Notes.* We had outstanding export credit notes in U.S. dollars in the amount of R\$206.8 million as of December 31, 2012. These notes bear interest at LIBOR plus a margin and variations in the exchange rate and mature on various dates from 2015 to 2016.

#### *Bonds*

*BRF Notes.* In June 2012, we issued senior notes in the aggregate amount of U.S.\$500.0 million. The bonds bear interest at a rate of 5.875% per year and mature on June 6, 2022. The bonds contain certain covenants, including limitations on liens, sale-leaseback transactions and certain mergers and consolidations. Later the same month, we issued an additional U.S.\$250.0 million of senior notes under the same indenture and with the same terms and conditions.

*BFF Notes.* In January 2010, we, through our subsidiary BFF International Limited, issued senior notes in the aggregate amount of U.S.\$750.0 million. The bonds are guaranteed by us, bear interest at a rate of 7.250% per year and mature on January 28, 2020. The bonds contain certain covenants, including limitations on liens, sale-leaseback transactions, certain mergers and consolidations, and transactions with affiliates.

*Sadia Bonds.* In May 2007, Sadia Overseas issued bonds in the aggregate amount of U.S.\$250.0 million. The bonds are guaranteed by BRF, bear interest at a rate of 6.875% per year and mature on May 24, 2017. The bonds contain certain covenants, including limitations on liens, sale-leaseback transactions, certain mergers and consolidations, and transactions with affiliates.

#### *BNDES FINEM, Other Secured Debt and Development Bank Credit Lines*

*BNDES FINEM Financing in UMBNDES.* The amounts set forth in the table above under “BNDES FINEM, other secured debt and development bank credit lines — Foreign currency” primarily consist of financing totaling R\$105.9 million linked to the Unidade Monetária BNDES, or “UMBNDES,” basket of currencies, which are the currencies in which BNDES borrows, and bear interest at the UMBNDES rate, which reflects the daily exchange rate fluctuations in the currencies in that basket. These loans are, in most cases, secured by equipment and facilities. The covenants under these agreements include limitations on indebtedness, liens, and mergers and sales of assets.

#### *ACC/ACE Pre-Export Loans*

*ACCs and ACEs.* We obtain short-term pre-export loans known as Advances on Exchange Contracts (*Adiantamentos de Contratos de Câmbio*), or “ACCs,” and export loans known as Advances on Exchange Delivered (*Adiantamentos sobre Câmbios Entregues*), or “ACEs.” Central Bank regulations permit companies to obtain short-term financing under ACCs due within 360 days from the scheduled shipment date of export goods or short-term financing under ACEs due within 180 days from the actual shipment date of export goods, in each case from Brazilian banks but denominated in U.S. dollars. We had ACCs and ACEs in an aggregate outstanding principal amount of R\$102.2 million as of December 31, 2012. Our ACCs and ACEs bore interest at an average rate of 0.6% as of December 31, 2012.

#### *Working Capital Facilities*

*Foreign Currency Working Capital Facilities.* We have outstanding financing under credit lines from financial institutions used primarily for working capital and financing imports by our subsidiaries in Argentina. These obligations are denominated in Argentine pesos and U.S. dollars and generally mature within one year.

#### *International Credit Facilities*

*Revolving Credit Facility.* In order to improve our liquidity management, on April 27, 2012 we and our subsidiaries Perdigão International Ltda. and Perdigão Europe — Sociedade Unipessoal Lda. entered into a U.S.\$500 million, 3-year revolving credit facility with two tranches (U.S. dollar and euro), with a syndicate of nineteen banks. Borrowing under this revolving credit facility accrues interest at an annual rate of LIBOR plus a spread ranging from 1.6% to 2.5% depending on our credit ratings. As of the date hereof, we have not made any borrowings under this revolving credit facility.

### *Derivatives*

We enter into foreign currency exchange derivatives under which we had exposure of R\$220.2 million as of December 31, 2012. The counterparties include several Brazilian financial institutions and involve interest rate swaps and the purchase and sale of currency. Their maturity dates vary from 2012 through 2019. These transactions do not require any guarantees and follow the rules of the São Paulo Stock Exchange or CETIP S.A., a trading and securities registration company. These derivatives are recorded in our balance sheet as other financial assets and liabilities. See “Item 11— Quantitative and Qualitative Disclosures About Market Risk” in our 2012 Form 20-F.

### *Covenants and Covenant Compliance*

Several of the instruments governing our indebtedness contain limitations on liens, and some of the instruments governing our indebtedness contain other covenants, such as limitations on indebtedness, mergers and sales of assets, and transactions with affiliates. At March 31, 2013, we were in compliance with the covenants contained in our debt instruments.

Our debt instruments include customary events of default. The instruments governing a substantial portion of our indebtedness contain cross-default or cross-acceleration clauses, such that the occurrence of an event of default under one of those instruments could trigger an event of default under other indebtedness or enable a creditor under another debt instrument to accelerate that indebtedness.

## BUSINESS AND INDUSTRY UPDATES

### Industry Update for the Three Months Ended March 31, 2013

#### *Domestic Market*

Brazilian consumer confidence has been at its lowest levels in three years, principally due to the overall Brazilian inflation rate. In the three months ended March 31, 2013, the overall inflation rate was 1.93%, compared to 1.22% in the three months ended March 31, 2012.

#### *Export Markets*

The information set forth in this “Export Markets” subsection relates to Brazilian exports as a whole and not only to exports of our company.

In the three months ended March 31, 2013, there was a decline in the volume of Brazilian pork and chicken exports compared to the corresponding period in 2012. However, beef exports in the three months ended March 31, 2013 increased in both volume and revenue. Markets with the greatest increase in volumes were Russia, Venezuela and Chile.

*Chicken* — Export volumes of Brazilian chicken declined 7.5%, to 901 thousand tons, in the three months ended March 31, 2013, compared to the corresponding period in 2012. In revenue terms, however, there was a 2.2% increase compared to the corresponding period in 2012.

- *Middle East* — Export volumes of Brazilian chicken to the United Arab Emirates declined by 11.3% compared to the corresponding period in 2012. However, volumes to the Middle East as a whole increased by 10.2% compared to the corresponding period in 2012, with volumes to Saudi Arabia increasing by 28.2%.
- *Far East* — Export volumes of Brazilian chicken to Asia as a whole declined by 14.4% compared to the corresponding period in 2012, with Hong Kong showing declines in volume of 31.2%. However, volumes to Japan increased by 16.7% compared to the corresponding period in 2012.
- *Africa* — Export volumes of Brazilian chicken to South Africa declined by 8.3% compared to the corresponding period in 2012, in spite of an end to anti-dumping measures in this market.

*Pork* — Export volumes of Brazilian pork declined 2.9%, to 120 thousand tons, in the three months ended March 31, 2013, compared to the corresponding period in 2012. In revenue terms, however, there was a 0.9% increase compared to the corresponding period in 2012.

- *Far East* — Export volumes of Brazilian pork to Hong Kong declined by 27.0% compared to the corresponding period in 2012.
- *Eurasia* — Out of the ten leading importers of Brazilian pork, export volumes increased only to Russia (95%). Export volumes of pork to the Ukraine declined 6% compared to the corresponding period in 2012. In March 2013, the Ukraine temporarily suspended shipments from Brazil alleging sanitary problems.

*Beef* — Export volumes of Brazilian beef increased 25.5%, to 324 thousand tons, in the three months ended March 31, 2013, compared to the corresponding period in 2012. In revenue terms, there was an 18.9% increase compared to the corresponding period in 2012.

#### **Production**

We produced a total volume of 1.3 million tons of food in the three months ended March 31, 2013, a volume decline of 9.1% compared to the corresponding period in 2012. We adjusted our meat production segment in light of the implementation of the TCD and a reduction in the output of UHT milk. Production at Quickfood in Argentina, was consolidated in July 2012 and recorded in our overall numbers for meat and other processed products.

The volume of poultry slaughtered declined by 22 million heads, or 5.0%, to 442 million heads in the three months ended March 31, 2013, from 464 million heads in the corresponding period in 2012. The volume of pork/beef slaughtered declined by 439 million heads, or 15.0%, to 2,475 million heads in the three months ended March 31, 2013, from 2,914 million heads in the corresponding period in 2012. The volume of meats, dairy products and other processed products declined by 59 thousand tons, 59 thousand tons and 17 thousand tons, respectively, or 5.0%, 23.0% and 13.0%, respectively, in the three months ended March 31, 2013, from the corresponding period in 2012. The volume of feed and premix declined by 209 thousand tons, or 7.0%, to 2,740 thousand tons in the three months ended March 31, 2013, from 2,949 thousand tons in the corresponding period in 2012.

	<b>For the Three Months Ended March 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>Change (%)</b>
Poultry slaughtered (million heads) . . . . .	442	464	(5)
Pork/beef slaughtered (thousand heads) . . . . .	2,475	2,914	(15)
Production (thousand tons)			
Meats . . . . .	1,026	1,085	(5)
Dairy products . . . . .	198	257	(23)
Other processed products . . . . .	114	131	(13)
Feed and premix (thousand tons per period) . . . . .	2,740	2,949	(7)

We launched a total of 58 new products during the first quarter of 2013 as part of our efforts to expand our portfolio, reposition our brands and categories and create value-added products. The breakdown of new product launches by segment was as follows: food service — 8; domestic market — 8; exports — 30; and 12 in the dairy product segment.

The license agreement for use of the *Turma da Mônica* brand expired on March 31, 2013, and we do not expect to renew it.

## **Marketing and Distribution**

### ***Perdigão Brazil Cup***

In March 2013, we signed an agreement to sponsor the Brazil Cup. As the official sponsor of the Brazil Cup — the second most important tournament in the country — it will be known as the *Perdigão Brazil Cup* for the next three years.

### ***Distribution Channels***

We distribute our products through various distribution channels, including: retail, wholesale, institutional and supermarkets. In the three months ended March 31, 2013, 15.7% of our products were distributed through retail channels, 24.3% through wholesale channels, 6.9% through institutional channels and 53.1% through supermarket channels. In the three months ended March 31, 2012, 17.5% of our products were distributed through retail channels, 19.4% through wholesale channels, 8.7% through institutional channels and 54.4% through supermarket channels.

## MANAGEMENT

### Board of Directors

Our board of directors provides our overall strategic direction. Our by-laws also provide for alternate directors. During periods of absence or temporary unavailability of a director, the corresponding alternate director substitutes for that absent or unavailable director. At least 20.0% of the members of our board of directors are required to be independent directors. Our directors and alternate directors are elected at ordinary general meetings for a two-year term. At the general shareholders' meeting held April 9, 2013, our shareholders approved an increase in the size of the board of directors from nine to 11 members.

At the shareholders' meeting on April 9, 2013, Abilio Diniz was elected as the new Chairman of our Board of Directors, Sérgio Rosa was elected as the new Vice Chairman of our Board of Directors, and Carlos Fernando Costa was elected as a new board member. In addition, Eduardo Rossi was elected as alternate to Abilio Diniz; Mauro José Periotto was elected as alternate to Paulo Assunção de Sousa; Sérgio Schwartz was elected as alternate to Décio da Silva; Manuela Cristina Lemos Marçal was elected as alternate to Luis Carlos Fernandes Afonso; Helena Kerr do Amaral was elected as alternate to Carlos Fernando Costa; Daniel Arduini Cavalcanti de Arruda was elected as alternate to José Carlos Reis de Magalhães Neto; and Fernando Shayer was elected as alternate to Pedro de Andrade Faria.

In the same annual shareholders' meeting, Paola Rocha Ferreira was elected as alternate to Susana Hanna Stiphan Jabra in our Fiscal Council.

The following table sets forth information with respect to our current directors and alternate directors.

Name	Position	Director/Alternate	
		Since	Age
Abilio Diniz(1)	Chairman	April 9, 2013(2)	76
Eduardo Rossi(1)	Alternate	April 9, 2013(2)	41
Sérgio Rosa(1)	Vice Chairman	April 9, 2013(2)	53
Heloisa Helena Silva de Oliveira	Alternate	August 23, 2012	57
Paulo Assunção de Sousa	Board Member	April 29, 2011	59
Mauro José Periotto	Alternate	April 9, 2013(2)	61
Décio da Silva(1)	Board Member	April 12, 2007	56
Sérgio Schwartz(1)	Alternate	April 9, 2013(2)	52
Luis Carlos Fernandes Afonso	Board Member	April 22, 2003	52
Manuela Cristina Lemos Marçal	Alternate	April 9, 2013(2)	39
Carlos Fernando Costa	Board Member	April 24, 2012	47
Helena Kerr do Amaral	Alternate	April 9, 2013(2)	57
Luiz Fernando Furlan(1)	Board Member	July 8, 2009	66
Roberto Faldini(1)	Alternate	July 8, 2009	64
Manoel Cordeiro Silva Filho(1)	Board Member	April 12, 2007	59
Maurício da Rocha Wanderley	Alternate	April 12, 2007	43
Walter Fontana Filho(1)	Board Member	July 8, 2009	59
Eduardo Fontana d'Avila(1)	Alternate	July 8, 2009	59
José Carlos Reis de Magalhães Neto(1)	Board Member	April 29, 2011	34
Daniel Arduini Cavalcanti Arruda(1)	Alternate	April 9, 2013(2)	34
Pedro de Andrade Faria(1)	Board Member	April 29, 2011	38
Fernando Shayer(1)	Alternate	April 9, 2013(2)	39

(1) Independent member (as defined in the Brazilian *Novo Mercado* rules).

(2) Not previously elected as directors or alternate to BRF's board of directors.



The following is a summary of the business experience, areas of expertise and principal outside business interests of our current and potential directors (not including alternates).

*Abilio Diniz* — Chairman of the board of directors. Mr. Diniz graduated in Business Administration from Fundação Getúlio Vargas and also pursued study programs at Columbia University in the City of New York and the University of Dayton in Ohio. He has spent his professional career at Grupo Pão de Açúcar, starting as a sales manager and rising to his current position as Chairman of the Board of Directors. As Executive Chairman, he was responsible for implementing the policies of corporate governance and professionalization of Grupo Pão de Açúcar. Mr. Diniz was one of the founders of the São Paulo state supermarkets association (Associação Paulista de Supermercados, or APAS) and the Brazilian federal supermarkets association (Associação Brasileira de Supermercados, or ABRAS). He was also, for approximately ten years, a member of the CMN. Mr. Diniz is also a member of the Brazilian Government's Conselho de Desenvolvimento Econômico e Social, or CDES.

*Sérgio Rosa* — Vice Chairman of the board of directors. Mr. Rosa is a journalist who graduated from the Escola de Comunicação e Artes da Universidade de São Paulo. Mr. Rosa was the Chairman of the Board of Directors of Vale S.A. from 2003 to 2010. During the same period, Mr. Rosa was also President of Valepar S.A. and Litel Participações S.A. Mr. Rosa was previously a member of the Board of Directors of Brasil Telecom S.A. and of Sauípe S.A., and the Investment Director of ABRAPP. Mr. Rosa is also a member of CDES, founder and member of the Board of Directors of Principles for Responsible Investment Program, or PRI, established by the UN. Mr. Rosa served as Director of the Bank Employees Union of the State of São Paulo, President of the National Confederation of Bank Treasury and Latin American Confederation of Bank Employees. Mr. Rosa was Alderman of the City of São Paulo between 1994 and 1996. Mr. Rosa is currently a member of the Board of Directors of America Latina Logística S.A. Mr. Rosa was nominated to stand for election to our board of directors by our shareholder PREVI. Mr. Rosa qualifies as an independent director under the Brazilian *Novo Mercado* rules.

*Paulo Assunção de Sousa* — Vice Chairman of the Board of Directors. Mr. de Sousa has a law degree from the University of São Paulo, USP. He is the former President of Brasilcap-Cap SA and the former director of the Syndicate of São Paulo Bank. Mr. de Sousa has experience serving as a director of several companies, including Usiminas. Mr. de Sousa was nominated to stand for election to our board of directors by our shareholder PREVI.

*Décio da Silva* — Board member. During his career, Mr. Silva was production officer, regional officer, sales officer and Chief Executive Officer of Weg S.A., of which he is currently the Chairman of the Board of Directors. Mr. Silva graduated with a degree in mechanical engineering from Universidade Federal de Santa Catarina (UFSC), and degree in business administration from the Higher Educational School of Administration and Management of UDESC, and he has enrolled in a graduate program in business administration at Fundação Dom Cabral. Mr. Silva qualifies as an independent director under the Brazilian *Novo Mercado* rules.

*Luis Carlos Fernandes Afonso* — Board member. He graduated from Pontifícia Universidade Católica de São Paulo (PUC-SP) with a master's degree in Economics at *Instituto de Estudos e Pesquisas Econômicas* (IEPE) / Universidade Rio Grande do Sul and a postgraduate degree in Environmental and Economic Development at Universidade de Campinas (UNICAMP). He is the President of the Center for the Study of Public Policy of the Universidade de Campinas (UNICAMP) and a researcher at Campinas Foundation of Economics. He is also a Member of the Board of Directors of Iguatemi S.A. and Romi S.A. He was Finance Secretary at the Municipal Governments of São Paulo, Campinas and Santo André in the State of São Paulo. Mr. Afonso was nominated to stand for election to our board of directors by our shareholder PETROS.

*Carlos Fernando Costa* — Board member. Mr. Costa has a bachelors degree in math from Universidade Federal de Uberlândia, a bachelors degree in business from the Universidade Iberoamericana, and a masters degree in Financial Management from Universidade Metodista. Mr. Carlos is Chief Financial Officer and Investment and Executive Manager Investment Planning and Market Operations of Fundação Petrobras de Seguridade Social, or PETROS. Mr. Costa participates in various committees of PETROS, and is the Coordinator of the Technical Committee of ABRAPP. Mr. Costa was nominated to stand for election to our board of directors by our shareholder PETROS.

*Luiz Fernando Furlan* — Board member. Mr. Furlan was a Minister of Development, Industry and Foreign Trade of Brazil from 2003 to 2007. Previously, he was Chairman of the Board of Directors of Sadia from 1993 to 2002, where he had worked since 1976. He also served on the boards of international corporations, such as Panamco (Pan American Beverages, Inc. — U.S.) from 1994 to 1998. He joined the advisory councils of IBM — Latin America, Embraco S.A. (Brasmotor — Brazil) and ABN Amro Bank (Brazil) and was President of ABEF (Brazilian Chicken Exporters Association), ABIOVE (Vegetal Oil Industries Association), ABRASCA (Brazilian Association of Public Owned Companies); Co-President of the MEBF (Mercosur-European Union Business Forum); and Vice President of FIESP (São Paulo Entrepreneurs Association). At present, he is also Chairman of Amazonas Sustainability Foundation and a member of the boards of Redecard S.A., Amil Participações S.A., Telecomunicações de São Paulo S.A. — Telesp and Telefónica S.A. (Spain) and a member of the International Advisory Boards of Panasonic (Japan) and McLarty Associates (U.S.). He graduated with a degree in chemical engineering and in business administration with a specialization in financial management. Mr. Furlan qualifies as an independent director under the Brazilian *Novo Mercado* rules.

*Manoel Cordeiro Silva Filho* — Board member. Mr. Silva Filho has 32 years of experience at Companhia Vale do Rio Doce, was an investment and finance officer of VALIA and was a coordinator of the National Investment Committee of Associação Brasileira das Entidades Fechadas de Previdência Complementar, or ABRAPP. Mr. Silva Filho holds a degree in business administration from Faculdade Moraes Júnior, Rio de Janeiro, a post-graduation qualification in economic engineering from Faculdade Estácio de Sá, Rio de Janeiro and an MBA in finance from IBMEC. Mr. Silva Filho was nominated to stand for election to our board of directors by our shareholder VALIA. Mr. Silva Filho qualifies as an independent director under the Brazilian *Novo Mercado* rules.

*Walter Fontana Filho* — Board member. Mr. Fontana Filho was the Chief Executive Officer of Sadia from 1994 to 2005, with previous experience as Commercial Vice President Director and Domestic Commercial Director. Member of the Board of Directors of the newspaper *O Estado de São Paulo* since 1999, Member of the Board of Directors of ALGAR — Algar S.A. Empreendimentos e Participações since 2005, Member of the Board of Directors of WTorre Empreendimentos Imobiliários S.A. since 2007. He was Chairman of the Board and Chief Executive Officer of Sadia S.A. Mr. Fontana holds undergraduate and graduate degrees in Economics from Pontifícia Universidade Católica de São Paulo (PUC-SP), with a specialization in Business Marketing from Fundação Getúlio Vargas. Mr. Fontana Filho qualifies as an independent director under the Brazilian *Novo Mercado* rules.

*José Carlos Reis de Magalhães Neto* — Board member. Mr. Magalhães Neto has a degree in business administration from Fundação Getúlio Vargas. He is the founder, Chief Executive and Investment Officer and Chairman of the board of directors of Tarpon Investimentos S.A. In addition, he serves as member of the board of directors of Marisa Lojas S.A. Mr. Magalhães Neto was nominated to stand for election to our board of directors by our shareholder Tarpon Investimentos S.A. Mr. Magalhães Neto qualifies as an independent director under the Brazilian *Novo Mercado* rules.

*Pedro de Andrade Faria* — Board member. Mr. de Andrade Faria has a degree in business administration from Fundação Getúlio Vargas and a master's in business administration from the University of Chicago. He is a member of the board of directors and executive vice-president of Tarpon Investimentos S.A. In addition, he serves as member of the board of directors of Arezzo Indústria e Comércio S.A., Companhia de Gás de São Paulo – Comgás, Cremer S.A. and Omega Energia Renovável S.A. Mr. de Andrade Faria was the Chief Financial and Investor Relations Officer of Brasilagro. Mr. de Andrade Faria was nominated to stand for election to our board of directors by our shareholder Tarpon. Mr. de Andrade Faria qualifies as an independent director under the Brazilian *Novo Mercado* rules.

### **Board of Executive Officers**

Our executive officers are responsible for our day-to-day operations and implementation of the general policies and guidelines approved from time to time by our board of directors.

Our by-laws require that the board of executive officers consist of a chief executive officer, a chief financial officer, an investor relations officer and up to twelve additional members, each with the designation and duties assigned by our board of directors.

The members of our board of executive officers are elected by our board of directors for two-year terms and are eligible for reelection. On April 26, 2013, all of the then-serving executive officers were reappointed by our board of directors for another two-year term. Our board of directors may remove any executive officer from office at any time with or without cause. Under the Brazilian Corporation Law, our executive officers must be residents of Brazil but need not be shareholders of our company. Our board of executive officers holds ordinary monthly meetings, as well as extraordinary meetings, whenever called by our Chief Executive Officer.

The following table sets forth information with respect to our executive officers.

<u>Name</u>	<u>Position Held</u>	<u>Current Position Held Since</u>	<u>Age</u>
José Antonio do Prado Fay . . . . .	Chief Executive Officer	October 28, 2008	59
Leopoldo Viriato Saboya . . . . .	Chief Financial, Administrative and Investor Relations Officer	June 26, 2008	37
Antonio Augusto de Toni . . . . .	Executive Officer	April 26, 2007	49
Giberto Antonio Orsato . . . . .	Executive Officer	April 26, 2007	51
Ely David Mizrahi . . . . .	Executive Officer	March 22, 2010	49
José Eduardo Cabral Mauro . . . . .	Executive Officer	March 22, 2010	49
Luiz Henrique Lissoni . . . . .	Executive Officer	September 23, 2010	54
Nelson Vas Hacklauer . . . . .	Executive Officer	May 31, 1995	61
Nilvo Mittanck . . . . .	Executive Officer	April 26, 2007	51
Wilson Newton de Mello Neto . . . . .	Executive Officer	September 23, 2010	41

The following is a summary of the business experience, areas of expertise and principal outside business interests of our current executive officers.

*José Antonio do Prado Fay* — Chief Executive Officer. Mr. Fay studied Mechanical Engineering at the Universidade Federal do Rio de Janeiro (UFRJ), and received a postgraduate degree in industrial systems at COPPEAD — Universidade Federal do Rio de Janeiro (UFRJ) — Petrobrás. He became CEO at Perdigão in October 2008, having held the position of director-general for the Perdigão Business Unit. He has held various posts at leading companies such as Petrobrás, the Bunge Group, Santista Alimentos, Batávia and Electrolux.

*Leopoldo Viriato Saboya* — Chief Financial, Administrative and Investor Relations Officer. Mr. Saboya is an agricultural engineer with a Master’s degree in Economics from Universidade de São Paulo (USP). He has worked in Perdigão since 2001, over which time he has accumulated broad experience in strategic planning, corporate finance, investor relations, capital markets, mergers and acquisitions, project finance, budgeting, accounting and risk management. He took over as the Company’s Chief Financial Officer in 2008. Currently he is in charge of the following group areas: Treasury, Investor Relations, Accounting, Tax Planning, IT, Shared Service Center, Risk Management, Mergers and Acquisitions, and Strategic Planning.

*Antonio Augusto de Toni* — Export Market Executive Officer. Mr. Toni was manager and foreign trade director at Chapecó Food Company and executive director at Chapecó Trading S.A. at Perdigão. He took over as General Officer of the Perdix Business position in April 2007. He has a degree in Foreign Trade Administration from the Universidade do Vale do Rio dos Sinos with a specialization in Marketing Administration, International Administration and Corporate Finance. He also has an MBA in Agribusiness from the Faculdade de Economia, Administração e Contabilidade (FEA), da Universidade de São Paulo (USP).

*Giberto Antonio Orsato* — Human Resources Executive Officer. Mr. Orsato graduated from Universidade do Oeste de Santa Catarina (UNOESC), with a specialization in Entrepreneurial Management. He also received a degree in Business Management — STC from the Fundação Dom Cabral and Kellogg Business School and he received an MBA in Business Administration from Universidade de São Paulo (USP). He joined BRF in 1987, where he worked in the Slaughtering Plants’ managerial area and Operations Management until being appointed to head the Human Resources area.

*Ely David Mizrahi* — Food Service Executive Officer. Mr. Mizrahi is a former president and partner of the Miss Daisy Company and joined Sadia after Miss Daisy Company was acquired by Sadia. He has worked for nine years in the Marketing and Commercial departments, having been appointed to the current position in 2008. He graduated from Fundação Armando Álvares Penteado (FAAP), specialist in Business Management — STC from the Fundação Dom Cabral and Kellogg Graduate School of Management.

*José Eduardo Cabral Mauro* — Domestic Market Executive Officer. Mr. Mauro graduated as a production engineer from *Universidade de São Paulo* (USP), and obtained a post-graduate degree from Harvard University. Previously, he worked for 20 years at Unilever and three years at Wal-Mart. He joined Sadia in 2009.

*Luiz Henrique Lissoni* — Supply Chain Executive Officer. Mr. Lissoni holds a degree in Economics and an MBA in Business Management from the *Universidade de São Paulo* (USP). Mr. Lissoni developed his career in the food sector, with a stint as chairman of the Group Gafor, multi-business conglomerate. Stands out his passages by Coca-Cola, Campbell's Food and Swift-Armour.

*Nelson Vas Hacklauer* — Strategy and M&A Executive Officer. Mr. Hacklauer worked at Perdigão since 1983 and has held previous positions as Financial and Investor Relations Officer from 1994 to 1995 and Commercial Officer from 1989 to 1994. He graduated with a degree in Business Management from the *Faculdade de Administração de Empresas Campos Salles*.

*Nilvo Mittanck* — Operations and Technology Executive Officer. Mr. Mittanck studied Mechanical Engineer and specialized in Business Management — STC at Fundação Dom Cabral and Kellogg Graduate School of Management, and he also holds and an MBA from *Universidade de São Paulo* (USP). He joined BRF in 1985, holding posts in the areas of engineering, projects, operations, logistics and supply chain until being appointed to his current position as Operations and Technology Executive Officer.

*Wilson Newton de Mello Neto* — Corporate Affairs Executive Officer. Mr. Neto is the Corporate Affairs Executive Officer. Mr. Neto holds a master degree's in Law from the *Pontifícia Universidade Católica de São Paulo* (PUC-SP). Since 2010, he has been a member of the Board of the Brazilian Poultry Association (*Associação Brasileira dos Produtores e Exportadores de Frangos*), or "UBABEF," and ABIPECS. He has extensive experience in complex integration processes.

## **Compensation**

In 2012, we paid salaries and other compensation to all members of the board of directors, fiscal council and all executive officers for services in all capacities was R\$20.8 million, not including the benefits described below. In addition, we paid to all executive officers R\$15 million in 2012 as part of our profit sharing plan.

The amount of compensation paid to each executive officer in any year pursuant to our profit sharing plan is primarily related to our net income but is also based on an assessment of the performance of the officer during the year by our board of directors. The methodology utilized to calculate the amount paid was historically related to a percentage of our net income. Starting in 2006, we implemented a new methodology that relates the amount of the profit sharing payment to a multiple of the officer's monthly salary, taking into account actual net income, Value Added (GVBRF) and EBITDA measured against the budget established at the beginning of each year. We believe this methodology provides a reasonable cap on the amount of compensation paid to executive officers pursuant to our profit sharing plan.

The executive officers receive certain additional company benefits generally provided to company employees and their families, such as medical assistance, educational expenses, development and supplementary social security benefits, among others. In addition, in 2012, we paid severance benefits to a former executive officer in accordance with the policy described in Note 24.2.4 to our consolidated financial statements included in our 2012 Form 20-F. In 2012, the amount paid as benefits to the executive officers totaled R\$2.3 million. The aggregate total compensation paid to members of the board of directors and executive officers in 2012 (including salaries, profit sharing payments and benefits) was R\$38.1 million.

Our executive officers and the head of internal audit are also eligible to participate in our Stock Option Plan. As of December 31, 2012, a total of 2,728,770 options were held by them, with a cost to our company of R\$7.8 million in 2012.

Our executive officers also participate in our private pension plan described in Note 24.1.1 to our consolidated financial statements included in our 2012 Form 20-F and are eligible to receive the supplemental retirement benefits described in Note 24.2.5 to our consolidated financial statements included in our 2012 Form 20-F.

We compensate our alternate directors for each meeting of our board of directors that they attend. We also compensate alternate members of our fiscal council for each meeting of our fiscal council that they attend.

Members of our board of directors, our board of executive officers and our fiscal council are not parties to employment agreements or other contracts providing for benefits upon the termination of employment other than, in the case of executive officers, the benefits described above.

At age 61, we cease making contributions to pension plans for executive officers and other employees.

## Share Ownership of Directors and Executive Officers

As of April 29, 2013, members of and alternates of our board of directors and our executive officers owned the common shares of our company set forth on the table below. The share numbers set forth below show the shares held by such persons in their individual capacity and exclude any shares held by shareholders who have nominated certain of our directors to stand for election to our board of directors.

<u>Directors and Executive Officers</u>	<u>Common Shares</u>
<b>Directors:</b>	
Abilio Diniz(1) .....	23,372,800
Sérgio Rosa .....	0
Paulo Assunção de Sousa .....	0
Décio da Silva(2) .....	250,688
Luis Carlos Fernandes Afonso .....	2
Carlos Fernando Costa .....	6
Luiz Fernando Furlan .....	5,994,216
Manoel Cordeiro Silva Filho .....	2
Walter Fontana Filho .....	2,990,290
José Carlos Reis de Magalhães Neto .....	1
Pedro de Andrade Faria .....	1
Eduardo Rossi .....	0
Heloisa Helena Silva de Oliveira .....	0
Mauro José Periotto .....	0
Sérgio Schwartz .....	0
Manuela Cristina Lemos Marçal .....	0
Helena Kerr do Amaral .....	0
Roberto Faldini .....	464
Maurício da Rocha Wanderley .....	2
Eduardo Fontana d'Ávila .....	1,157,458
Daniel Arduini Cavalcante Arrunda .....	0
Fernando Shayer .....	1
<b>Subtotal</b> .....	<u>33,765,931</u>
<b>Officers:</b>	
José Antonio do Prado Fay .....	31,325
Leopoldo Viriato Saboya .....	8,028
Antonio Augusto de Toni .....	20,973
Gilberto Antonio Orsato .....	15,243
Ely David Mizrahi .....	36,017
José Eduardo Cabral Mauro .....	28,669
Luiz Henrique Lissoni .....	7,820
Nelson Vas Hacklauer .....	7,797
Nilvo Mittanck .....	20,161
Wilson Newton de Mello Neto .....	0
<b>Subtotal</b> .....	<u>176,033</u>
<b>Total</b> .....	<u><u>33,941,964</u></u>

(1) Indirectly, through Fundo de Investimento em Ações Santa Rita.

(2) Excludes 26,346,620 common shares that may be deemed beneficially owned through Weg Participações e Serviços S.A.

## Stock Option Plan

On March 31, 2010, our shareholders approved a long-term stock option plan for the executive officers and other employees of BRF and its subsidiaries for the award of stock options under two instruments: (1) a general stock option plan for annual grants as part of compensation and (2) an additional stock option plan pursuant to which an eligible executive officer may purchase additional stock options with a portion of their compensation based on profit-sharing (collectively, the “Stock Option Plan”). The shares underlying options granted under the plan may consist of newly issued or treasury shares of BRF. A prior stock option plan of Sadia for its employees was folded into the Stock Option Plan, and the separate Sadia plan expired on September 26, 2012. The Stock Option Plan is intended to attract, retain and motivate our executives to generate value for our companies and to align their interests with the interests of our shareholders. At the extraordinary general shareholders’ meeting held on April 24, 2012, our shareholders approved an expansion to other employees of BRF who can participate in the Stock Option Plan.

The Stock Option Plan is managed by our board of directors. Under the current Stock Option Plan, the maximum number of options granted under the Stock Option Plan may not exceed, at any time, the amount equivalent to 2.5% of the total number of common shares issued by BRF. Exercise prices of stock options granted under the Stock Option Plan are determined by our board of directors based on the average closing price of our shares on the 20 trading days preceding the grant date. Exercise prices are adjusted monthly based on the IPCA.

Stock options granted under the Stock Option Plan vest over three years in three equal annual installments. Unexercised options are forfeited five years after the grant date.

As of December 31, 2012, a total of 7,748,507 options had been granted, of which 6,617,581 were outstanding and held by approximately 236 persons. During the year ended December 31, 2012, 620,107 options were exercised at an average exercise price of R\$28.81 per share for aggregate payments to our company of R\$17.9 million. As of December 31, 2012, the weighted average strike price of our outstanding options was R\$33.94 per share, and the weighted average of the remaining contractual terms was 45 months. No person has received a number of options for common shares that, together with the common shares owned by that person, exceed one percent of our common shares.

At the general shareholders’ meeting on April 9, 2013, our shareholders approved amendments to the Stock Option Plan to:

- increase the maximum percentage of our shares that may be issued under the plan from 2.0% to 2.5% of the total share capital,
- increase the number of windows for exercise from two to four, and
- increase the ratios of options granted to shares acquired pursuant to the additional stock option plan that apply based on the percentage of an executive officer’s net profit sharing amounts used to purchase our shares.

For more information about the Stock Option Plan, including information about exercise prices, expiration dates and exercises, see Note 23 to our consolidated financial statements included in our 2012 Form 20-F and Note 22 to our unaudited interim consolidated financial statements included in this offering memorandum.

## DESCRIPTION OF THE NOTES

BRF S.A. (the “Issuer”), a *sociedade anônima* (corporation) organized under the laws of the Federative Republic of Brazil (“Brazil”), will issue U.S.\$500,000,000 3.95% senior notes due 2023 (the “notes”) under an indenture to be dated as of May 22, 2013 (the “indenture”), among the Issuer, The Bank of New York Mellon, as trustee (the “trustee”), registrar and paying agent and transfer agent, The Bank of New York Mellon (Luxembourg) S.A., as Luxembourg paying agent and transfer agent, and The Bank of New York Mellon Trust (Japan), Ltd., as principal paying agent.

The following is a summary of the material provisions of the indenture. It does not include all of the provisions of the indenture. You are urged to read the indenture because it, and not this summary, defines your rights. The terms of the notes include those stated in the indenture. You can obtain a copy of the indenture in the manner described under “Available Information” in this offering memorandum. You can find definitions of certain capitalized terms used in this section of this offering memorandum under “Certain Definitions.”

Until the notes have been paid, we will maintain a paying agent, a registrar and a transfer agent in New York City and, if and for so long as the notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, we will maintain a paying agent and transfer agent in respect of the notes in Luxembourg. The trustee will initially act as paying agent, registrar and transfer agent for the notes. You may present notes for registration of transfer and exchange at the offices of the registrar, which initially will be the trustee’s corporate trust office in New York City. No service fee will be charged for any registration of transfer or exchange or redemption of notes, but we may require payment in certain circumstances of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith. We may change any paying agent, registrar or transfer agent without prior notice to holders. We will promptly provide notice of the termination or appointment of any paying agent, registrar or transfer agent, or of any change in the office of any paying agent, registrar or transfer agent as described under “— Notices.” At our option, we may pay interest, Additional Amounts, if any, and principal (and premium, if any) at the trustee’s principal corporate trust office in New York City or by check mailed to the registered address of each holder.

### Brief Description of the Notes

#### *The Notes*

The notes will:

- be the senior unsecured obligations of the Issuer;
- initially be issued in an aggregate principal amount of U.S.\$500.0 million;
- bear interest at an annual rate of 3.95%;
- mature at 100% of their principal amount on May 22, 2023;
- be issued in fully registered form without coupons, in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof;
- rank equally in right of payment with all existing and future senior unsecured Indebtedness of the Issuer (other than obligations preferred by statute or by operation of law); and
- rank senior in right of payment to all existing and future Indebtedness that is subordinated to the notes.

As of March 31, 2013 the Issuer had consolidated total indebtedness of R\$9,133.5 million (U.S.\$4,535.5 million). Of the Issuer’s consolidated total indebtedness, the Issuer had R\$1,382.6 million (U.S.\$686.5 million) of secured indebtedness on an unconsolidated basis to which the notes will be effectively subordinated and (2) R\$5,033.9 million (U.S.\$2,499.7 million) of unsecured indebtedness on an unconsolidated basis, which will rank equally in right of payment with the notes; and the Issuer’s Subsidiaries had R\$2,717.1 million (U.S.\$1,349.2 million) of total indebtedness (excluding trade payables and intercompany liabilities), all of which will be structurally senior to the notes. As of March 31, 2013, the investments in the Issuer’s Subsidiaries amounted to R\$2,635.5 million, representing 8.7% of the Issuer’s consolidated total assets and 17.5% of its consolidated shareholders’ equity.



Although the indenture will limit the incurrence of Liens on the assets of the Issuer and its Subsidiaries, these limitations are subject to significant exceptions. In addition, the indenture does not impose any limitation on the incurrence of Indebtedness, the making of investments or restricted payments, including the payment of dividends or distributions in respect of Share Capital, by the Issuer or any Subsidiary of the Issuer.

The Issuer's Subsidiaries will be subject to the restrictive covenants of the indenture. However, under Brazilian law, holders will not have any claim against the Subsidiaries of the Issuer and, in the event of a bankruptcy, liquidation or reorganization of any Subsidiaries, such Subsidiaries will pay creditors holding their debt and their trade creditors before they will be able to distribute any of their assets to the Issuer.

### **Principal, Maturity and Interest**

The Issuer will issue the notes in fully registered form without coupons, in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. The notes will be unlimited in aggregate principal amount and will be issued in an initial aggregate principal amount of U.S.\$500.0 million.

The notes will mature on May 22, 2023 (the "Stated Maturity Date"). On that date, the Issuer will pay the registered holders of the notes the principal amount thereof in U.S. dollars.

Interest on the notes will accrue from May 22, 2013 at the rate of 3.95% per annum and will be due and payable semiannually in arrears in immediately available funds on each May 22 and November 22, commencing on November 22, 2013 to the Persons who are registered holders at the close of business on each May 1 and November 1 immediately preceding the applicable interest payment date (whether or not a Business Day). Interest on the notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the Issue Date. The Issuer will pay interest on overdue principal at 1.00% per annum in excess of the above rate and will pay interest on overdue installments of interest at such higher rate, in each case to the extent permitted by applicable law. Interest on the notes will be payable in U.S. dollars. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

### **Additional Notes**

The Issuer may from time to time and without the consent of holders of the notes issue additional notes ("Additional Notes"). The notes and any Additional Notes will be substantially identical other than the issue price, issuance dates and the dates from which interest will accrue. Unless the context otherwise requires, for all purposes of the indenture and this "Description of the Notes," references to the notes include any Additional Notes that may be issued. If any Additional Notes are not fungible with the notes for U.S. federal income tax purposes, Additional Notes will have a different CUSIP number or numbers and will be represented by a different global note or notes.

### **Redemption**

#### ***Optional Redemption***

The Issuer may redeem the notes, in whole or in part, at any time after May 22, 2014 at a redemption price equal to the greater of (1) 100% of principal amount thereof, and (2) the sum of the present values, calculated as of the redemption date, of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the redemption date) due after the redemption date through the Stated Maturity Date, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 35 basis points, plus in each case accrued and unpaid interest thereon and Additional Amounts, if any, to the redemption date. Any redemption of notes by the Issuer pursuant to this paragraph will be subject to either (1) there being at least U.S.\$150 million in aggregate principal amount of notes (including any Additional Notes) outstanding after such redemption or (2) the Issuer redeeming all the then outstanding principal amount of the notes.

No such redemption shall be effective unless and until the trustee receives the amount payable upon redemption as set forth above.

Any notice of optional redemption will be made not less than 30 days or more than 60 days before the redemption date. All notices will be given in accordance with the provision set out under "— Notices" below.

If less than all of the notes are to be redeemed at any time, the trustee will select notes for redemption on a *pro rata* basis, by lot or by such method as the trustee deems fair and appropriate; *provided, however*, that the selection of notes held in global form shall be in accordance with the applicable procedures of the depository. If the notes are to be redeemed in part only, the notice of redemption will state the principal amount of the notes that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the holder of the note upon cancellation of the original note. Unless the Issuer defaults in payment of the redemption price, on and after the redemption date interest will cease to accrue on the notes or portions thereof called for redemption.

### ***Redemption for Tax Reasons***

The Issuer may redeem the notes, in whole but not in part, upon notice of not less than 30 nor more than 60 days, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date) and Additional Amounts, if any, to the redemption date, if as a result of:

- (1) any amendment to, or change in, the laws or treaties (or any regulations or rulings promulgated thereunder) of a Taxing Jurisdiction (as defined under “— Additional Amounts” below); or
- (2) any amendment to or change in an official interpretation or application regarding such laws, treaties, regulations or rulings (including a determination by a court of competent jurisdiction),

which amendment or change becomes effective on or after the Issue Date, the Issuer has become or would become obligated to pay, on the next date on which any amount would be payable with respect to the notes, any Additional Amounts in excess of those attributable to a Brazilian withholding tax rate of 15%, or 25% in the case of a “Non-Resident Holder” of the notes resident or domiciled in a “tax haven jurisdiction” (each as defined and described in “Taxation — Brazilian Taxation”), determined without regard to any interest, fees, penalties or other additions to tax and the Issuer determines in good faith that such obligation cannot be avoided by the use of reasonable measures available to the Issuer (including, without limitation, by changing the jurisdiction from which or through which payment is made, to the extent such change would be a reasonable measure in light of the circumstances); *provided that*:

- (a) no such notice of redemption may be given earlier than 60 days prior to the earliest date on which the Issuer would be obligated to pay such Additional Amounts were a payment in respect of the notes then due and payable, and
- (b) at the time such notice is given, such obligation to pay such Additional Amounts remains in effect.

No such redemption shall be effective unless and until the trustee receives the amount payable upon redemption as set forth above.

Immediately prior to the delivery of any notice of redemption to the holders pursuant to this provision, the Issuer will deliver to the trustee:

- (i) an Officers’ Certificate (A) stating that the Issuer is entitled to effect such redemption, (B) setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to so redeem have occurred, and (C) stating that all governmental approvals, if any, necessary to effect such redemption have been obtained and are in full force and effect; and
- (ii) an Opinion of Counsel in the relevant Taxing Jurisdiction (as such term is defined under “— Additional Amounts” below) to the effect that (A) the Issuer has or will become obligated to pay such Additional Amounts as a result of such amendment or change and (B) all governmental approvals, if any, necessary to effect such redemption have been obtained and are in full force and effect.

Any notice of redemption pursuant to this provision will be irrevocable.

The foregoing provisions will apply *mutatis mutandis* to the laws and official interpretations or applications of any jurisdiction in which any successor permitted under “Covenants — Merger, Consolidation and Sale of Assets” is organized, but only with respect to events arising after the date of succession.

### ***No Mandatory Redemption or Sinking Fund***

The Issuer is not required to make any mandatory redemption or sinking fund payments with respect to the notes.

### ***Open Market Purchases***

The Issuer or its Affiliates may at any time and from time to time purchase notes in the open market or otherwise. Any such repurchased notes will not be resold other than in compliance with applicable requirements or exemptions under the relevant securities laws.

### **Additional Amounts**

All payments made by the Issuer under, or with respect to, the notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, “Taxes”) imposed or levied by or on behalf of Brazil or any other jurisdiction in which the Issuer is organized or is a resident for tax purposes or within or through which payment is made or any political subdivision or taxing authority or agency thereof or therein (each, a “Taxing Jurisdiction”) unless the Issuer is required to withhold or deduct Taxes by law or by the official interpretation or administration thereof.

If the Issuer is so required to withhold or deduct any amount for, or on account of, such Taxes from any payment made under or with respect to the notes, the Issuer will pay such additional amounts (“Additional Amounts”) as may be necessary so that the net amount received by each holder or beneficial owner (including Additional Amounts) after such withholding or deduction will not be less than the amount such holder or beneficial owner would have received if such Taxes had not been required to be withheld or deducted; *provided, however*, that the foregoing obligation to pay Additional Amounts does not apply to:

(1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant holder or beneficial owner (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant holder or beneficial owner, if the relevant holder or beneficial owner is an estate, nominee, trust, partnership, limited liability company or corporation) and the relevant Taxing Jurisdiction (other than the mere receipt of such payment or the ownership or holding of or the execution, delivery, registration or enforcement of such note);

(2) any estate, inheritance, gift, sales, excise, transfer, personal property tax or similar Taxes;

(3) any Taxes payable otherwise than by deduction or withholding from payments of principal of, premium, if any, or interest on, such note;

(4) any Taxes that would not have been so imposed but for the presentation of such notes (where presentation is required) for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever is later, except to the extent that the holder or beneficial owner thereof would have been entitled to Additional Amounts had the notes been presented for payment on any date during such 30-day period;

(5) any Taxes that would not have been so imposed if the holder or beneficial owner of the note had made a declaration of non-residence or any other claim or filing for exemption to which it is entitled (*provided* that (a) such declaration of non-residence or other claim or filing for exemption is required by the applicable law, regulations or administrative practice of the Taxing Jurisdiction as a precondition to exemption from the requirement to deduct or withhold all or part of such Taxes and (b) at least 30 days prior to the first payment date with respect to which such declaration of non-residence or other claim or filing for exemption is required under the applicable law, regulations or administrative practice of the Taxing Jurisdiction, the relevant holder or beneficial owner at that time has been notified by the Issuer or any other person through whom payment may be made, that a declaration of non-residence or other claim or filing for exemption is required to be made);

(6) any payment to a holder of a note that is a fiduciary or partnership or any Person other than the sole beneficial owner of such payment or note, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such partnership or the beneficial owner of such payment or note would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such note;

(7) any withholding or deduction imposed on a payment to an individual that is required to be made pursuant to the European Union Directive on the taxation of savings income (the "Directive") implementing the conclusions of the European Council of Economic and Finance Ministers (ECOFIN) meeting on November 26-27, 2000, or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(8) any Taxes imposed in connection with a note presented for payment by or on behalf of a holder or beneficial owner who would have been able to avoid such Taxes by presenting the relevant note to another paying agent in a member state of the European Union if the holder is a resident of the European Union for tax purposes.

Such Additional Amounts will also not be payable where, had the beneficial owner of the note been the holder of the note, it would not have been entitled to payment of Additional Amounts by reason of any combination of clauses (1) to (8), inclusive, above.

The foregoing provisions will survive any termination or discharge of the indenture and will apply *mutatis mutandis* to any Taxing Jurisdiction with respect to any successor Person to the Issuer. The Issuer will (i) make such withholding or deduction of applicable Taxes and (ii) remit the full amount deducted or withheld to the relevant Taxing Jurisdiction in accordance with applicable law. The Issuer will use all reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Taxing Jurisdiction imposing such Taxes and will furnish such certified copies to the trustee within 30 days after the date the payment of any Taxes so deducted or so withheld is due pursuant to applicable law or, if such tax receipts are not reasonably available, furnish such other documentation that provides reasonable evidence of such payment.

At least 30 days prior to each date on which any payment under or with respect to the notes is due and payable (unless such obligation to pay Additional Amounts arises shortly before or after the 30th day prior to such date, in which case it shall be promptly thereafter), if the Issuer will be obligated to pay Additional Amounts with respect to such payment, the Issuer will deliver to the trustee an Officers' Certificate, among other things, stating that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the trustee to pay such Additional Amounts to holders of notes on the payment date. Each such Officers' Certificate shall be relied upon until receipt of a further Officers' Certificate addressing such matters.

The Issuer will pay any present or future stamp, transfer, court or documentary taxes, or any other excise or property taxes, charges or similar levies or Taxes which arise in any jurisdiction from the initial execution, delivery or registration of the notes, the indenture or any other document or instrument in relation thereto or the enforcement of the notes following the occurrence and during the continuance of any Default, excluding all such Taxes, charges or similar levies imposed by any jurisdiction other than a Taxing Jurisdiction unless resulting from, or required to be paid in connection with, the enforcement of the indenture or notes or any other document or instrument in relation thereto following the occurrence and during the continuance of any Default, and the Issuer will agree to indemnify the holders and beneficial owners of the notes and the trustee for any such Taxes, charges or similar levies paid by such holders or beneficial owners or the trustee.

Whenever in this offering memorandum, the indenture or the notes there is any reference to the payment of principal, premium, if any, or interest, or any other amount payable under or with respect to the notes by the Issuer, such reference will be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

## **Covenants**

The following covenants will, so long as any of the notes remains outstanding, apply to the Issuer and its Subsidiaries.

### ***Limitation on Liens***

The Issuer will not, and will not cause or permit any of its Subsidiaries to, directly or indirectly, create, incur, assume or permit or suffer to exist any Lien, other than a Permitted Lien, of any kind against or upon any Property or assets of the Issuer or any of its Subsidiaries whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom, or assign or otherwise convey any right to receive income or profits therefrom unless it has made or will make effective provision whereby (a) the notes will be secured by such Lien equally and ratably with (or prior to, in the event such Indebtedness is subordinated in right of payment to the notes) all other Indebtedness of the Issuer or any Subsidiary secured by such Lien and (b) if such Lien secures obligations subordinated to the notes in right of payment, such Lien will be subordinated to a Lien securing the notes in the same Property as that securing such Lien to the same extent as such subordinated obligations are subordinated to the notes. Any Lien created for the benefit of the holders of the notes pursuant to the preceding sentence will provide by its terms that such Lien will be automatically and unconditionally released and discharged upon release and discharge of the initial Lien.

### ***Limitation on Sale and Leaseback Transactions***

The Issuer will not, and will not permit any of its Subsidiaries to, enter into any sale and leaseback transaction; *provided, however*, that the Issuer or any Subsidiary may enter into a sale and leaseback transaction if:

- (1) the Issuer or that Subsidiary, as applicable, could have incurred a Lien to secure such Indebtedness pursuant to the covenant described above under “— Limitation on Liens”; and
- (2) the gross cash proceeds and/or Fair Market Value of any Property received in connection with such sale and leaseback transaction are at least equal to the Fair Market Value, as set forth in an Officers’ Certificate delivered to the trustee, of the Property that is the subject of such transaction.

### ***Merger, Consolidation and Sale of Assets***

The Issuer will not, in a single transaction or series of related transactions, consolidate or merge with or into any Person, or sell, assign, transfer, lease, convey or otherwise dispose of (or cause or permit any Subsidiary of the Issuer to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of its assets (determined on a consolidated basis) whether as an entirety or substantially as an entirety to any Person unless:

- (1) either the Issuer will be the surviving or continuing corporation or the Person (if other than the Issuer) formed by such consolidation or into which the Issuer is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Issuer, and of the Issuer’s Subsidiaries, substantially as an entirety (the “Surviving Entity”):
  - (a) will be a Person organized and validly existing under the laws of Brazil, the United States of America, any state thereof or the District of Columbia, or any other country that is a member country of the European Union or of the Organisation for Economic Co-operation and Development (OECD) on the date of the indenture; and
  - (b) will expressly assume, by supplemental indenture (in form and substance reasonably satisfactory to the trustee), executed and delivered to the trustee, the due and punctual performance of every covenant of the notes and the indenture on the part of the Issuer to be performed or observed thereunder (including the payment of Additional Amounts, subject to the same exceptions as set forth under “— Additional Amounts,” but adding references to the United States or such other country of organization to the existing references in such clause to Brazil);
- (2) immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b) above (including, without limitation, giving effect to any Indebtedness and Acquired Indebtedness incurred or anticipated to be incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default will have occurred or be continuing;

(3) the Issuer or the Surviving Entity will have delivered to the trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with the applicable provisions of the indenture and that all conditions precedent in the indenture relating to such transaction have been satisfied; and

(4) the Issuer or the Surviving Entity agrees to indemnify each holder and beneficial owner of the notes against any tax, assessment or governmental charge thereafter imposed on such holder or beneficial owner of the notes solely as a consequence of such consolidation, merger, sale, assignment, transfer, lease, conveyance, or other disposition with respect to the payment of principal of, or interest on, the notes.

For purposes of the foregoing, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Subsidiaries of the Issuer, the Share Capital of which constitutes all or substantially all of the properties and assets of the Issuer, will be deemed to be the transfer of all or substantially all of the properties and assets of the Issuer.

The indenture will provide that upon any consolidation, combination or merger or any transfer of all or substantially all of the assets of the Issuer in accordance with the foregoing, in which the Issuer is not the surviving or the continuing corporation, the successor Person formed by such consolidation or into which the Issuer is merged or to which such conveyance, lease or transfer is made will succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the indenture and the notes with the same effect as if such surviving entity had been named as such. Upon such substitution, the Issuer will be released from its obligations under the indenture.

Notwithstanding anything to the contrary in the foregoing, so long as no event or condition that, with the giving of notice, the lapse of time or failure to satisfy certain specified conditions, or any combination thereof, would constitute an Event of Default under the indenture or the notes or an Event of Default will have occurred and be continuing at the time of such proposed transaction or would result therefrom, any merger or consolidation of the Issuer with an Affiliate organized solely for the purpose of reincorporating the Issuer in another jurisdiction need only comply with clause (4) of the first paragraph of this covenant.

### ***Reports to Holders***

The Issuer will provide or make available to the trustee the following reports (and will also provide the trustee with electronic versions or, in lieu thereof, sufficient copies of the following reports referred to in clauses (1) through (5) below for distribution, at the Issuer's expense, to all holders of the notes):

(1) within 120 days following the end of each fiscal year of the Issuer after the Issue Date, English language versions of the audited annual financial statements (including the notes thereto) that the Issuer or its Subsidiaries file with the *Comissão de Valores Mobiliários* (the Brazilian Securities Commission, or "CVM"), prepared in accordance with GAAP and presented in the English language or, if the Issuer is no longer required to file such financial statements, financial statements meeting the requirements of CVM on the Issue Date and accompanied by an opinion of internationally recognized independent public accountants selected by the Issuer, which opinion shall be in accordance with generally accepted auditing standards in Brazil;

(2) within 60 days following the end of the first three fiscal quarters in each fiscal year of the Issuer beginning with the quarter ending after the Issue Date, all quarterly financial statements (including the notes thereto) that the Issuer or its Subsidiaries file with CVM, prepared in accordance with GAAP and presented in the English language and accompanied by a "special review" (*revisão especial*) report of internationally recognized independent public accountants selected by the Issuer or, if the Issuer is no longer required to file such financial statements, financial statements meeting the requirements of the CVM on the Issue Date;

(3) without duplication, English language versions or summaries of such other reports or notices as may be filed or submitted by (and promptly after filing or submission by) the Issuer with (a) the CVM, (b) the Luxembourg Stock Exchange or any other stock exchange on which the notes may be listed or (c) the

SEC (in each case, to the extent that any such report or notice is generally available to its security holders or the public in Brazil or elsewhere and, in the case of clause (c), is filed or submitted pursuant to Rule 12g3-2(b) under, or Section 13 or 15(d) of, the Exchange Act);

(4) simultaneously with the delivery of the audited annual financial statements referred to in clause (1) above, an Officers' Certificate from the Issuer stating whether a Default or Event of Default exists on the date of such certificate and, if a Default or Event of Default exists, setting forth the details thereof and the action which the Issuer is taking or proposes to take with respect thereto; and

(5) for so long as the notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will furnish to any holder or to any prospective purchaser designated by such holder, upon request of such holder, any financial and other information (to the extent not otherwise provided pursuant as set forth above) described in Rule 144A(d)(4) under the Securities Act with respect to the Issuer and its Subsidiaries to the extent required in order to permit such holder to comply with Rule 144A with respect to any resale of its notes unless, during that time, the Issuer is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act and no such information about the Issuer is otherwise required pursuant to Rule 144A.

As an alternative to providing the trustee and the holders of the notes with the information described above, the Issuer may post copies of such information on a website maintained by or on behalf of the Issuer or provide substantially comparable public availability of such information. Delivery to the trustee and the holders of notice as provided under "— Notices" of the availability of the information described above on a website maintained by or on behalf of the Issuer will constitute delivery of such information to the holders for purposes of the "— Reports to Holders" covenant. Delivery of the above reports (other than paragraph (4) above) to the trustee is for informational purposes only, and the trustee's receipt of such reports will not constitute actual or constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of its covenants in the indenture (as to which the trustee is entitled to rely exclusively on Officers' Certificates).

If, and for so long as, the notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, the above information will also be made available in Luxembourg through the offices of the paying agent in Luxembourg. See "— Paying Agents, Registrar and Transfer Agents; Listing Agent."

### ***U.S. Dollar Equivalent***

For purposes of determining compliance with any covenant in the indenture that is limited or otherwise refers to a specified amount of U.S. dollars, the amount of any item denominated in a currency other than U.S. dollars will be the U.S. Dollar Equivalent of such item.

### ***Additional Covenants***

The indenture will contain affirmative covenants with respect to, among other things, the following matters: (1) payment of principal and interest, (2) payment of taxes and other claims, (3) maintenance of properties, (4) maintenance of corporate existence and (5) maintenance of insurance.

### **Events of Default**

The following events will be "Events of Default" under the indenture:

(1) any failure to pay the principal of or premium, if any, on any notes, when such principal becomes due and payable, at maturity, upon redemption or otherwise;

(2) any failure to pay interest and Additional Amounts, if any, on any notes or any other amount (other than principal for the notes) when the same becomes due and payable, and the default continues for a period of 30 days;

(3) any failure to comply with "— Merger, Consolidation and Sale of Assets";

(4) a default in the observance or performance of any other covenant or agreement contained in the indenture (other than the payment of the principal of or premium, if any, or interest and Additional Amounts, if any, on any note), which default continues for a period of 60 days after the Issuer receives written notice specifying the default (and demanding that such default be remedied) from the trustee or the holders of at least 25% of the outstanding principal amount of the notes (with a copy to the trustee if given by the holder);

(5) any failure to pay at final maturity (giving effect to any applicable grace periods and any extensions thereof) the principal amount of any Indebtedness of the Issuer or any of its Subsidiaries, or the acceleration of the final stated maturity of any such Indebtedness if the aggregate principal amount of such Indebtedness, together with the principal amount of any other such Indebtedness in default for failure to pay principal at final maturity or which has been accelerated, aggregates U.S.\$150.0 million or more at any time;

(6) one or more judgments in an aggregate amount in excess of U.S.\$150.0 million shall have been rendered against the Issuer or any of its Subsidiaries (other than any judgment as to which a reputable and solvent third-party insurer has accepted full coverage) and such judgments remain undischarged, unpaid or unstayed for a period of 60 days after such judgment or judgments become final and nonappealable;

(7) the Issuer or any Significant Subsidiary shall (a) apply for or consent to the appointment of a receiver, trustee, liquidator or similar official for all or any substantial part of the Property of the Issuer or such Significant Subsidiary, (b) make a general assignment for the benefit of the creditors of the Issuer or such Significant Subsidiary, (c) be adjudicated bankrupt (*decretação de falência*) or insolvent, (d) file a voluntary petition in bankruptcy or a petition seeking judicial reorganization (*pedido de recuperação judicial*), seeking extrajudicial reorganization (*pedido de recuperação extrajudicial*), or seeking to take advantage of any applicable insolvency law, (e) file any answer admitting the allegations of a petition filed against the Issuer or such Significant Subsidiary in any bankruptcy, reorganization or insolvency proceeding, or (f) take any corporate action for the purpose of effecting any of the foregoing under Brazilian Law No. 11,101/05 or any other applicable law;

(8) without its application, approval or consent, a proceeding shall be instituted in any court of competent jurisdiction, seeking in respect of the Issuer or any Significant Subsidiary adjudication in bankruptcy (*decretação de falência*), dissolution, winding-up, liquidation, a composition, arrangement with creditors, readjustment of debt, the appointment of a trustee, receiver, *administrador*, liquidator or similar official for the Issuer or such Significant Subsidiary or other like relief under any applicable bankruptcy or insolvency law; and either (a) such proceeding shall not be actively contested by the Issuer or such Significant Subsidiary in good faith, or (b) such proceedings shall continue undismissed for any period of 90 consecutive days, or (c) any conclusive order, judgment or decree shall be entered by any court of competent jurisdiction to effect any of the foregoing;

(9) the Issuer or any Significant Subsidiary shall cease or threaten to cease to carry out its business except (i) in the case of a Significant Subsidiary, a winding-up, dissolution or liquidation for the purpose of and followed by a consolidation, merger, conveyance or transfer whereby the undertaking, business and assets of such Significant Subsidiary are transferred to or otherwise vested in the Issuer or any of its subsidiaries or affiliates, or the terms of which shall have been approved by a resolution of a meeting of the holders or (ii) a voluntary winding-up, dissolution or liquidation of a Significant Subsidiary where there are surplus assets in such Significant Subsidiary attributable to the Issuer or any Significant Subsidiary, and such surplus assets are distributed to the Issuer or such Significant Subsidiary, as applicable;

(10) the Issuer or any Significant Subsidiary shall convene a meeting for the purpose of proposing, or otherwise propose or enter into, any composition or arrangement with its creditors or any group or class thereof, or anything analogous to, or, having a substantially similar effect to, any of the events specified in this paragraph (10) or in paragraph (7), (8) or (9) above shall occur in any jurisdiction;

(11) any event occurs that under the laws of Brazil or any political subdivision thereof has substantially the same effect as any of the events referred to in any of paragraphs (7), (8), (9) or (10); or

(12) any of the notes, the indenture or any part thereof, shall cease to be in full force and effect or is declared to be null and void and unenforceable or inadmissible in evidence in the courts of Brazil, or is



found to be invalid, or it becomes unlawful for the Issuer to perform any obligation thereunder or the Issuer shall contest the enforceability of or deny its obligations under the indenture (other than by reason of release in accordance with the terms of the indenture) or the Issuer shall contest the enforceability of or deny its obligations under the notes or the indenture.

If an Event of Default (other than an Event of Default specified in clauses (7), (8), (9), (10) or (11) above) occurs and is continuing and has not been waived, the trustee or the holders of at least 25% in principal amount of outstanding notes may declare the principal of and premium, if any, accrued interest and Additional Amounts, if any, on all the notes to be due and payable by notice in writing to the Issuer and the trustee (if given by the holders) specifying the Event of Default and that it is a “notice of acceleration” (the “Acceleration Notice”), and the same shall become immediately due and payable. All amounts due and payable shall be paid in an amount in U.S. dollars.

If an Event of Default specified in clause (7), (8), (9), (10) or (11) above occurs and is continuing, then all unpaid principal of, and premium, if any, and accrued and unpaid interest and Additional Amounts, if any, on all of the outstanding notes shall *ipso facto* become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

The indenture will provide that, at any time after a declaration of acceleration with respect to the notes as described in the preceding paragraphs, the holders of a majority in principal amount of the outstanding notes may rescind and cancel such declaration and its consequences:

(a) if the rescission would not conflict with any judgment or decree;

(b) if all existing Events of Default have been cured or waived except nonpayment of principal, premium, if any, interest or Additional Amounts, if any, that has become due solely because of the acceleration;

(c) if the Issuer has paid or deposited with the trustee (to the extent the payment of such interest is lawful) interest on overdue installments of interest and overdue principal and premium, if any, and Additional Amounts, if any, which has become due otherwise than by such declaration of acceleration; and

(d) if the Issuer has paid or deposited with the trustee compensation acceptable to the trustee and reimbursed the documented expenses, disbursements and advances of the trustee, its agents, and counsel under the indenture.

No such rescission will affect any subsequent Default or impair any right consequent thereto.

The holders of a majority in principal amount of the outstanding notes may waive any existing Default or Event of Default under the indenture, and its consequences, except a default in the payment of the principal of or premium, if any, interest or Additional Amounts, if any, on any notes.

Holders may not enforce the indenture or the notes except as provided in the indenture. The trustee is under no obligation to exercise any of its rights or powers under the indenture at the request, order or direction of any of the holders, unless such holders have offered to the trustee an indemnity acceptable to the trustee. Subject to the provisions of the indenture and applicable law, the holders of a majority in aggregate principal amount of the then outstanding notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

The Issuer will be required, concurrently with issuance of its audited annual financial statements, to furnish to the trustee at its principal corporate trust office in New York City annual statements as to the performance of its obligations under the indenture and as to any default in such performance. Under the indenture, the Issuer will be required to provide an Officers' Certificate to the Trustee at the trustee's principal corporate trust office in New York City promptly upon (and in any case within ten days of) any Officer obtaining knowledge of any Default or Event of Default provided that such Officers' Certificate shall be provided at least annually, whether or not such Officers know of any Default or Event of Default that has occurred and, if applicable, describe such Default or Event of Default and the status thereof.

If a Default or an Event of Default occurs and is continuing, and a responsible officer of the trustee has received written notice thereof, the trustee shall notify each holder as provided herein under “— Notices” of the Default or Event of Default within five days after receiving written notice thereof; *provided* that except in the case of a Default or an Event of Default in payment of principal of, or premium, if any, or interest on any notes, the trustee may withhold the notice to the holders if a committee of its trust officers in good faith determines that withholding the notice is in the interests of the holders.

#### **No Personal Liability of Directors, Officers, Employees and Shareholders**

No past, present or future director, officer, employee, incorporator, or shareholder of the Issuer, as such, will have any liability for any obligations of the Issuer under the notes or the indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the U.S. federal securities laws or under Brazilian corporate law. It is the view of the SEC that such a waiver is against public policy.

#### **Legal Defeasance and Covenant Defeasance**

The Issuer may, at its option and at any time, elect to have its obligations discharged with respect to the outstanding notes (“legal defeasance”). Legal defeasance means that the Issuer will be deemed to have paid and discharged the entire Indebtedness represented by the outstanding notes, except for:

- (1) the rights of holders to receive payments in respect of the principal of and premium, if any, interest and Additional Amounts, if any, on the notes when such payments are due;
- (2) the Issuer’s obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payments;
- (3) the rights, powers, trust, duties and immunities of the trustee and agents and the obligation of the Issuer in connection therewith; and
- (4) the legal defeasance provisions of the indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer released with respect to certain covenants that are described in the indenture (“covenant defeasance”) and thereafter any omission to comply with such obligations will not constitute a Default or Event of Default with respect to the notes. In the event covenant defeasance occurs, certain events (not including nonpayment, bankruptcy, receivership, reorganization and insolvency events with respect to the Issuer) described under “Events of Default” will no longer constitute an Event of Default with respect to the notes.

In order to exercise either legal defeasance or covenant defeasance:

(a) the Issuer must irrevocably deposit with the trustee, in trust, for the benefit of the holders cash in U.S. dollars, non-callable U.S. government obligations, or a combination thereof, in such amounts and at such times as will be sufficient, in the written opinion of a nationally recognized firm of independent public accountants delivered to the trustee, to pay the principal of, premium, if any, interest and Additional Amounts, if any, on the notes on the stated date for payment thereof or on the applicable redemption date, as the case may be;

(b) in the case of legal defeasance, the Issuer will have delivered to the trustee an Opinion of Counsel in the United States confirming that:

- (i) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling; or
- (ii) since the date of the indenture, there has been a change in the applicable U.S. federal income tax law,

in either case to the effect that, and based thereon such Opinion of Counsel will confirm that, the holders and beneficial owners of the notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such legal defeasance and will be subject to U.S. federal income tax in the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred;

(c) in the case of covenant defeasance, the Issuer will have delivered to the trustee an Opinion of Counsel in the United States confirming that the holders and beneficial owners of the notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such covenant defeasance and will be subject to U.S. federal income tax in the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred;

(d) no Default or Event of Default will have occurred and be continuing on the date of such deposit pursuant to clause (a) of this paragraph;

(e) such legal defeasance or covenant defeasance will not result in a breach of, or constitute a default under, any material agreement or instrument (other than the indenture) to which the Issuer or any of its Subsidiaries is a party or by which the Issuer or any of its Subsidiaries is bound;

(f) the trustee will have received an Officers' Certificate of the Issuer stating that the deposit was not made with the intent of preferring the holders over any other creditors of the Issuer or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Issuer or others; and

(g) the trustee will have received an Officers' Certificate of the Issuer and an Opinion of Counsel, each stating that all conditions precedent provided for or relating to the legal defeasance or the covenant defeasance, as the case may be, have been complied with.

### **Satisfaction and Discharge**

The indenture will be discharged and will cease to be of further effect (except as to surviving rights, powers, trust, duties and immunities of the trustee and agents or registration of transfer or exchange of the notes, as expressly provided for in the indenture) as to all outstanding notes when:

(1) either:

(a) all the notes theretofore authenticated and delivered (except lost, stolen or destroyed notes which have been replaced or paid and notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust) have been delivered to the trustee for cancellation; or

(b) all notes not theretofore delivered to the trustee for cancellation (i) have become due and payable, (ii) will become due and payable at their stated maturity within one year or (iii) are to be called for redemption within one year under arrangements reasonably satisfactory to the trustee, and the Issuer has irrevocably deposited or caused to be deposited with the trustee funds in an amount sufficient to pay and discharge the entire Indebtedness on the notes not theretofore delivered to the trustee for cancellation, for principal of, premium, if any, interest and Additional Amounts, if any, on the notes to the date of deposit (if amounts are then due and payable) or to the redemption or maturity date together with irrevocable instructions from the Issuer directing the trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be;

(2) the Issuer has paid all other sums payable by it under the indenture; and

(3) the trustee will have received an Officers' Certificate of the Issuer and an Opinion of Counsel stating that all conditions precedent under the indenture relating to the satisfaction and discharge of the indenture have been complied with.

### **Modification of the Indenture**

From time to time, the Issuer and the trustee, without the consent of the holders, may amend, modify or supplement the indenture and/or the notes:

(1) to cure any ambiguity, defect or inconsistency contained therein;

(2) to provide for uncertificated notes in addition to or in place of certificated notes;

(3) to provide for the assumption of the Issuer's obligations under the indenture and the notes in accordance with the covenant described under "Covenants — Merger, Consolidation and Sales of Assets";

- (4) to allow any Subsidiary or any other Person to guarantee the notes;
- (5) to provide for the issuance of Additional Notes in accordance with the indenture;
- (6) to evidence the replacement of the trustee as provided for under the indenture;
- (7) if necessary, in connection with any addition or release of any security permitted under the indenture;

(8) to conform the text of the indenture or the notes to any provision of this “Description of the Notes” section to the extent that such provision in this section was intended to be a verbatim recitation of a provision of the indenture or the notes;

- (9) to surrender any right conferred upon the Issuer;

(10) to comply with any requirements of the SEC in connection with any qualification of the indenture under the U.S. Trust Indenture Act of 1939, as amended; or

(11) to make any other change that would provide any additional rights or benefits to the holders or that does not materially and adversely affect the rights of any such holder or beneficial owner under the indenture or the notes.

Other amendments of, modifications to and supplements to the indenture and the notes may be made with the consent of the holders of a majority in principal amount of the then outstanding notes issued under the indenture, except that, without the consent of each holder affected thereby, no amendment may:

(a) reduce the percentage of the principal amount of the notes whose holders must consent to an amendment, supplement or waiver of any provision of the indenture or the notes;

(b) reduce the rate of or change or have the effect of changing the time for payment of interest, including defaulted interest, or Additional Amounts, if any, on any notes;

(c) reduce the principal of or change or have the effect of changing the fixed maturity of any notes, or change the date on which any notes may be subject to redemption or reduce the redemption price therefor;

(d) change the currency in which amounts due in respect of the notes are payable;

(e) make any change in provisions of the indenture (i) protecting the right of each holder to receive payment of principal of, premium, if any, interest and Additional Amounts, if any, on such note on or after the due date thereof, (ii) protecting the right of each holder to bring suit to enforce such payment, or (iii) permitting holders of a majority in outstanding principal amount of notes to waive Defaults or Events of Default;

(f) subordinate the notes in right of payment to any other Indebtedness of the Issuer or otherwise affect the ranking of the notes in a manner adverse to the holders;

(g) release any security interest that may have been granted in favor of the holders other than pursuant to the terms of such security interest;

(h) amend or modify the provisions described under “— Additional Amounts” or reduce the price payable pursuant to a redemption made pursuant to “— Redemption — Redemption for Tax Reasons”; or

(i) make any change in the preceding amendment and waiver provisions.

The consent of the holders will not be necessary under the indenture to approve the particular form of any proposed amendment. It will be sufficient if such consent approves the substance of the proposed amendment. After an amendment to the indenture pursuant to the preceding paragraph becomes effective, the Issuer will be required to give notice to the holders as provided under “— Notices,” briefly describing such amendment. Any failure to give such notice to all holders, or any defect therein, will not impair or affect the validity of such amendment.

In addition, under certain circumstances the holders of a majority in principal amount of the notes outstanding may waive compliance with certain covenants and provisions of the indenture. See “— Events of Default.”

## **Meetings of Holders**

The indenture will contain provisions for convening meetings of holders to consider matters affecting their interest. A meeting of the holders may be called by the trustee, the Issuer or any Affiliate thereof or holders of at least 10% in aggregate principal amount of the outstanding notes. The indenture will provide that notes owned by the Issuer will be deemed not outstanding for, among other purposes, consent to any such modification.

The quorum at any meeting called to adopt a resolution will be persons holding or representing a majority in aggregate outstanding principal amount of the notes, and at any adjourned meetings will be persons holding or representing 25% in aggregate principal amount of such outstanding notes. Any instrument given by or on behalf of any holder in connection with any consent to or vote for any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such note. Any modifications, amendments or waivers to the indenture or to the terms and conditions of the notes will be conclusive and binding on all holders, whether or not they have given such consent or were present at any meeting.

## **Currency Indemnity**

U.S. dollars are the sole currency of account and payment for all sums payable by the Issuer under the notes and the indenture. Any amount received or recovered in a currency other than U.S. dollars in respect of the notes (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Subsidiary or otherwise) by the trustee or any holder in respect of any sum expressed to be due to it from the Issuer will constitute a discharge of the Issuer only to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any note, the Issuer will indemnify the recipient against the cost of making any such purchase; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such recipient, such recipient will, by accepting a note, be deemed to have agreed to repay such excess. For purposes of this indemnity, it will be sufficient for the recipient to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had the actual purchase of U.S. dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of U.S. dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above).

The above indemnity, to the extent permitted by law:

- constitutes a separate and independent obligation from the other obligations of the Issuer;
- will give rise to a separate and independent cause of action;
- will apply irrespective of any waiver or indulgence granted by the trustee or any holder; and
- will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any note or any other judgment.

## **Governing Law**

The indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York.

## **Consent to Jurisdiction and Service of Process; Sovereign Immunity**

The Issuer will irrevocably submit to the non-exclusive jurisdiction of the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, the City of New York for purposes of any suit, action or proceeding instituted in connection with the indenture or the notes. The Issuer will appoint CT Corporation System, located at 111 8th Avenue, New York, New York 10011, as its authorized agent to accept service of process in any such suit, action or proceeding. Such appointments will be irrevocable so long as any of the notes remain outstanding or until the irrevocable appointment of a successor

agent. In addition to the foregoing, the holders of notes may serve legal process in any other manner permitted by applicable law. The above provisions do not limit the right of any holder or the trustee to bring any action or proceeding against either the Issuer or its Properties in other jurisdictions where jurisdiction is independently established.

To the extent that the Issuer has or hereafter may acquire or have attributed to it any sovereign or other immunity under any law, the Issuer will agree to waive, to the fullest extent permitted by law, such immunity in respect of any claims or actions regarding its obligations under the notes or the indenture.

### **The Trustee**

The Bank of New York Mellon will be the trustee under the indenture. The address of the trustee's corporate trust office is 101 Barclay Street, Floor 4 East, New York, New York 10286, Attention: Global Finance Americas. Except during the continuance of an Event of Default, the trustee will be required to perform only such duties as are specifically set forth in the indenture. During the existence of an Event of Default, the trustee will exercise such of the rights and powers vested in it under the indenture and use the same degree of care and skill in its exercise as a prudent person would exercise under the circumstances in the conduct of such person's own affairs. The Issuer will indemnify the trustee against any and all loss, liability or expense, including attorneys' fees and expenses incurred by it without gross negligence or willful misconduct on its part arising out of and in connection with its duties under the indenture.

The indenture will contain certain limitations on the rights of the trustee, should it become a creditor of the Issuer, to obtain payments of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; *provided* that if the trustee acquires certain conflicting interests, it must eliminate such conflict or resign.

### **Luxembourg Listing**

Application has been made to list the notes on the Luxembourg Stock Exchange for trading on the Euro MTF Market. Following the issuance of the notes, we will use our commercially reasonable efforts to obtain listing of the notes on the Luxembourg Stock Exchange for trading on the Euro MTF Market. If we are required to publish financial information either more regularly than we would otherwise be required to or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our published financial information, we may delist the notes and, at our option, seek an alternative admission to listing, trading and/or quotation for the notes by another listing authority, stock exchange and/or quotation system outside the European Union. In such event, we will give notice of the identity of such other listing authority, stock exchange and/or quotation system to the holders of the notes as described under "— Notices."

### **Paying Agents, Registrar and Transfer Agents; Listing Agent**

Until the notes have been paid, we will maintain a paying agent, a registrar and a transfer agent in New York City and, if and for so long as the notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, we will maintain a paying agent and transfer agent in respect of the notes in Luxembourg.

The trustee will initially act as paying agent, registrar and transfer agent for the notes in New York. The Bank of New York Mellon (Luxembourg) S.A. is the Luxembourg listing agent and will be the Luxembourg paying agent and Luxembourg transfer agent for the notes. The Bank of New York Mellon Trust (Japan), Ltd. is the principal paying agent for the notes. The addresses of the trustee and Luxembourg paying agent and Luxembourg transfer agent and principal paying agent are set forth on the inside back cover of this offering memorandum.

We may change any paying agent, registrar or transfer agent without prior notice to holders. We will promptly provide notice of the termination or appointment of any paying agent, registrar or transfer agent, or of any change in the office of any paying agent, registrar or transfer agent as described under "— Notices."

## **Transfer**

Holders may present notes for registration of transfer and exchange at the offices of the registrar, which initially will be the trustee's principal corporate trust office. No service fee will be charged for any registration of transfer or exchange or redemption of notes, but we may require payment in certain circumstances of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith.

## **Notices**

All notices will be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to holders at their registered addresses as recorded in the notes register not later than the latest date, and not earlier than the earliest date, prescribed in the notes for the giving of such notice or if a note is held in global form, all notices to the holders shall be given to the depositary in accordance with its applicable procedures. Any requirement of notice hereunder may be waived by the Person entitled to such notice before or after such notice is required to be given, and such waivers will be filed with the trustee. Notwithstanding any other provision herein, where the indenture provides for notice of any event to any holder of an interest in a global note (whether by mail or otherwise), such notice shall be sufficiently given if given to the depositary for such Note (or its designee), according to the applicable procedures of such depositary, if any, prescribed for the giving of such notice.

If, and for so long as, the notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market, and the rules of the Luxembourg Stock Exchange so require, we will also give notices to holders by publication in a daily newspaper of general circulation in Luxembourg. We expect that newspaper will be the *Luxemburger Wort*. By "daily newspaper," we mean a newspaper that is published on each day, other than a Saturday, Sunday or holiday, in Luxembourg or, when applicable, elsewhere in Western Europe. All notices to holders may also be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). If we are unable to give notice as described in this paragraph because the publication of any newspaper or the website of the Luxembourg Stock Exchange is suspended or it is otherwise impractical for us to publish the notice, then we, or the trustee, will give holders notice in another form. That alternate form of notice will be deemed to be sufficient notice to you. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder will affect the sufficiency of any notice given to another holder.

## **Prescription**

Claims against the Issuer for the payment of principal, premium, if any, interest or Additional Amounts, if any, in respect of the notes will be prescribed unless made within six years of the due date for payment of such principal, premium, if any, or interest and Additional Amounts.

## **Certain Definitions**

The following is a summary of certain of the defined terms to be used in the indenture. Reference is made to the indenture for the full definition of all such terms, as well as any other terms used herein for which no definition is provided.

"*Acquired Indebtedness*" means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Subsidiary of the Issuer or at the time it merges or consolidates with or into the Issuer or any of its Subsidiaries or assumed in connection with the acquisition of assets from such Person and in each case not incurred by such Person in connection with, or in anticipation or contemplation of, such Person becoming a Subsidiary of the Issuer or such acquisition, merger or consolidation and which Indebtedness is without recourse to the Issuer or any of its Subsidiaries or to any of their respective properties or assets other than the Person or the assets to which such Indebtedness related prior to the time such Person became a Subsidiary of the Issuer or the time of such acquisition, merger or consolidation.

"*Affiliate*" means, with respect to any specified Person, (a) any other Person which, directly or indirectly, is in control of, is controlled by or is under common control with such specified Person or (b) any other person who

is a director or executive officer (i) of such specified Person, (ii) of any Subsidiary of such specified Person or (iii) of any Person described in clause (a) above. For purposes of this definition, “control” of a Person means the power, direct or indirect, to direct or cause the direction of the management and policies of such Person whether by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“*Board of Directors*” means, as to any Person, the board of directors (*conselho de administração*) or similar governing body of such Person or any duly authorized committee thereof.

“*Board Resolution*” means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the trustee.

“*Business Day*” means a day that is not a Legal Holiday.

“*Capitalized Lease Obligation*” means, as to any Person, the obligations of such Person under any lease that is required to be classified and accounted for as capital lease obligations on a balance sheet prepared in accordance with GAAP and, for purposes of this definition, the amount of such obligations at any date will be the capitalized amount of such obligations at such date, determined in accordance with GAAP.

“*Commodity Agreement*” means any hedging agreement or other similar agreement or arrangement designed to protect the Issuer or any Subsidiary against fluctuations in commodity prices (excluding contracts for the purchase or sale of goods in the ordinary course of business).

“*Common Shares*” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common shares, whether outstanding on the Issue Date or issued after the Issue Date, and includes, without limitation, all series and classes of such common shares.

“*Comparable Treasury Issue*” means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such notes.

“*Comparable Treasury Price*” means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“*Consolidated Net Worth*” means, with respect to any Person, the consolidated stockholders’ equity of the Person, determined on a consolidated basis in accordance with GAAP, less (without duplication) amounts attributable to Disqualified Share Capital of such Person.

“*Currency Agreement*” means any foreign exchange contract, currency swap agreement, currency option or other similar agreement or arrangement designed to protect the Issuer or any of its Subsidiaries against fluctuations in currency values.

“*Default*” means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

“*Disqualified Share Capital*” means that portion of any Share Capital which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof on or prior to 91 days after the final maturity date of the Notes for cash or is convertible into or exchangeable for debt securities of the Issuer or its Subsidiaries at any time prior to such anniversary.

“*Exchange Act*” means the U.S. Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.



“*Fair Market Value*” means, with respect to any asset or Property, the price which could be negotiated in an arm’s length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will be determined by the Board of Directors of the Issuer acting in good faith and will be evidenced by a Board Resolution of the Board of Directors of the Issuer delivered to the trustee; *provided, however*, that with respect to any price less than U.S.\$ 25.0 million only the good faith determination by the Issuer’s senior management will be required.

“GAAP” means (i) International Financial Reporting Standards, (ii) accounting practices generally accepted in the United States or (iii) accounting practices prescribed by Brazilian Corporation Law, the rules and regulations issued by the CVM and the accounting standards issued by the Brazilian Institute of Independent Accountants (Instituto dos Auditores Independentes do Brasil), in each case as in effect from time to time, in the Issuer’s discretion.

“*holder*” means the Person in whose name a note is registered on the registrar’s books.

“*Indebtedness*” means with respect to any Person, without duplication:

- (1) all Obligations of such Person for borrowed money;
- (2) all Obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all Capitalized Lease Obligations of such Person;

(4) all Obligations of such Person issued or assumed as the deferred purchase price of Property, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business that are not overdue by 120 days or more or are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and any deferred purchase price represented by earn-outs consistent with the Issuer’s past practice);

(5) all Obligations for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction, whether or not then due;

(6) guarantees and other contingent obligations in respect of Indebtedness referred to in clauses (1) through (5) above and clause (8) below;

(7) all Obligations of any other Person of the type referred to in clauses (1) through (6) above that are secured by any Lien on any Property or asset of such Person, the amount of any such Obligation being deemed to be the lesser of the Fair Market Value of the Property or asset securing such Obligation or the amount of such Obligation;

(8) to the extent not otherwise included in this definition, net obligations of all Interest Swap Obligations and all Obligations under Currency Agreements and Commodity Agreements (the amount of any obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such person at such time); and

(9) all Disqualified Share Capital issued by such Person with the amount of Indebtedness represented by such Disqualified Share Capital being equal to the greater of its voluntary or involuntary liquidation preference and its “maximum fixed repurchase price,” but excluding accrued dividends, if any. Notwithstanding the foregoing, Indebtedness will not include any Share Capital other than Disqualified Share Capital. For purposes hereof, the “maximum fixed repurchase price” of any Disqualified Share Capital which does not have a fixed repurchase price will be calculated in accordance with the terms of such Disqualified Share Capital as if such Disqualified Share Capital were purchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the Fair Market Value of such Disqualified Share Capital, such Fair Market Value shall be determined reasonably and in good faith by the Board of Directors of the Issuer of such Disqualified Share Capital.

“*Independent Investment Banker*” means one of the Reference Treasury Dealers appointed by the Issuer.

*“Interest Payment Date”* means the stated maturity of an installment of interest on the notes each May 22 and November 22 of each year, beginning on November 22, 2013.

*“Interest Swap Obligations”* means the obligations of any Person pursuant to any arrangement with any other Person, whereby, directly or indirectly, such Person is entitled to receive from time to time periodic payments calculated by applying either a floating or a fixed rate of interest on a stated notional amount in exchange for periodic payments made by such other Person calculated by applying a fixed or a floating rate of interest on the same notional amount and will include, without limitation, interest rate swaps, caps, floors, collars and similar agreements.

*“Issue Date”* means May 22, 2013 (being the original issuance date of the notes).

*“Legal Holiday”* means a Saturday, a Sunday or a day on which commercial banks and foreign exchange markets are authorized or required by law to close in New York, New York, São Paulo, Brazil, or Luxembourg. If a payment date is a Legal Holiday at the place of payment, payment may be made at such place on the next succeeding day that is not a Legal Holiday, and no interest will accrue for the intervening period.

*“Lien”* means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale, repurchase or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest).

*“Obligation”* means all payment obligations, whether or not contingent, for principal, premium, interest, additional amounts, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

*“Officer”* means the Chief Executive Officer, the President, the Chief Financial Officer or any other officer of the Issuer duly appointed at a meeting of its Board of Directors.

*“Officers’ Certificate”* means a certificate signed in the name of the Issuer by two Officers of the Issuer, at least one of whom shall be the principal financial officer of the Issuer and delivered to the trustee.

*“Opinion of Counsel”* means a written opinion of counsel, who may be an employee of or counsel to the Issuer, reasonably acceptable to the trustee.

*“Permitted Liens”* means the following types of Liens:

(1) Liens for taxes, assessments or governmental charges or claims either (a) not delinquent or (b) contested in good faith by appropriate proceedings and as to which the Issuer or its Subsidiaries will have set aside on its books such reserves as may be required pursuant to GAAP;

(2) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law or pursuant to customary reservations or retentions of title incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith, if such reserve or other appropriate provision, if any, as will be required by GAAP will have been made in respect thereof;

(3) Liens incurred or deposits made in the ordinary course of business in connection with workers’ compensation, unemployment insurance and other types of social security, including any Lien securing letters of credit issued in the ordinary course of business consistent with past practice in connection therewith, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(4) any judgment Lien not giving rise to an Event of Default;

(5) easements, rights-of-way, defects, zoning restrictions and other similar charges or encumbrances in respect of real Property not interfering in any material respect with the ordinary course of the business of the Issuer or any of its Subsidiaries;

(6) any interest or title of a lessor under any Capitalized Lease Obligation; *provided* that such Liens do not extend to any Property or assets which is not leased Property subject to such Capitalized Lease Obligation;

(7) Liens securing Purchase Money Indebtedness; *provided, however*, that (a) the Indebtedness will not exceed (but may be less than) the cost (i.e., purchase price) of the Property or assets acquired, together, in the case of real Property, with the cost of the construction thereof and improvements thereto, and will not be secured by a Lien on any Property or assets of the Issuer or any Subsidiary of the Issuer other than such Property or assets so acquired or constructed and improvements thereto and (b) the Lien securing such Indebtedness will be created within 180 days of such acquisition or construction or, in the case of a Refinancing of any Purchase Money Indebtedness, within 180 days of such Refinancing; and *provided, further*, that, to the extent that the property or asset acquired is Share Capital, the Lien also may encumber other property or assets of the Person so acquired;

(8) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(9) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other Property relating to such letters of credit and products and proceeds thereof;

(10) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Issuer or any of its Subsidiaries, including rights of offset and set-off;

(11) Liens securing Interest Swap Obligations which Interest Swap Obligations relate to Indebtedness that is otherwise permitted under the indenture;

(12) Liens securing Indebtedness under Currency Agreements and Commodity Agreements that are permitted under the indenture;

(13) Liens securing Acquired Indebtedness; *provided* that:

(a) such Liens secured such Acquired Indebtedness at the time of and prior to the incurrence of such Acquired Indebtedness by the Issuer or any of its Subsidiaries and were not granted in connection with, or in anticipation of, the incurrence of such Acquired Indebtedness by the Issuer or any of its Subsidiaries; and

(b) such Liens do not extend to or cover any Property or assets of the Issuer or of any of its Subsidiaries other than the Property or assets that secured the Acquired Indebtedness prior to the time such Indebtedness became Acquired Indebtedness of the Issuer or any of its Subsidiaries and are no more favorable to the lienholders than those securing the Acquired Indebtedness prior to the incurrence of such Acquired Indebtedness by the Issuer or any of its Subsidiaries;

(14) Liens existing as of the Issue Date, and any extension, renewal or replacement thereof; *provided, however*, that the total amount of Indebtedness so secured, if applicable, is not increased;

(15) Liens securing the notes and all other monetary obligations under the indenture;

(16) Liens securing Indebtedness which is incurred to Refinance any Indebtedness which has been secured by a Lien permitted under this covenant; *provided, however*, that such Liens: (i) are no less favorable to the holders of the notes and are not more favorable to the lienholders with respect to such Liens than the Liens in respect of the Indebtedness being Refinanced; and (ii) do not extend to or cover any Property or assets of the Issuer or any of its Subsidiaries not securing the Indebtedness so Refinanced;

(17) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(18) Liens on assets that are the subject of a sale and leaseback transaction permitted by the provisions of the indenture;

(19) any rights of set-off of any person with respect to any deposit account of the Issuer or any Subsidiary arising in the ordinary course of business and not constituting a financing transaction;

(20) any Liens granted by the Issuer or any Subsidiary to secure borrowings from, directly or indirectly, (a) *Banco Nacional de Desenvolvimento Econômico e Social — BNDES* or any other Brazilian governmental development bank or credit agency, (b) any international or multilateral development bank, government-sponsored agency, export-import bank or official export-import credit insurer, or (c) Banco do Brasil S.A. or its affiliates under the *Fundo do Centro-Oeste* incentive program of the Brazilian federal government;

(21) any liens on the inventory of the Issuer or any Subsidiary securing the obligations of the Issuer and its Subsidiaries in the ordinary course of business under the *Crédito Rural* financing program of the Brazilian government;

(22) any Liens on the receivables of the Issuer or any Subsidiary securing the obligations of such Person under any lines of credit or working capital facility; *provided* that the aggregate amount of receivables securing Indebtedness shall not exceed 80% of the Issuer's aggregate outstanding receivables from time to time;

(23) Liens on carbon credits or certificates of emission reductions or Liens securing clean development mechanisms projects; and

(24) Liens incurred by the Issuer or any of its Subsidiaries with respect to obligations that do not exceed, at the time of incurrence, 12.5% of the Consolidated Net Worth of the Issuer at any one time outstanding.

“*Person*” means an individual, partnership, corporation, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof, or any other legal entity.

“*Preferred Stock*” means, with respect to any Person, any Share Capital of such Person that has preferential rights to any other Share Capital of such Person with respect to dividends or redemptions or upon liquidation.

“*Property*” means, with respect to any Person, any interest of such Person in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including Share Capital in, and other securities of, any other Person. For purposes of any calculation required pursuant to the indenture, the value of any property will be its Fair Market Value.

“*Purchase Money Indebtedness*” means Indebtedness of the Issuer and its Subsidiaries incurred for the purpose of financing all or any part of the purchase price, or the cost of installation, construction or improvement, of Property or equipment, *provided* that the aggregate principal amount of such Indebtedness does not exceed the lesser of the Fair Market Value of such Property or such purchase price or cost.

“*Reference Treasury Dealer Quotations*” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m. (New York City time) on the third Business Day preceding such redemption date.

“*Reference Treasury Dealer*” means Morgan Stanley & Co. LLC and primary U.S. government securities dealers in New York City (a “*Primary Treasury Dealer*”) designated by each of BB Securities Ltd., Bradesco Securities Inc., Itau BBA USA Securities, Inc. and Santander Investment Securities Inc., or their respective affiliates which are primary United States government securities dealers, and not less than two other leading primary United States government securities dealers in New York City reasonably designated by the Issuer; *provided, however*, that, if any of the foregoing ceases to be a Primary Treasury Dealer, the Issuer will substitute therefor another Primary Treasury Dealer.

“*Refinance*” means, in respect of any security or Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue a security or Indebtedness in exchange or replacement for, such security or Indebtedness in whole or in part. “*Refinanced*” and “*Refinancing*” will have correlative meanings.

“R\$” means the *real*, being the lawful currency of Brazil.

“SEC” means the U.S. Securities and Exchange Commission.

“*Securities Act*” means the U.S. Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

“*Share Capital*” means:

(1) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of Common Stock and Preferred Stock of such Person;

(2) with respect to any Person that is not a corporation, any and all partnership, membership or other equity interests of such Person; and

(3) any warrants, rights or options to purchase any of the instruments or interests referred to in clause (1) or (2) above.

“*Significant Subsidiary*” means any Subsidiary of the Issuer which, at the time of determination, either (1) had assets which, as of the date of the Issuer’s most recent quarterly consolidated balance sheet, constituted at least 10% of the Issuer’s total assets on a consolidated basis as of such date, or (2) had revenues for the 12-month period ending on the date of the Issuer’s most recent quarterly consolidated statement of income which constituted at least 10% of the Issuer’s total revenues on a consolidated basis for such period.

“*Subsidiary*” means, with respect to any Person, (1) any corporation of which the outstanding Share Capital having at least a majority of the votes entitled to be cast in the election of directors under ordinary circumstances will at the time be owned, directly or indirectly, by such Person, or (2) any other Person of which at least a majority of the voting interest under ordinary circumstances is at the time, directly or indirectly, owned by such Person.

“*Treasury Rate*” means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“*U.S. dollar*” or “*U.S.\$*” means the U.S. dollar, being the lawful currency of the United States of America.

“*U.S. Dollar Equivalent*” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time of determination thereof, the amount of U.S. dollars obtained by translating such other currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable other currency as published in U.S. dollars on the date that is two Business Days prior to the date of such determination. Notwithstanding any other provision of the indenture, no specified amount of U.S. dollars will be deemed to be exceeded due solely to the result of fluctuations in the exchange rates of currencies.

## FORM OF THE NOTES

The notes sold in offshore transactions in reliance on Regulation S will be represented by a permanent global note or notes in fully registered form without interest coupons (the “Regulation S Global Note”) and will be registered in the name of a nominee of DTC and deposited with a custodian for DTC. Notes sold in reliance on Rule 144A will be represented by a permanent global note or notes in fully registered form without interest coupons (the “Restricted Global Note” and, together with the Regulation S Global Note, the “global notes”) and will be deposited with a custodian for DTC and registered in the name of a nominee of DTC.

The notes will be subject to certain restrictions on transfer as described in “Transfer Restrictions.” On or prior to the 40th day after the latest of (1) the closing date, (2) the earlier of the date on which notes are delivered pursuant to the Private Exchange Offers and the date the Private Exchange Offers are terminated and (3) the last date that BRF or any of its affiliates was the owner of the notes or any predecessor of the notes, a beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Note only upon receipt by the trustee of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made to a person whom the transferor reasonably believes to be a “qualified institutional buyer” within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction (a “Restricted Global Note Certificate”). After such 40th day, this certification requirement will no longer apply to such transfers. Beneficial interests in the Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, whether before, on or after such 40th day, only upon receipt by the trustee of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144A under the Securities Act (a “Regulation S Global Note Certificate”). Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global note for as long as it remains an interest.

Except in the limited circumstances described under “— Global Notes,” owners of the beneficial interests in global notes will not be entitled to receive physical delivery of individual definitive notes. The notes are not issuable in bearer form.

### Global Notes

Upon the issuance of the Regulation S Global Note and the Restricted Global Note, DTC will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the initial purchasers. Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC (“DTC Participants”) or persons who hold interests through DTC Participants. Ownership of beneficial interests in the global notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

So long as DTC, or its nominee, is the registered owner or holder of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such global note for all purposes under the indenture and the notes. Unless DTC notifies us that it is unwilling or unable to continue as depositary for a global note, or ceases to be a “clearing agency” registered under the Exchange Act, or any of the notes becomes immediately due and payable in accordance with “Description of the Notes — Events of Default,” owners of beneficial interests in a global note will not be entitled to have any portions of such global note registered in their names, will not receive or be entitled to receive physical delivery of notes in individual definitive form and will not be considered the owners or holders of the global note (or any notes represented thereby) under the indenture or the notes. In addition, no beneficial owner of an interest in a global note will be able to transfer that interest except in accordance with DTC’s applicable procedures (in addition to those under the indenture referred to herein and, if applicable, those of Euroclear and Clearstream).

Notwithstanding the foregoing, to the extent Sadia Overseas holds any notes following the earlier of the date on which notes are delivered pursuant to the Private Exchange Offers and the date the Private Exchange Offers are terminated, the indenture will permit BRF S.A., at its option, to require Sadia Overseas to hold such notes in the form of restricted individual definitive notes.

Investors may hold interests in the Regulation S Global Note through Euroclear or Clearstream, if they are participants in such systems. Euroclear and Clearstream will hold interests in the Regulation S Global Note on behalf of their account holders through customers' securities accounts in their respective names on the books of their respective depositories, which, in turn, will hold such interests in the Regulation S Global Note in customers' securities accounts in the depositories' named on the books of DTC. Investors may hold their interests in the Restricted Global Note directly through DTC, if they are DTC Participants, or indirectly through organizations which are DTC Participants.

Payments of the principal of and interest on global notes will be made to DTC or its nominee as the registered owner thereof. None of us, the initial purchasers, the trustee, the paying agents, the transfer agents, the registrar or any of their respective agents will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

We anticipate that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global note representing any notes held by its nominee, will immediately credit DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note as shown on the records of DTC or its nominee. We also expect that payments by DTC Participants to owners of beneficial interests in such global note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a global note to such persons may be limited. Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical individual definitive certificate in respect of such interest.

Transfers between accountholders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures. Subject to compliance with the transfer restrictions available to the notes described above, cross-market transfers between DTC Participants, on the one hand, and directly or indirectly through Euroclear or Clearstream account holders, on the other hand, will be effected at DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the Regulation S Global Note in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Euroclear and Clearstream account holders may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream account holder purchasing an interest in a global note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in a global note settled during such processing day will be reported to the relevant Euroclear or Clearstream accountholder on such day. Cash

received in Euroclear or Clearstream as a result of sales of interests in a global note by or through a Euroclear or Clearstream account holder to a DTC Participant will be received for value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account as of the business day following settlement in DTC.

DTC has advised that it will take any action permitted to be taken by a holder of the notes (including the presentation of notes for exchange as described below) only at the direction of one or more DTC Participants to whose accounts with DTC interests in the global notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such DTC Participant or DTC Participants has or have or have given such direction. However, in the limited circumstances described below, DTC will exchange the global notes for individual definitive notes (in the case of notes represented by the Restricted Global Note, bearing a restrictive legend), which will be distributed to its participants. Holders of indirect interests in the global notes through DTC Participants have no direct rights to enforce such interests while the notes are in global form.

The giving of notices and other communications by DTC to DTC Participants, by DTC Participants to persons who hold accounts with them and by such persons to holders of beneficial interests in a global note will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC Participants and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include security brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (“indirect participants”).

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Regulation S Global Note and in the Restricted Global Note among participants and accountholders of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the trustee or any of its agents will have any responsibility for the performance of DTC, Euroclear or Clearstream or their respective participants, indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

### **Individual Definitive Notes**

If (1) DTC or any successor to DTC is at any time unwilling or unable to continue as a depository and a successor depository is not appointed by us within 90 days or (2) any of the notes has become immediately due and payable in accordance with “Description of the Notes — Events of Default,” we will issue individual definitive notes in registered form in exchange for the Regulation S Global Note and the Restricted Global Note, as the case may be. Upon receipt of such notice from DTC or the trustee, as the case may be, we will use our best efforts to make arrangements with DTC for the exchange of interests in the global notes for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to the holders. Persons exchanging interests in a global note for individual definitive notes will be required to provide the registrar with (a) written instruction and other information required by us and the registrar to complete, execute and deliver such individual definitive notes and (b) in the case of an exchange of an interest in a Restricted Global Note, certification that such interest is not being transferred or is being transferred only in compliance with Rule 144A under the Securities Act. In all cases, individual definitive notes delivered in exchange for any global note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by DTC.



In addition, to the extent Sadia Overseas holds any notes following the earlier of the date on which notes are delivered pursuant to the Private Exchange Offers and the date the Private Exchange Offers are terminated, the indenture will permit BRF S.A., at its option, to require Sadia Overseas to hold such notes in the form of restricted individual definitive notes.

In the case of individual definitive notes issued in exchange for the Restricted Global Note, such individual definitive notes will bear, and be subject to, the legend described in “Transfer Restrictions” (unless we determine otherwise in accordance with applicable law). The holder of a restricted individual definitive note may transfer such note, subject to the compliance with the provisions of such legend, as provided in “Description of the Notes.” Upon the transfer, exchange or replacement of notes bearing the legend, or upon specific request for removal of the legend on a note, we will deliver only notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to us such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by us that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. Before any individual definitive note may be transferred to a person who takes delivery in the form of an interest in any global note, the transferor will be required to provide the trustee with a Restricted Global Note Certificate or a Regulation S Global Note Certificate, as the case may be.

## TAXATION

The following discussion summarizes certain Brazilian and U.S. federal income tax considerations that may be relevant to you if you invest in the notes. This summary is based on laws and regulations now in effect in Brazil and laws, regulations, rulings and decisions now in effect in the United States, any of which may change. Any change could apply retroactively and could affect the continued accuracy of this summary.

This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your tax advisors about the tax consequences of holding the notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, local and other tax laws.

### **Brazilian Taxation**

The following discussion is a general description of certain Brazilian tax aspects of the notes applicable to a holder of the notes who is an individual, entity, trust or organization that is not resident or domiciled in Brazil for purposes of Brazilian taxation (“Non-Resident Holder”) and does not purport to be a comprehensive description of all the tax aspects of the notes. Therefore, each Non-Resident Holder should consult his/her/its own tax advisor concerning the Brazilian tax consequences in respect of the notes.

#### *Payments Made by the Issuer Under the Notes*

Generally, Non-Resident Holders are taxed in Brazil when their income is derived from Brazilian sources. The applicability of Brazilian taxes with respect to payments on the notes will depend on the origin of such payments and on the domicile of the beneficiaries thereof.

Interest, fees, commissions (including any original issue discounts and any redemption premiums) and any other income payable by a Brazilian obligor to an individual, entity, trust or organization domiciled outside Brazil with respect to debt obligations derived from the issuance by a Brazilian issuer of international debt securities previously registered with the Central Bank, such as the notes, is subject to withholding income tax. The rate of withholding income tax is generally 15%, unless: (1) the Non-Resident Holder of the notes is resident or domiciled in a tax haven jurisdiction (that is deemed to be a jurisdiction which does not impose any tax on income or which imposes such tax at a maximum effective rate lower than 20%, or where the laws impose restrictions on the disclosure of ownership composition or securities ownership or do not allow for the identification of the effective beneficiary of the income attributed to non-residents), in which case the applicable rate is 25% (the withholding income tax rate remains 15% in the event of interest income payable by a Brazilian obligor to an individual, company, trust or organization domiciled outside Brazil in respect of debt obligations resulting from the issuance by a Brazilian issuer of international debt securities previously registered with the Central Bank, including commercial paper, as provided for in Section 10 of Normative Instruction no. 252, dated December 3, 2002, issued by the Brazilian Revenue Service); or (2) a lower rate is provided for in an applicable tax treaty between Brazil and the other country where the Non-Resident Holder is domiciled.

On June 23, 2008, Law 11,727 introduced the concept of “privileged tax regime” in connection with transactions subject to Brazilian transfer pricing rules and also applicable to thin capitalization/cross border interest deductibility rules, which is broader than the concept of a tax haven jurisdiction. Pursuant to Law No. 11,727, a jurisdiction will be considered a privileged tax regime if it (1) does not tax income or taxes it at a maximum rate lower than 20%; (2) grants tax advantages to a non-resident entity or individual (a) without the need to carry out a substantial economic activity in the country or a said territory or (b) conditioned upon the non-exercise of a substantial economic activity in the country or a said territory; (3) does not tax or taxes proceeds generated abroad at a maximum rate lower than 20% or (4) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about economic transactions carried out. In addition, on June 4, 2010, the Brazilian tax authorities enacted Ordinance No. 1,037, as amended, listing (i) the countries and jurisdictions considered tax haven jurisdictions, and (ii) the privileged tax regimes. Although we are of the opinion that the most appropriate interpretation of the current Brazilian tax legislation leads to the conclusion that the above mentioned “privileged tax regime” concept should apply solely for purposes of Brazilian transfer pricing and thin capitalization rules, this is a controversial issue not definitively analyzed by Brazilian courts. In this sense, we are

not able to assure that the broader definition of tax haven jurisdiction will not be applied to interest and other payments made to a Non-Resident Holder of the notes.

Brazil and Japan are signatories to a treaty (the “Japan Treaty”) for the avoidance of double taxation. Under the Japan Treaty, payments of interest to entities incorporated in Japan (or a branch thereof) or other types of income deemed similar to income from borrowed funds under Brazilian tax law will be subject to a Brazilian withholding tax rate of 12.5%. We believe and intend to take the position for tax purposes that, as long as such payments are made by the issuer to a Japanese paying agent pursuant to the terms and conditions of the notes and provided further that such Japanese paying agent is a tax resident of Japan and is qualified for the benefits of the Japan Treaty with respect to the notes, interest (including any original issue discount) will likely be subject to Brazilian tax at a rate of 12.5% pursuant to the Japan Treaty. For this purpose, the principal paying agent must be granted discharge powers and be authorized to receive payments on behalf of the holders of the notes, which would release the Brazilian debtor from the payment obligations. If the issuer is not able to rely on the Japan Treaty to make the payments, or the payments are not made by us to the principal paying agent, any such payments will be subject to the Brazilian withholding tax at the rates referred to above.

In the event that the issuer is required to make any payment in connection with the notes to a Non-Resident Holder, the issuer will be allowed under Brazilian law to pay such additional amounts as may be necessary to ensure that the net amounts receivable by the Non-Resident Holder after the assessment of withholding income tax will equal the amounts that would have been payable in the absence of such withholding, subject to certain exceptions as described under “Description of the Notes — Additional Amounts.”

### ***Capital Gains***

According to Article 26 of Law No. 10,833, enacted on December 29, 2003, capital gains realized on the disposition of assets located in Brazil by a non-resident to another non-resident made outside Brazil are subject to taxation in Brazil at a rate of 15% or 25%, depending on whether the beneficiary is resident of a tax haven jurisdiction under Brazilian law.

Based on the fact that the notes are issued abroad and, therefore, may not fall within the definition of assets located in Brazil for purposes of Law No. 10,833, gains on the sale or other disposition of such notes made outside Brazil by a Non-Resident Holder, other than a branch or a subsidiary of a Brazilian resident, to another non-resident would not be subject to Brazilian taxes. However, considering the general scope of Law No. 10,833 and the absence of judicial guidance in respect thereof, it is impossible to predict whether such interpretation will ultimately prevail in the Brazilian courts. If the position mentioned above does not prevail, gains realized by a Non-Resident Holder from the sale or other disposition of the notes could be subject to Brazilian withholding income tax at a rate of 15% or 25%, if the Non-Resident Holder is domiciled in a tax haven jurisdiction.

### ***Other Tax Considerations***

In addition to withholding income tax, Brazilian law imposes a Tax on Foreign Exchange Transactions (*Imposto sobre Operações de Crédito, Câmbio e Seguro, ou Relativas a Títulos e Valores Mobiliários*), or “IOF/Exchange,” due on the conversion of reais into foreign currency and on the conversion of foreign currency into reais. Currently, the IOF/Exchange rate for almost all foreign currency exchange transactions, including foreign exchange transactions in connection with payments under the notes to Non-Resident Holders, is 0.38%. As a general rule, foreign exchange transactions in connection with cross border loans and financings, for both the inflow and outflow of proceeds into and from Brazil are currently subject to IOF/Exchange at a zero percent rate. However, for foreign exchange transactions (including simultaneous foreign exchange transactions) entered into from December 5, 2012 onwards in connection with the inflow of proceeds to Brazil deriving from crossborder loans or financings or international bond issuances, subject to registration with the Central Bank and with the minimum average term of 360 days or less, the IOF/Exchange tax rate is 6% (this rate of 6% will be levied with penalties and interest in case of loans or financings or international bonds with minimum average term longer than 360 days in which an early redemption occurs in the first 360 days). The Brazilian government is permitted to increase this rate at any time up to 25%. Any such increase in rates may only apply to future foreign exchange transactions.

### *Stamp, Transfer and Other Similar Taxes*

Generally, there are no stamp, transfer or other similar taxes in Brazil with respect to the transfer, assignment or sale of the notes outside Brazil, nor any inheritance, gift or succession tax applicable to the ownership, transfer or disposition of the notes, except for gift and inheritance taxes imposed by some Brazilian states on gifts and bequests by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such states.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the ownership of notes. Prospective purchasers of notes should consult their own tax advisors concerning the tax consequences of their particular situations.

### **U.S. Federal Income Taxation**

**To ensure compliance with Internal Revenue Service Circular 230, you are hereby notified that any discussion of U.S. federal income tax matters set forth in this offering memorandum was written in connection with the promotion or marketing of the transactions or matters addressed herein and was not intended or written to be used, and cannot be used by any prospective investor, for the purpose of avoiding tax-related penalties under federal, state or local tax law. Each prospective investor should seek advice based on its particular circumstances from an independent tax advisor.**

The following is a summary of certain United States federal income tax consequences of the purchase, ownership and disposition of notes as of the date hereof. Except where noted, this summary deals only with notes that are held as capital assets by a U.S. holder (as defined below) who acquires the notes upon original issuance at their initial offering price.

A “U.S. holder” means a person that is for United States federal income tax purposes a beneficial owner of the notes and any of the following:

- an individual citizen or resident of the United States;
- a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below. This summary does not address all aspects of United States federal income taxes and does not deal with foreign, state, or local or other tax considerations that may be relevant to you in light of your personal circumstances. In addition, it does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws. For example, this summary does not address:

- tax consequences to holders who may be subject to special tax treatment, such as dealers in securities or currencies, traders in securities that elect to use the mark-to-market method of accounting for their securities, financial institutions, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities for United States federal income tax purposes, tax-exempt entities or insurance companies;
- tax consequences to persons holding the notes as part of a hedging, integrated, constructive sale or conversion transaction or a straddle;

- tax consequences to holders of the notes whose “functional currency” is not the United States dollar;
- the potential application of the Medicare tax on net investment income;
- alternative minimum tax consequences, if any; or
- any state, local or foreign tax consequences.

If a partnership holds the notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the notes, you should consult your tax advisors.

**If you are considering the purchase of notes, you should consult your own tax advisors concerning the particular United States federal income tax consequences to you of the ownership of the notes, as well as the consequences to you arising under the laws of any other taxing jurisdiction.**

### *Payments of Interest*

Stated interest on a note (including any Brazilian tax withheld) will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for tax purposes. In addition to stated interest on the notes, you will be required to include in income any Additional Amounts (as described under “Description of the Notes — Additional Amounts”) paid in respect of any Brazilian tax withheld. Accordingly, the amount of interest income included by you in gross income for United States federal income tax purposes with respect to a payment of interest will generally be greater than the amount of cash actually received (or receivable) by you with respect to the payment. You may be entitled to deduct or credit this tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your foreign taxes for a particular tax year). Interest income (including any Additional Amounts) on a note generally will be considered foreign source income and, for purposes of the United States foreign tax credit, generally will be considered passive category income. You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

### *Sale, Exchange and Retirement of Notes*

Upon the sale, exchange, retirement or other disposition of a note, you will recognize gain or loss equal to the difference between the amount you realize thereon (less an amount equal to any accrued interest, which will be taxable as interest to the extent not previously included in income) and your adjusted tax basis in the note. Your adjusted tax basis in a note will, in general, be your cost for that note. Any gain or loss you recognize will be capital gain or loss and will be long-term gain or loss if at the time of the sale, exchange, retirement or other disposition the note has been held for more than one year. Such gain or loss will generally be treated as United States source gain or loss. Consequently, you may not be able to claim a credit for any Brazilian tax imposed upon a disposition of a note unless that credit can be applied (subject to applicable limitations) against the United States federal income tax due on other income treated as derived from foreign sources. Alternatively, you may deduct any Brazilian tax imposed upon a disposition of a note, provided that you do not elect to claim a foreign tax credit for any foreign income taxes paid or accrued in the taxable year. Long-term capital gains of non-corporate U.S. holders are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

### *Backup Withholding and Information Reporting*

Generally, information reporting requirements will apply to all payments on the notes and the proceeds from a sale of a note paid to you, unless you are an exempt recipient. Additionally, if you fail to provide your taxpayer identification number, or, in the case of interest payments, fail either to report in full dividend and interest income or to make certain certifications, you may be subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

## TRANSFER RESTRICTIONS

The notes are subject to restrictions on transfer as summarized below. By purchasing notes, you will be deemed to have made the following acknowledgements, representations to and agreements with BRF and the initial purchasers:

(1) You acknowledge that:

- the notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
- unless so registered, the notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

(2) You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that either:

- you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing notes for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchasers are selling the notes to you in reliance on Rule 144A; or
- you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing notes in an offshore transaction in accordance with Regulation S.

(3) You acknowledge that neither we nor the initial purchasers nor any person representing BRF or the initial purchasers has made any representation to you with respect to us or the offering of the notes, other than the information contained or incorporated by reference in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the notes. You agree that you have had access to such financial and other information concerning us and the notes as you have deemed necessary in connection with your decision to purchase notes, including an opportunity to ask questions of and request information from us.

(4) You represent that you are purchasing notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing notes, and each subsequent holder of the notes by its acceptance of the notes will agree, that until the end of the Resale Restriction Period (as defined below), the notes may be offered, sold or otherwise transferred only:

(a) to BRF;

(b) under a registration statement that has been declared effective under the Securities Act;

(c) for so long as the notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;

(d) through offers and sales that occur outside the United States in reliance upon Regulation S; or

(e) under any other available exemption from the registration requirements of the Securities Act.

You also acknowledge that:

- the above restrictions on resale will apply from the closing date until the date that is one year (in the case of Rule 144A notes) or 40 days (in the case of Regulation S notes) after the latest of (1) the closing date, (2) the earlier of the date on which notes are delivered pursuant to the Private Exchange Offers and the date the Private Exchange Offers are terminated and (3) the last date that BRF or any of its affiliates was the owner of the notes or any predecessor of the notes (the “resale restriction period”), and will not apply after the applicable resale restriction period ends;
- if a holder of notes proposes to resell or transfer notes under clause (e) above before the applicable resale restriction period ends, the seller must deliver to BRF and the trustee a letter from the purchaser in the form set forth in the indenture which must provide, among other things, that the purchaser is an institutional accredited investor that is acquiring the notes not for distribution in violation of the Securities Act;
- BRF and the trustee reserve the right to require in connection with any offer, sale or other transfer of notes under clause (e) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to BRF; and
- each note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER THIS SECURITY, PRIOR TO THE DATE (THE “RESALE RESTRICTION TERMINATION DATE”) THAT IS [*IN THE CASE OF RULE 144A NOTES*: ONE YEAR (OR SUCH LATER DATE AS MAY BE DETERMINED BY THE ISSUER)] [*IN THE CASE OF REGULATION S NOTES*: 40 DAYS OR SUCH LATER DATE AS MAY DETERMINED BY THE ISSUER] AFTER THE LATEST OF (1) THE ORIGINAL ISSUE DATE HEREOF, (2) THE EARLIER OF THE DATE ON WHICH NOTES ARE DELIVERED PURSUANT TO THE PRIVATE EXCHANGE OFFERS (AS DEFINED IN THE INDENTURE) AND THE DATE THE PRIVATE EXCHANGE OFFERS ARE TERMINATED AND (3) THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY), ONLY (A) TO THE ISSUER, (B) UNDER A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER AND TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) THROUGH OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN RELIANCE UPON REGULATION S OR (E) UNDER ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE ISSUER’S AND THE TRUSTEE’S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR OTHER TRANSFER PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, A CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER.

The resale restriction period may be extended, in our discretion, in the event of one or more issuances of additional notes, as described under “Description of the Notes — Additional Notes.” The above legend may be removed at our direction after the resale restriction period (including any such extension thereof).

Sadia Overseas is expected to purchase notes in the offering in anticipation of the Private Exchange Offers, as described in “Summary—Recent Developments.” To the extent Sadia Overseas does not deliver all of the notes it purchases in connection with the settlement of the Private Exchange Offers, we expect that Sadia Overseas will hold those notes unless and until it transfers them in accordance with applicable law. So long as Sadia Overseas continues to hold any of the notes, the resale restriction period will continue until the date that is one year (in the case of Rule 144A notes) or 40 days (in the case of Regulation S notes) after the last date that Sadia Overseas owns any notes.

(5) You acknowledge that we, the initial purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of notes is no longer accurate, you will promptly notify us and the initial purchasers. If you are purchasing any notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

#### **Additional Transfer Restrictions that Apply to Sadia Overseas and Transferees of Sadia Overseas**

In addition to the transfer restrictions described above, to the extent Sadia Overseas holds any notes following the earlier of date on which notes are delivered pursuant to the Private Exchange Offers and the date the Private Exchange Offers are terminated, the indenture will permit BRF S.A., at its option, to require Sadia Overseas to hold such notes in the form of restricted individual definitive notes. Sadia Overseas will be required to notify BRF S.A. and the trustee any time it transfers the notes (other than at the time of settlement of the Private Exchange Offers). If Sadia Overseas makes such a transfer (other than at the time of settlement of the Private Exchange Offers), the transferee must agree to hold the notes for the period required by the securities laws of the United States (which period will generally be one year from the date the notes are received from Sadia Overseas) or to transfer the notes to another person who agrees to hold the notes subject to that restriction. At the conclusion of the applicable holding period, the transferee must also exchange any individual definitive notes for global notes, in accordance with the procedures described in “Form of Notes—Individual Definitive Notes,” before such transferee may transfer the notes.



## PLAN OF DISTRIBUTION

Subject to the terms and conditions in the purchase agreement among BRF and the initial purchasers, BRF has agreed to sell to the initial purchasers, and each of the initial purchasers has severally agreed to purchase the principal amount of notes set forth opposite its name in the table below.

<u>Initial Purchasers</u>	<u>Principal Amount</u>
BB Securities Ltd. . . . .	U.S.\$100,000,000
Banco Bradesco BBI S.A. . . . .	100,000,000
Itau BBA USA Securities, Inc. . . . .	100,000,000
Morgan Stanley & Co. LLC . . . . .	100,000,000
Santander Investment Securities Inc. . . . .	100,000,000
<b>Total</b> . . . . .	<u><u>U.S.\$500,000,000</u></u>

The obligations of the initial purchasers under the purchase agreement, including their agreement to purchase notes from BRF, are several and not joint. The purchase agreement provides that the initial purchasers will purchase all the notes if any of them are purchased.

The initial purchasers initially propose to offer the notes for resale at the issue price that appears on the cover of this offering memorandum. After the initial offering, the initial purchasers may change the offering price and any other selling terms. The initial purchasers may offer and sell notes through certain of their affiliates.

In the purchase agreement, we have agreed that:

- we will not offer or sell any of our debt securities (other than the notes, the 2018 BRL Notes and the delivery by Sadia Overseas of 2023 U.S. Dollar Notes in connection with the Private Exchange Offers) for a period of 30 days after the date of this offering memorandum without the prior consent of the initial purchasers; and
- we will indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or contribute to payments that the initial purchasers may be required to make in respect of those liabilities.

The notes have not been registered under the Securities Act or the securities laws of any other jurisdiction. In the purchase agreement, each initial purchaser has agreed that:

- the notes may not be offered or sold within the United States or to U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements; and
- during the initial distribution of the notes, it will offer or sell notes only to qualified institutional buyers in compliance with Rule 144A and outside the United States in compliance with Regulation S.

In addition, until 40 days following the commencement of this offering, an offer or sale of notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act.

The notes are a new issue of securities, and they are subject to certain restrictions on resale and transfer as described under “Transfer Restrictions.” Application has been made to list the notes on the Luxembourg Stock Exchange for trading on the Euro MTF Market. However, we cannot assure you that the listing application will be approved. BRF does not intend to apply for the notes to be listed on any securities exchange or to arrange for the notes to be quoted on any quotation system other than the Euro MTF Market. The initial purchasers have advised us that they intend to make a market in the notes, but they are not obligated to do so. The initial purchasers may discontinue any market making in the notes at any time in their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the notes, that you will be able to sell your notes at a particular time or that the prices that you receive when you sell will be favorable.

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchases of securities.

In connection with the offering of the notes, the initial purchasers may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the initial purchasers. Stabilizing transactions involve bids to purchase the notes in the open market for the purpose of pegging, fixing or maintaining the price of the notes. Syndicate covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the notes to be higher than it would otherwise be in the absence of those transactions. If the initial purchasers engage in stabilizing or syndicate covering transactions, they may discontinue them at any time.

The initial purchasers and/or their affiliates may enter into derivative and/or structured transactions with clients, at their request, in connection with the notes and the initial purchasers and/or their affiliates may also purchase some of the notes to hedge their risk exposure in connection with such transactions. Also, the initial purchasers and/or their affiliates may acquire the notes for their own propriety accounts. Such acquisitions may have an effect on demand for and the price of the notes.

BB Securities Ltd. is not a broker-dealer registered with the SEC, and therefore may not make sales of any notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that BB Securities Ltd. intends to effect sales of the notes in the United States, it will do so only through Banco do Brasil Securities LLC or one or more U.S. registered broker-dealers, or otherwise as permitted by applicable U.S. law. BB Securities Asia Pte. Ltd. may be involved in the sales of the notes in Asia.

Bradesco Securities Inc. will act as agent of Banco Bradesco BBI S.A. for sales of the notes in the United States. Banco Bradesco BBI S.A. is not a broker-dealer registered with the SEC and, therefore, may not make sales of any notes in the United States to U.S. persons. Banco Bradesco BBI S.A. and Bradesco Securities Inc. are affiliates of Banco Bradesco S.A.

Delivery of the notes was made against payment therefor on May 22, 2013, which will be the fifth business day following the dates of pricing of the notes (this settlement cycle being referred to as "T+5"). Under Rule 15c6-1 of the SEC under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade on the applicable date of pricing or on the next succeeding business day will be required, by virtue of the fact that the notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes on the date of pricing or on the next succeeding business day should consult their own advisors.

### **Selling Restrictions**

The notes are offered for sale only in those jurisdictions where it is lawful to make such offers.

The notes have not been offered, sold or delivered and will not be offered, sold or delivered, directly or indirectly, and this offering memorandum or any information incorporated by reference herein or any other offering material relating to the notes, has not been and will not be distributed in or from any jurisdiction except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us except as set forth in the purchase agreement.

#### ***Brazil***

The notes have not been, and will not be, registered with the CVM. The notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or distribution under Brazilian laws and regulations.

#### ***Chile***

The notes will not be registered under Law 18,045, as amended, of Chile with the Chilean Securities Commission or SVS (*Superintendencia de Valores y Seguros*), and, accordingly, they may not be offered to persons in Chile except in circumstances that do not constitute a public offering under Chilean law.

## ***Peru***

The notes and the information contained in this offering memorandum are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru. Peruvian securities laws and regulations on public offerings will not be applicable to the offering of the notes and therefore, the disclosure obligations set forth therein will not be applicable to the issuer or the sellers of the notes before or after their acquisition by prospective investors. The notes and the information contained in this offering memorandum have not been and will not be reviewed, confirmed, approved or in any way submitted to the Peruvian Superintendency of Capital Markets (*Superintendencia del Mercado de Valores*), or the SMV nor have they been registered under the Securities Market Law (*Ley del Mercado de Valores*) or any other Peruvian regulations. Accordingly, the notes cannot be offered or sold within Peruvian territory except to the extent any such offering or sale qualifies as a private offering under Peruvian regulations and complies with the provisions on private offerings set forth therein.

We intend to register the notes with the Foreign Investment and Derivatives Instruments Registry (*Registro de Instrumentos de Inversión y de Operaciones de Cobertura de Riesgo Extranjeros*) of the Peruvian Superintendency of Banks, Insurance and Private Pension Funds Administrators (*Superintendencia de Bancos, Seguros y Administradoras Privadas de Fondos de Pensiones*) in order to make the notes eligible for investment by Peruvian Private Pension Funds Administrators. The notes may not be offered or sold in the Republic of Peru except in compliance with the securities law thereof.

## ***Mexico***

The notes have not been registered in Mexico with the National Securities Registry (Registro Nacional de Valores) maintained by National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*). Accordingly, the notes may not be offered or sold in Mexico absent an available exemption under Article 8 of the Mexican Securities Market Law (*Ley del Mercado de Valores*).

## ***European Economic Area (EEA)***

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that relevant Member State (the “relevant implementation date”), an offer to the public of notes described in this offering memorandum may not be made in that Relevant Member State other than:

- to any legal entity that is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the joint bookrunners for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes shall require the issuer or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

### ***United Kingdom***

The offering memorandum is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (“Qualified Investors”) that are also (1) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (2) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This offering memorandum and its contents should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

### ***Germany***

The notes offered by this offering memorandum have not been and will not be offered to the public within the meaning of the German Sales Prospectus Act (*Verkaufsprospektgesetz*) or the German Investment Act (*Investmentgesetz*). The notes have not been and will not be listed on a German exchange. No sales prospectus pursuant to the German Sales Prospectus Act has been or will be published or circulated in Germany or filed with the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) or any other governmental or regulatory authority in Germany. This offering memorandum does not constitute an offer to the public in Germany and it does not serve for public distribution of the notes in Germany. Neither this offering memorandum, nor any other document issued in connection with this offering, may be issued or distributed to any person in Germany except under circumstances which do not constitute an offer to the public within the meaning of the German Sales Prospectus Act or the German Investment Act.

### ***France***

The notes are being issued and sold outside the Republic of France and that, in connection with their initial distribution, are not being offered or sold and will not be offered or sold, directly or indirectly, to the public in the Republic of France. This offering memorandum and/or any other offering material relating to the notes may not be distributed to the public in the Republic of France. Any offers, sales or distributions in the Republic of France will be made only to qualified investors (*investisseurs qualifiés*) in accordance with Article L.411-2 of the Monetary and Financial Code and décret no. 98-880 dated 1st October, 1998.

### ***The Netherlands***

The notes may not be offered, sold, transferred or delivered in or from The Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, other than to, individuals or legal entities situated in The Netherlands who or which trade or invest in securities in the conduct of a business or profession (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, collective investment institution, central governments, large international and supranational organizations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly invest in securities; hereinafter, “Professional Investors”), provided that in the offer, prospectus and in any other documents or advertisements in which a forthcoming offering of our notes is publicly announced (whether electronically or otherwise) in The Netherlands it is stated that such offer is and will be exclusively made to such Professional Investors. Individual or legal entities who are not Professional Investors may not participate in the offering of our notes, and this offering memorandum or any other offering material relating to our notes may not be considered an offer or the prospect of an offer to sell or exchange our notes.

### ***Luxembourg***

The notes which are the subject of the offering contemplated by this offering memorandum will not be offered to the public in the Grand Duchy of Luxembourg, except that notes may be offered:

- in the cases described under the European Economic Area selling restrictions in which an initial purchaser can make an offer of notes to the public in an EEA Member State (including Luxembourg); and/or

- to national and regional governments, central banks, international and supranational institutions (such as the International Monetary Fund, the European Central Bank, the European Investment Bank) and other similar international organizations; and/or
- to legal entities which are authorized or regulated to operate in the financial markets including credit institutions, investment companies, other authorized or regulated financial institutions, insurance companies, undertakings for collective investment and their management companies, pension and investment funds and their management companies, commodity dealers; and/or
- to certain natural persons or small and medium-sized companies (as defined in the Directive 2003/71/EC) recorded in the register of natural persons or small and medium-sized companies considered as qualified investors and held by the Commission de Surveillance du Secteur Financier (CSSF) as competent authority in Luxembourg in accordance with the Directive 2003/71/EC; and/or
- in any other circumstances for which the Luxembourg Act of July 10, 2005 on prospectuses for securities, as amended, does not require a public offering prospectus to be established.

This offering memorandum constitutes a prospectus for the purpose of the Luxembourg Act of July 10, 2005 on prospectuses for securities, as amended.

### ***Portugal***

The notes may not be offered or sold in Portugal except in accordance with the requirements of the Portuguese Securities Code (Código de Valores Mobiliários as approved by the Decree-Law No. 486/99 of November 13, 1999) and the regulations governing the offer of securities issued pursuant thereto. Neither a public offer for subscription of the notes nor a public offer for the sale of the notes shall be promoted in Portugal.

### ***Switzerland***

The notes may not and will not be publicly offered, distributed or re-distributed in or from Switzerland and neither this offering memorandum nor any other solicitation for investments in the notes may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of Articles 652a and 1156 of the Swiss Code of Obligations. This offering memorandum may not be copied, reproduced, distributed or passed on to others without the prior written consent of the initial purchasers. This offering memorandum is not a prospectus within the meaning of Articles 652a and 1156 of the Swiss Code of Obligations or a listing prospectus according to the Listing Rules of the SIX Swiss Exchange and may not comply with the information standards required thereunder. We will not apply for a listing of the notes on any Swiss stock exchange or other Swiss regulated market and this offering memorandum may not comply with the information required under the relevant listing rules.

### ***Italy***

The offering of the notes has not been registered pursuant to the Italian securities legislation and, accordingly, no notes will be offered in Italy in an offer to the public, and any sales of the notes in Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations. None of the notes will be sold or delivered, nor will any copies of this offering memorandum or any other document relating to the notes in Italy be delivered except to “Qualified Investors”, as defined in Article 34 — ter, paragraph 1, (b), of CONSOB Regulation No. 11971 of May 14, 1999, as amended (“Regulation No. 11971”), pursuant to Article 30.2 and 100.1.a of Legislative Decree No. 58 of February 24, 1998 as amended (“Decree No. 58”), provided that such Qualified Investors will act in their capacity and not as depositaries or nominees for other shareholders, or in any other circumstances where an express exemption from compliance with the solicitation restrictions provided by Decree No. 58 or Regulation No. 11971 applies, provided, however, that any such offer, sale or delivery of the notes or distribution of copies of the offering memorandum or any other document relating to the notes in Italy must be:

- made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993, as amended (“Decree No. 385”) and

the relevant implementing instructions of the Bank of Italy (*Istruzioni di Vigilanza per le Banche della Banca d'Italia*), Decree No. 58, CONSOB Regulation No. 16190 of October 29, 2007, as amended (“Regulation No. 16190”) and any other applicable laws and regulations; and

- in compliance with any other applicable laws and regulations including any relevant notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

In any case the notes cannot be offered or sold to any individuals in Italy either in the primary or secondary market.

### ***Japan***

The notes have not been and will not be registered under the Securities and Exchange Law of Japan and the notes may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for reoffering or resale, directly or indirectly, in Japan or to a resident of Japan except in compliance with the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Hong Kong***

The notes may not be offered or sold by means of any document other than (1) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (2) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (3) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

### ***Singapore***

The offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore, or the SFA, and accordingly, the notes may not be offered or be the subject of an invitation for subscription or purchase, nor will this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the notes, whether directly or indirectly, be circulated or distributed to any person in Singapore other than under exemptions provided in the SFA for offers made (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) or any person, pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

Each holder of the notes should note that any subsequent sale of the notes acquired pursuant to an offer in this offering memorandum made under exemptions (a) or (b) above within a period of six months from the date of initial acquisition is restricted to (1) institutional investors (as defined in Section 4A of the SFA), (2) relevant persons as defined in Section 275(2) of the SFA, and (3) persons pursuant to an offer referred to in Section 275(1A) of the SFA.

Where the notes are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than U.S.\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275 of the SFA; (2) where no consideration is or will be given for the transfer; or (3) where the transfer is by operation of law.

### **Relationships with Initial Purchasers**

Certain of the initial purchasers and their affiliates perform various financial advisory, investment banking, commercial banking and hedging services from time to time for BRF and its affiliates. The initial purchasers or their affiliates hold certain equity positions in our company, which in the aggregate did not exceed 2.0% of our outstanding capital stock as of March 31, 2013. Certain of the initial purchasers have acted as initial purchasers in prior issuances of debt securities, and the initial purchasers are expected to act as dealer managers in connection with the Private Exchange Offers. Also, we are a debtor of Banco do Brasil S.A. (BB Securities' parent company) or its affiliates in the aggregate amount of R\$2.0 billion, a debtor of Banco Santander (Brasil) S.A. (and affiliated companies) in the aggregate amount of R\$0.2 billion, a debtor of Morgan Stanley & Co. LLC (or affiliated companies) in an aggregate amount less than U.S.\$10.0 million, we have over R\$1.0 billion in credit operations with Itau BBA USA Securities, Inc. and Banco Itaú BBA S.A. or their affiliates, and we have R\$0.5 billion in credit operations with Banco Bradesco S.A. (and affiliated companies), in each case as of March 31, 2012. In addition, our outgrowers of poultry and hogs may also obtain federal government-subsidized rural credit financing as well as capital expenditure financing from Banco Santander (Brasil) S.A., Banco do Brasil S.A., Banco Bradesco S.A. and Banco Itaú Unibanco S.A., affiliates of the initial purchasers.

## **LEGAL MATTERS**

The validity of the notes offered and sold in this offering will be passed upon for us, with respect to New York law by Simpson Thacher & Bartlett LLP, New York, New York, and with respect to Brazilian law by Machado, Meyer, Sendacz e Opice Advogados, São Paulo, Brazil. The validity of the notes offered and sold in this offering will be passed upon for the initial purchasers, with respect to New York law by Davis Polk & Wardwell LLP, São Paulo, Brazil, and with respect to Brazilian law by Pinheiro Guimarães — Advogados, São Paulo, Brazil.

## **INDEPENDENT ACCOUNTANTS**

Our audited consolidated financial statements at December 31, 2012 and for the year ended December 31, 2012, incorporated herein by reference in this offering memorandum, have been audited by Ernst & Young Terco Auditores Independentes S/S, as stated in their report incorporated by reference herein.

Our audited consolidated financial statements at December 31, 2011 and for the two years ended December 31, 2011, incorporated herein by reference in this offering memorandum, have been audited by KPMG Auditores Independentes, independent accountants, as stated in their report incorporated by reference herein. The audit report contains an emphasis of a matter paragraph stating that as mentioned in Note 1.2, on July 13, 2011, CADE approved the business combination between BRF and Sadia, and revoked the Agreement to Preserve Reversibility and Operation (“APRO”) signed on July 8, 2009. This approval is subject to compliance with the obligations assumed by BRF with CADE in the TCD entered into on the same date. On March 20, 2012, BRF signed the Contract of Exchange of Assets and Other Agreements with Marfrig, whose main objective is to establish the terms and conditions enabling the transaction to occur as mentioned in Notes 1.2 and 38 to our audited consolidated financial statements, which is subject to suspension conditions depending on the CADE manifestation.

Our unaudited interim consolidated financial statements at and for the three-month period ended March 31, 2013 included in this offering memorandum, have been reviewed by Ernst & Young Terco Auditores Independentes S/S in accordance with Brazilian and International Standards on Review Engagements. However, their report dated April 29, 2013 appearing herein states that they did not audit and did not express an opinion on these interim consolidated financial statements. Accordingly, the degree of reliance on their report on these interim consolidated financial statements should be restricted in light of the limited nature of the review procedures performed.



## LISTING AND GENERAL INFORMATION

1. The notes have been accepted for clearance and settlement through DTC, Euroclear and Clearstream. The CUSIP, ISIN and Common Code numbers for the notes are as follows:

	<u>Restricted Global Note</u>	<u>Regulation S Global Note</u>
CUSIP .....	10552T AE7	P1905C AD2
ISIN .....	US10552TAE73	USP1905CAD22
Common Code .....	093586328	093586301

2. Copies of this Offering Memorandum, of our latest audited consolidated financial statements and our unaudited interim consolidated financial information, if any, may be obtained free of charge at the offices of the Luxembourg paying agent. Copies of our bylaws, as well as the indenture (including forms of notes), will be available at the offices of the Luxembourg paying agent. BRF publishes its consolidated financial statements on an annual and quarterly basis.

3. Our current bylaws (*Estatuto Social*) are filed as Exhibit 1.01 to our 2012 Form 20-F.

4. Except as disclosed in this offering memorandum, there has been no material adverse change in our financial position since December 31, 2012, the date of the latest audited consolidated financial statements incorporated by reference into this offering memorandum.

5. Except as disclosed in this offering memorandum, we are not involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of this offering, nor so far as we are aware is any such litigation or arbitration pending or threatened. For more information about our litigation, see “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings” in our 2012 Form 20-F.

6. Application has been made to list the notes on the Luxembourg Stock Exchange for trading on the Euro MTF Market.

7. The issuance of the notes was authorized by our Board of Directors on May 15, 2013.

## INDEX TO FINANCIAL STATEMENTS

### BRF S.A.

#### *Unaudited Interim Consolidated Financial Statements*

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**A free translation from Portuguese into English of Report on review of interim consolidated financial statements prepared in accordance with IAS 34 — *Interim Financial Reporting*, issued by the International Accounting Standards Board — IASB**

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**Report on review of interim consolidated financial statements**

The Management and shareholders of  
**BRF S.A.**

**Introduction**

We have reviewed the accompanying interim consolidated financial statements of BRF S.A., formerly known as BRF-Brasil Foods S.A., and its subsidiaries (the “Company”) as of March 31, 2013, comprising of the interim consolidated balance sheet as of March 31, 2013 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* (“IAS 34”). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

**Scope of review**

We conducted our review in accordance with Brazilian and International Standard on Review Engagements (NBC TR 2410 — *Revisão de Informações Intermediárias Executadas pelo Auditor da Entidade* and ISRE 2410 — *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

São Paulo, April 29, 2013.

ERNST & YOUNG TERCO  
Auditores Independentes S.S.  
CRC 2SP015199/O-6

/s/ Antonio Humberto Barros dos Santos  
Antonio Humberto Barros dos Santos  
Accountant CRC-1SP161745/O-3

(A FREE TRANSLATION INTO ENGLISH OF THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)  
**BRF S.A.**

**CONSOLIDATED BALANCE SHEETS**  
**March 31, 2013 and December 31, 2012**  
(Amounts expressed in millions of Brazilian Reais)

<b>ASSETS</b>	<u>Note</u>	<u>03.31.13</u>	<u>12.31.12</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents .....	6	<b>1,381.3</b>	1,930.7
Marketable securities .....	7	<b>540.1</b>	621.9
Trade accounts receivable, net .....	8	<b>2,995.7</b>	3,131.2
Inventories .....	9	<b>3,191.7</b>	3,018.6
Biological assets .....	10	<b>1,318.9</b>	1,371.0
Recoverable taxes .....	11	<b>918.6</b>	964.8
Other financial assets .....	20	<b>82.5</b>	33.2
Other current assets .....		<b>541.0</b>	518.6
Total current assets .....		<b><u>10,969.8</u></b>	<u>11,590.0</u>
<b>NON-CURRENT ASSETS</b>			
Marketable securities .....	7	<b>52.6</b>	74.5
Trade accounts receivable, net .....	8	<b>11.0</b>	11.1
Other credits .....	8	<b>137.2</b>	152.3
Recoverable taxes .....	11	<b>1,138.0</b>	1,141.8
Deferred income and social contribution taxes .....	12	<b>669.7</b>	724.9
Judicial deposits .....	13	<b>389.5</b>	365.3
Biological assets .....	10	<b>440.0</b>	428.2
Restricted cash .....	14	<b>95.9</b>	93.0
Other non-current assets .....		<b>737.4</b>	732.1
Investments .....	15	<b>104.9</b>	36.7
Property, plant and equipment, net .....	16	<b>10,886.2</b>	10,670.7
Intangibles .....	17	<b>4,755.3</b>	4,751.7
Total non-current assets .....		<b><u>19,417.7</u></b>	<u>19,182.3</u>
<b>TOTAL ASSETS</b> .....		<b><u>30,387.5</u></b>	<u>30,772.3</u>

See accompanying notes to the interim consolidated financial statements.

(A FREE TRANSLATION INTO ENGLISH OF THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

**BRF S.A.**

**CONSOLIDATED BALANCE SHEETS**  
**March 31, 2013 and December 31, 2012**  
**(Amounts expressed in millions of Brazilian Reais)**

<b>LIABILITIES</b>	<u>Note</u>	<u>03.31.13</u>	<u>12.31.12</u>
<b>CURRENT LIABILITIES</b>			
Short-term debt .....	18	<b>2,520.3</b>	2,440.8
Trade accounts payable .....	19	<b>3,147.9</b>	3,381.2
Payroll and related charges .....		<b>439.5</b>	426.2
Tax payable .....		<b>186.6</b>	228.0
Interest on shareholders' equity .....	25	<b>2.3</b>	160.0
Employee and management profit sharing .....		<b>37.4</b>	76.9
Other financial liabilities .....	20	<b>171.0</b>	253.4
Pension plan .....	23	<b>17.9</b>	17.4
Provision for tax, civil and labor risks .....	24	<b>88.1</b>	173.9
Other current liabilities .....		<b>288.2</b>	323.8
Total current liabilities .....		<b>6,899.2</b>	7,481.6
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt .....	18	<b>6,613.2</b>	7,077.5
Social and tax payable .....		<b>14.3</b>	13.5
Provision for tax, civil and labor risks .....	24	<b>857.3</b>	760.9
Deferred income and social contribution taxes .....	12	<b>25.1</b>	27.8
Pension plan .....	23	<b>294.5</b>	286.4
Other non-current liabilities .....		<b>666.4</b>	548.5
Total non-current liabilities .....		<b>8,470.8</b>	8,714.6
<b>SHAREHOLDERS' EQUITY</b>			
Capital .....	25	<b>12,460.5</b>	12,460.5
Capital reserves .....		<b>76.3</b>	69.9
Income reserves .....		<b>2,289.1</b>	2,261.1
Retained earnings .....		<b>330.5</b>	—
Treasury shares .....		<b>(47.4)</b>	(51.9)
Other comprehensive loss .....		<b>(125.6)</b>	(201.0)
Equity attributed to interest of controlling shareholders .....		<b>14,983.4</b>	14,538.6
Equity attributed to non-controlling interest .....		<b>34.1</b>	37.5
Total shareholders' equity .....		<b>15,017.5</b>	14,576.1
<b>TOTAL LIABILITIES</b> .....		<b>30,387.5</b>	30,772.3

See accompanying notes to the interim consolidated financial statements.

(A FREE TRANSLATION INTO ENGLISH OF THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)  
BRF S.A.

**CONSOLIDATED STATEMENTS OF INCOME**  
Three month periods ended March 31, 2013 and 2012

(Amounts expressed in millions of Brazilian Reais, except earnings per share and share data)

	Note	03.31.13	03.31.12
<b>NET SALES</b> .....	29	<b>7,208.9</b>	6,337.1
Cost of sales .....	34	<b>(5,512.0)</b>	(4,993.6)
<b>GROSS PROFIT</b> .....		<b>1,696.9</b>	1,343.5
<b>OPERATING INCOME (EXPENSES)</b>			
Selling .....	34	<b>(1,001.9)</b>	(953.4)
General and administrative .....	34	<b>(103.0)</b>	(85.7)
Other operating expenses, net .....	32	<b>(68.3)</b>	(42.0)
Equity income of affiliates .....		<b>7.4</b>	5.7
<b>OPERATING INCOME</b> .....		<b>531.1</b>	268.1
Financial income .....	33	<b>202.5</b>	284.0
Financial expenses .....	33	<b>(304.3)</b>	(359.0)
<b>INCOME BEFORE TAXES</b> .....		<b>429.3</b>	193.1
Current .....	12	<b>(63.7)</b>	(38.2)
Deferred .....	12	<b>(9.3)</b>	(2.0)
<b>NET PROFIT</b> .....		<b>356.3</b>	152.9
<b>Attributable to:</b>			
<b>BRF shareholders</b> .....		<b>358.5</b>	153.2
<b>Non-controlling interest</b> .....		<b>(2.2)</b>	(0.3)
<b>Weighted average shares outstanding — basic</b> .....		<b>870,113,882</b>	869,453,964
<b>Earnings per share — basic</b> .....	26	<b>0.41205</b>	0.17620
<b>Weighted average shares outstanding — diluted</b> .....		<b>870,766,134</b>	869,703,382
<b>Earnings per share — diluted</b> .....	26	<b>0.41175</b>	0.17615

See accompanying notes to the interim consolidated financial statements.

(A FREE TRANSLATION INTO ENGLISH OF THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)  
**BRF S.A.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Three month periods ended March 31, 2013 and 2012**  
**(Amounts expressed in millions of Brazilian Reais)**

	<u>Note</u>	<u>03.31.13</u>	<u>03.31.12</u>
<b>Net Profit</b> .....		<b>356.3</b>	<b>152.9</b>
Loss resulting from foreign currency translation adjustments .....		(19.1)	—
Unrealized Gain (Loss) in Available for Sale Marketable Securities, net of income taxes of R\$101 in 03.31.13, (R\$82) in 03.31.12. ....	7	(0.9)	4.0
Unrealized gain in hedge accounting, net of income taxes of (R\$50.1) in 03.31.13, (R\$49.4) in 03.31.12. ....	4	101.5	99.7
Actuarial losses, net of income taxes of R\$3.1 in 03.31.13, R\$4.2 in 03.31.12. ....	23	(6.1)	(8.2)
<b>Net gain recorded directly in shareholders' equity</b> .....		<b>75.4</b>	<b>95.5</b>
<b>Total comprehensive income, net of tax</b> .....		<b>431.7</b>	<b>248.4</b>
<b>Attributable to:</b>			
<b>BRF shareholders</b> .....		<b>433.9</b>	248.7
<b>Non-controlling interest</b> .....		<b>(2.2)</b>	(0.3)

See accompanying notes to the interim consolidated financial statements.





(A FREE TRANSLATION INTO ENGLISH OF THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)  
BRF S.A.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

Three month period ended March 31, 2012

(Amounts expressed in millions of Brazilian Reals, except Dividend — Interest on own equity per share data)

	Attributed to interest of controlling shareholders										Total shareholders' equity				
	Capital reserves			Income reserves			Other comprehensive income (loss)								
	Capital reserve	Treasury shares	Legal reserve	Reserve for expansion	Reserve for capital increases	Reserve for tax incentives	Accumulated foreign currency translation adjustments	Available for sale marketable securities	Gains (losses) on hedge accounting	Actuarial gains (losses)		Retained earnings	Non-controlling interest		
<b>BALANCES AT</b>															
<b>JANUARY 01, 2012</b>	12,460.5	76.3	(65.3)	179.6	978.6	545.9	56.4	12.6	5.2	(167.4)	(11.9)	—	14,070.4	39.6	14,110.0
<b>Comprehensive income:</b>															
Unrealized gain in available for sale marketable securities	—	—	—	—	—	—	—	—	4.0	—	—	—	4.0	—	4.0
Unrealized gain in cash flow hedge	—	—	—	—	—	—	—	—	—	99.7	—	—	99.7	—	99.7
Actuarial loss	—	—	—	—	—	—	—	—	—	—	(8.2)	—	(8.2)	—	(8.2)
<b>Net income for the period</b>	—	—	—	—	—	—	—	—	—	—	—	153.2	153.2	(0.3)	152.9
<b>TOTAL COMPREHENSIVE INCOME</b>	—	—	—	—	—	—	—	12.6	9.2	(67.7)	(20.1)	153.2	14,319.1	39.3	14,358.4
<b>Appropriation of income (loss):</b>															
Legal reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share-based payments	—	3.6	—	—	—	—	10.3	—	—	—	—	(10.3)	—	—	7.3
Treasury shares sold	—	—	0.1	—	—	—	—	—	—	—	—	—	0.1	—	0.1
<b>BALANCES AT</b>															
<b>MARCH 31, 2012</b>	12,460.5	79.9	(65.2)	179.6	978.6	545.9	66.7	12.6	9.2	(67.7)	(20.1)	142.9	14,322.8	43.0	14,365.9

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BRF S.A.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Three month periods ended March 31, 2013 and 2012**

**(Amounts expressed in millions of Brazilian Reais)**

	<u>03.31.13</u>	<u>03.31.12</u>
<b>OPERATING ACTIVITIES:</b>		
Net profit for the period .....	358.5	153.2
<b>Adjustments to reconcile net profit to net cash provided by operating activities:</b>		
Non-controlling interest .....	(2.2)	(0.3)
Depreciation and amortization .....	270.5	237.6
Equity income of affiliates .....	(7.4)	(5.7)
Loss on disposal of property, plant and equipment .....	15.8	1.3
Deferred income tax .....	9.3	2.0
Provision (Reversal) for tax, civil and labor risks .....	29.9	(8.0)
Other provisions .....	(13.7)	6.2
Exchange rate variations and interest .....	121.8	(1.7)
<b>Changes in operating assets and liabilities:</b>		
Investments in trading securities .....	—	(1,358.7)
Redemptions of trading securities .....	68.7	1,906.7
Other financial assets and liabilities .....	18.9	13.8
Trade accounts receivable .....	128.9	524.2
Inventories .....	(169.7)	(331.9)
Trade accounts payable .....	(121.3)	0.1
Payments of tax, civil and labor contingencies .....	(23.9)	(50.9)
Interest paid .....	(129.4)	(127.1)
Income tax payments .....	(45.8)	(19.2)
Payroll related charges and others .....	37.5	(328.0)
<b>Net cash provided by operating activities .....</b>	<u>546.4</u>	<u>613.6</u>
<b>INVESTING ACTIVITIES:</b>		
Marketable securities held to maturity .....	—	(48.6)
Redemptions of held to maturity securities .....	23.5	21.4
Investments in available for sale securities .....	(1.1)	—
Redemptions of available for sale securities .....	10.0	5.1
Restricted cash .....	(2.9)	(2.1)
Additions to property, plant and equipment .....	(419.0)	(448.0)
Additions to biological assets .....	(121.4)	(116.7)
Proceeds from disposals of property, plant and equipment .....	1.3	3.3
Additions to intangible assets .....	(28.4)	(1.0)
Capital increase in jointly-controlled subsidiary .....	(10.0)	—
Other investments, net .....	(54.7)	—
<b>Net cash used in investing activities .....</b>	<u>(602.7)</u>	<u>(586.6)</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from debt issuance .....	298.1	801.4
Repayment of debt .....	(602.1)	(625.1)
Treasury shares disposal .....	4.5	—
Payment of interest on shareholders' equity .....	(174.7)	(339.9)
<b>Net cash used in financing activities .....</b>	<u>(474.2)</u>	<u>(163.6)</u>
<b>EFFECT ON EXCHANGE RATE VARIATION ON CASH AND CASH EQUIVALENTS .....</b>	<u>(18.9)</u>	<u>(24.9)</u>
Net decrease in cash and cash equivalents .....	(549.4)	(161.5)
At the beginning of the period .....	1,930.7	1,366.8
At the end of the period .....	<u>1,381.3</u>	<u>1,205.3</u>

See accompanying notes to the interim consolidated financial statements.

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**Notes to the Interim Consolidated Financial Statements**

**March 31, 2013**

**(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)**

**1. COMPANY'S OPERATIONS**

BRF S.A., the new corporate name of BRF — Brasil Foods S.A. as from April 9, 2013, and its subsidiaries (collectively "Company") is one of Brazil's largest companies in the food industry. BRF is a public company, listed on the New Market of Brazilian Securities, Commodities & Futures Exchange ("BM&FBOVESPA"), under the ticker BRFS3, and listed on the New York Stock Exchange ("NYSE"), under the ticker BRFS. Its headquarter is located at 475, Jorge Tzachel Street in the City of Itajaí, State of Santa Catarina. With a focus on raising, producing and slaughtering of poultry, pork and beef, processing and/or sale of fresh meat, processed products, milk and dairy products, pasta, sauces, mayonnaise, frozen vegetables and soybean derivatives, among which the following are highlighted:

- Whole chickens and frozen cuts of chicken, turkey, pork and beef;
- Ham products, bologna, sausages, frankfurters and other smoked products;
- Hamburgers, breaded meat products and meatballs;
- Lasagnas, pizzas, cheese breads, pies and frozen vegetables;
- Milk, dairy products and desserts;
- Juices, soy milk and soy juices;
- Margarine, sauces and mayonnaise; and
- Soy meal and refined soy flour, as well as animal feed.

The Company's activities are segregated into 4 operating segments, being: domestic market, foreign market, food service and dairy products, as disclosed in note 5.

In the domestic market, the Company operates 30 meat processing plants, 11 dairy products processing plants, 2 margarine processing plants, 3 pasta processing plants, 1 dessert processing plant and 3 soybean crushing plant, all of them located near the Company's raw material suppliers or the main consumer centers.

The Company has an advanced distribution system and uses 32 distribution centers (18 owned and 14 leased), to deliver its products to supermarkets, retail stores, wholesalers, restaurants and other institutional customers in the domestic market.

In the foreign market, the Company operates 6 meat processing plants, 1 margarine and oil processing plant, 1 sauces and mayonnaise processing plant, 1 pasta and pastries processing plant, 1 frozen vegetables processing plant, 1 cheese processing plant and 6 distribution centers (4 owned and 2 outsourced), besides subsidiaries or sales offices in the United Kingdom, Italy, Austria, Hungary, Japan, The Netherlands, Russia, Singapore, United Arab Emirates, Portugal, France, Germany, Turkey, China, Cayman Islands, South Africa, Venezuela, Uruguay and Chile.

The Company exports its products to more than 140 countries.

BRF has a number of trademarks among which the most important are: *Batavo*, *Claybon*, *Chester*<sup>®</sup>, *Elegê*, *Fazenda*, *Nabrassa*, *Perdigão*, *Perdix*, *Hot Pocket*, *Miss Daisy*, *Nuggets*, *Qualy*, *Sadia*, *Speciale Sadia*, *Dánica* and *Paty*, in addition to licensed trademarks such as *Turma da Mônica*, *Bob Esponja* and *Trakinas*.

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The table below summarizes the direct and indirect ownership interests of the Company, as well as the activities of each subsidiary:

**1.1. Interest in subsidiaries**

<b>Subsidiary</b>	<b>Main activity</b>	<b>Country</b>	<b>03.31.13</b>	<b>12.31.12</b>
PSA Laboratório Veterinário Ltda. ....	Veterinary activities	Brazil	88.00%	88.00%
Sino dos Alpes Alimentos Ltda. .... (a)	Industrialization and commercializations of products	Brazil	99.99%	99.99%
PDF Participações Ltda. ....	<i> Holding </i>	Brazil	1.00%	1.00%
Sino dos Alpes Alimentos Ltda. .... (a)	Industrialization and commercializations of products	Brazil	0.01%	0.01%
Vip S.A. Emp. Part. Imobiliárias ....	Commercialization of owned real state	Brazil	100.00%	100.00%
Establecimiento Levino Zaccardi y Cia. S.A. .	Industrialization and commercializations of dairy products	Argentina	10.00%	10.00%
Avipal S.A. Construtora e Incorporadora .... (a)	Construction and real estate marketing	Brazil	100.00%	100.00%
Avipal Centro-oeste S.A. .... (a)	Industrialization and commercializations of milk	Brazil	100.00%	100.00%
Establecimiento Levino Zaccardi y Cia. S.A. ...	Industrialization and commercializations of dairy products	Argentina	90.00%	90.00%
UP! Alimentos Ltda. ....	Industrialization and commercializations of products	Brazil	50.00%	50.00%
Perdigão Trading S.A. .... (a)	<i> Holding </i>	Brazil	100.00%	100.00%
PSA Laboratório Veterinário Ltda. ....	Veterinary activities	Brazil	12.00%	12.00%
PDF Participações Ltda. ....	<i> Holding </i>	Brazil	99.00%	99.00%
BRF GmbH ....	Holding and trading	Austria	100.00%	100.00%
Perdigão Europe Ltd. ....	Import and commercialization of products	Portugal	100.00%	100.00%
Perdigão International Ltd. ....	Import and commercialization of products	Cayman Island	100.00%	100.00%
BFF International Ltd. ....	Financial fundraising	Cayman Island	100.00%	100.00%
Highline International .... (a)	Financial fundraising	Cayman Island	100.00%	100.00%
Plusfood Germany GmbH ....	Import and commercialization of products	Germany	100.00%	100.00%
Perdigão France SARL ....	Marketing and logistics services	France	100.00%	100.00%
Plusfood Holland B.V. ....	Administrative services	The Netherlands	100.00%	100.00%
Plusfood Groep B.V. ....	<i> Holding </i>	The Netherlands	100.00%	100.00%
Plusfood B.V. ....	Industrialization, import and commercializations of products	The Netherlands	100.00%	100.00%
BRF Brasil Foods Japan KK ....	Marketing and logistics services	Japan	100.00%	100.00%
BRF Brasil Foods PTE Ltd. ....	Marketing and logistics services	Singapore	100.00%	100.00%
Plusfood Hungary Trade and Service LLC ...	Import and commercialization of products	Hungary	100.00%	100.00%

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<u>Subsidiary</u>	<u>Main activity</u>	<u>Country</u>	<u>03.31.13</u>	<u>12.31.12</u>
Plusfood Iberia SL . . . . .	Marketing and logistics services	Spain	100.00%	100.00%
Plusfood Italy SRL . . . . .	Import and commercialization of products	Italy	67.00%	67.00%
Plusfood UK Ltd. . . . .	Import and commercialization of products	United Kingdom	100.00%	100.00%
Plusfood Wrexham . . . . .	Industrialization, import and commercializations of products	United Kingdom	100.00%	100.00%
BRF Global GmbH . . . . .	(b) Holding and trading	Austria	100.00%	100.00%
Xamol Consultores Serviços Ltda. . . . .	(a) Import and commercialization of products	Portugal	100.00%	100.00%
BRF Brasil Foods África Ltd. . . . .	Import and commercialization of products	South Africa	100.00%	100.00%
Sadia Chile S.A. . . . .	Import and commercialization of products	Chile	40.00%	40.00%
Rising Star Food Company Ltd. . . . .	Industrialization, import and commercialization of products	China	50.00%	50.00%
Badi Ltd. . . . .	Import and commercialization of products	United Arab Emirates	100.00%	100.00%
Al-Wafi Al-Takamol Imp. . . . .	Import and commercialization of products	Saudi Arabia	75.00%	75.00%
Federal Foods Ltd. . . . .	(e) Import and commercialization of products	United Arab Emirates	49.00%	—
Al-Wafi Food Products Factory LLC . . . . .	Industrialization and commercialization of products	United Arab Emirates	49.00%	—
Wellax Food Logistics C.P.A.S.U. Ltda. . . . .	Import and commercialization of products	Portugal	100.00%	100.00%
Qualy 1 B.V. . . . .	(b) Import and commercialization of products	The Netherlands	100.00%	100.00%
BRF Foods LLC . . . . .	Import and commercialization of products	Russia	90.00%	90.00%
Sadia Foods GmbH . . . . .	Import and commercialization of products	Germany	100.00%	100.00%
BRF Foods LLC . . . . .	Import and commercialization of products	Russia	10.00%	10.00%
Quickfood S.A. . . . .	Industrialization and commercialization of products	Argentina	90.05%	90.05%
Sadia International Ltd. . . . .	Import and commercialization of products	Cayman Island	100.00%	100.00%
Sadia Uruguay S.A. . . . .	Import and commercialization of products	Uruguay	100.00%	100.00%
Sadia Alimentos S.A. . . . .	Import and export of products	Argentina	0.02%	0.02%
Sadia Chile S.A. . . . .	Import and commercialization of products	Chile	60.00%	60.00%
Sadia U.K. Ltd. . . . .	Import and commercialization of products	United Kingdom	100.00%	100.00%
Sadia Overseas Ltd. . . . .	Financial fundraising	Cayman Island	100.00%	100.00%

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<u>Subsidiary</u>	<u>Main activity</u>	<u>Country</u>	<u>03.31.13</u>	<u>12.31.12</u>
K&S Alimentos S.A. ....	Industrialization and commercialization of products	Brazil	49.00%	49.00%
Sadia Alimentos S.A. ....	Import and export of products	Argentina	99.98%	99.98%
Avex S.A. ....	Industrialization and commercialization of products	Argentina	99.46%	99.46%
Flora Dánica S.A. ....	Industrialization and commercialization of products	Argentina	95.00%	95.00%
GB Dan S.A. ....	Industrialization and commercialization of products	Argentina	5.00%	5.00%
Flora San Luis S.A. ....	Industrialization and commercialization of products	Argentina	95.00%	95.00%
Flora Dánica S.A. ....	Industrialization and commercialization of products	Argentina	5.00%	5.00%
GB Dan S.A. ....	Industrialization and commercialization of products	Argentina	95.00%	95.00%
Flora San Luis S.A. ....	Industrialization and commercialization of products	Argentina	5.00%	5.00%
BRF - Suínos do Sul Ltda. ....	Participation in other companies	Brazil	99.00%	99.00%
Nutrifont Alimentos S.A. ....	(c) Industrialization and commercialization of products	Brazil	50.00%	50.00%
Sadia GmbH ....	(d) <i> Holding</i>	Germany	—	100.00%

(a) Dormant subsidiaries.

(b) The wholly-owned subsidiary BRF Global GmbH (previously denominated Acheron Beteiligungsgesellschaft GmbH) owns 100 direct subsidiaries in Madeira Island, Portugal, which, as of March 31, 2013, total interest amounts to R\$2.1 (R\$2.2 as of December 31, 2012). The wholly-owned subsidiary Qualy B.V. owns 48 subsidiaries in The Netherlands, which as of March 31, 2013, the total interest is represented by a net capital deficiency of R\$10.2 (R\$11.0 as of December 31, 2012). The purpose of these subsidiaries is to operate in the European market to increase the Company's market share, which is regulated by a system of poultry and turkey import quotas.

(c) Company in pre-operational phase.

(d) Company incorporated by BRF GmbH on March 31, 2013.

(e) The BRF acquired 49% of the share interest equity with the rights to 60% of dividends as permitted by Federal Law. n° 8/1984, in force in the United Arab Emirates and according to the shareholders' agreement.

**1.2. Acquisition of assets related to integration, production and slaughtering of pork – DOUX**

On November 7, 2012, the Company entered into an agreement with CADE with the objective to establish rules for the assets related to integration, production and slaughtering of pork from Doux, located in the City of Ana Rech, State of Rio Grande do Sul, to have their title transferred to third parties, such assets were given as a collateral to BRF in order to guarantee certain cash advances made from BRF to Doux.

On March 31, 2013, the book value of those assets totaled R\$233.7, which are recorded as non-current assets.

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**March 31, 2013**  
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**1.3. Seasonality**

The Company does not operate with any significant seasonality through the fiscal year. In general, during the fourth quarter the demand in the domestic market is slightly stronger than other quarters, mainly due to the year-end holiday season such as Christmas and New Years Eve. Our bestselling products are: turkey, Chester® and ham.

**2. MANAGEMENT'S STATEMENT AND BASIS OF PREPARATION AND PRESENTATION OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The Company's interim consolidated financial statements are prepared in accordance with the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for interim financial reporting in accordance with IAS 34 — Interim Financial Reporting ("IAS 34").

The Company's interim consolidated financial statements are expressed in millions of Brazilian Reais ("R\$"), as well as the amounts of other currencies disclosed therein.

The preparation of the Company's interim consolidated financial statements requires Management to make judgments, use estimates and adopt assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, as well as the disclosures of contingent liabilities. However, the uncertainty inherent to these judgments, assumptions and estimates could lead to results requiring a material adjustment to carrying amount of the affected asset or liability in future periods.

The settlement of the transactions involving such estimates can result in amounts significantly different from those recorded in the consolidated financial statements due to the lack of precision inherent to the estimation process. The Company reviews its judgments, estimates and assumptions on a quarterly basis.

The interim consolidated financial statements were prepared based on the historical cost except for the following items recognized in the balance sheet:

- (i) derivative financial instruments measured at fair value through the statement of income;
- (ii) available for sale financial assets measured at fair value;
- (iii) assets and liabilities of acquired companies from January 1, 2009 recorded initially at fair value; and
- (iv) share-based payments measured at fair value.

**3. SUMMARY OF ACCOUNTING PRACTICES**

The interim consolidated financial statements have been prepared based on the accounting policies and estimates calculation methodology adopted in the preparation of the annual consolidated financial statements for the year ended December 31, 2012.

There were no changes of any nature related to such policies and estimates calculation methodology. As allowed by IAS 34, Management decided not to disclose again the details of the accounting policies adopted by the Company, hence, the interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2012, in order to provide an understanding of the interim consolidated financial statements regarding the Company's capacity of profit and future cash flows generation as well as its financial conditions and liquidity.

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The exchange rates into Brazilian Reais at the date of the balance sheets translated were as follows:

<b>Final rate</b>	<b>03.31.13</b>	<b>12.31.12</b>
U.S. Dollar (US\$) .....	<b>2.0138</b>	2.0435
Euro (€) .....	<b>2.5853</b>	2.6954
Pound Sterling (£) .....	<b>3.0574</b>	3.3031
Argentine Peso (AR\$) .....	<b>0.3933</b>	0.4160
<b>Average rates</b>		
U.S. Dollar (US\$) .....	<b>1.9977</b>	1.9550
Euro (€) .....	<b>2.6367</b>	2.5103
Pound Sterling (£) .....	<b>3.1000</b>	3.0985
Argentine Peso (AR\$) .....	<b>0.3987</b>	0.4298

#### 4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

##### 4.1. Overview

In the regular course of its business, the Company is exposed to market risks related mainly to the fluctuation of interest rates, variation of foreign exchange rates and changes in the commodities prices.

The Company utilizes hedging instruments to mitigate its exposure to these risks, based on a Risk Policy under the management of the Financial Risk Management Committee, Board of Executive Officers and Board of Directors. Such policy includes the monitoring of the levels of exposure to each market risk and its measurement is performed based on the accounting exposure and forecast of future cash flows. The processes of monitoring, evaluation and approval of risk management were properly disclosed in details in the consolidated financial statements for the year ended December 31, 2012 and has not changed during the three month period ended March 31, 2013 and for this reason were not disclosed in this interim consolidated financial statements.

##### 4.1.1. Breakdown of the balances of exposure in foreign currency

Foreign currency denominated assets and liabilities are as follows:

	<b>03.31.13</b>	<b>12.31.12</b>
Cash and cash equivalents and marketable securities .....	<b>1,369.4</b>	1,502.4
Trade accounts receivable .....	<b>1,474.0</b>	1,606.5
Accounts receivable from subsidiaries .....	<b>124.0</b>	—
Restricted cash .....	<b>8.4</b>	9.1
Dollar future options agreements .....	<b>60.4</b>	204.4
Inventories .....	<b>566.5</b>	543.0
Exchange rate contracts (Swap) .....	<b>(27.7)</b>	(31.7)
Loans and financing .....	<b>(5,285.5)</b>	(5,628.5)
Bond designated as cash-flow hedge .....	<b>302.1</b>	306.5
Pre-payment exports designated as cash-flow hedge .....	<b>730.9</b>	815.8
Trade accounts payable .....	<b>(461.7)</b>	(479.7)
Other assets and liabilities, net .....	<b>358.0</b>	310.9
	<b>(781.2)</b>	(841.3)
Foreign exchange exposure in US\$ .....	<b>(388.0)</b>	(411.6)



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The Company's net foreign exchange exposure as of March 31, 2013 totaled US\$388.0, which is within the limit established by the Risk Policy.

4.1.2. Breakdown of the balances of derivative financial instruments

The positions of outstanding derivatives are as follows:

03.31.13

Instrument	Subject to hedge	Maturity	Receivable(2)	Payable(2)	Reference value (notional)	Market value(1)
<b>Financial instruments designated as hedge accounting</b>						
NDF	Exchange rate	From 04/2013 to 12/2013	R\$ (6.24% fixed)	US\$	1,502.3	53.1
NDF	Exchange rate	From 04/2013 to 02/2014	R\$ (6.50% fixed)	EUR	387.8	15.4
NDF	Exchange rate	From 04/2013 to 02/2014	R\$ (5.96% fixed)	GBP	132.4	8.8
Fixed exchange rate	Exchange rate	04/2013	R\$ (6.60% fixed)	US\$	40.3	1.5
Swap	Exchange rate	Up to 03/2014	R\$ (9.75% fixed)	US\$ + 1.58%	323.0	(73.6)
Swap	Exchange rate	Up to 07/2013	US\$ + 7.00%	R\$ (76.00% of CDI)(3)	70.5	1.0
Swap	Exchange rate	From 04/2013 to 12/2013	US\$ + LIBOR 3M + 3.83%	R\$ (97.50% of CDI)(3)	111.9	(1.6)
Swap	Interest rate	From 04/2013 to 06/2018	US\$ + LIBOR 3M + 2.48%	US\$ + 4.27%	402.8	(21.0)
Swap	Interest rate	From 04/2013 to 02/2019	US\$ + LIBOR 6M + 2.57%	US\$ + 5.75%	655.9	(67.8)
Options	Exchange rate	From 04/2013 to 07/2013	R\$	US\$	60.4	0.1
					<b>3,687.3</b>	<b>(84.1)</b>
<b>Financial instruments not designated as hedge accounting</b>						
Exchange rate	Up to 06/2013	US\$ (Pre of 1.37%)	EUR	EUR	129.3	0.2
Exchange rate	Up to 03/2015	R\$ (Pre of 8.41%)	US\$ - 0.20%	US\$ - 0.20%	27.7	(4.7)
Live cattle	From 06/2013 to 12/2013	R\$	R\$	R\$	44.9	(0.2)
Live cattle	Up to 01/2014	R\$	R\$	R\$	1.6	—
Exchange rate	Up to 02/2013	US\$	R\$	R\$	15.2	0.3
Live cattle	Up to 10/2013	R\$	R\$	R\$	57.6	—
					<b>276.3</b>	<b>(4.4)</b>
					<b>3,963.6</b>	<b>(88.5)</b>

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Instrument	Subject to hedge	Maturity	Receivable(2)	Payable(2)	Reference value (notional)	Market value(1)
<b>Financial instruments designated as hedge accounting</b>						
NDF	Exchange rate	From 01/2013 to 11/2013	R\$ (6.53% fixed)	US\$	2,057.8	(20.0)
NDF	Exchange rate	From 01/2013 to 11/2013	R\$ (7.13% fixed)	EUR	531.0	(11.3)
NDF	Exchange rate	From 01/2013 to 11/2013	R\$ (6.22% fixed)	GBP	176.4	(6.4)
Fixed exchange rate	Exchange rate	From 01/2013 to 04/2013	R\$ (7.66% fixed)	US\$	132.8	2.1
Swap	Exchange rate	Up to 03/2014	R\$ (9.75% fixed)	US\$ + 1.58%	408.7	(76.9)
Swap	Exchange rate	Up to 07/2013	US\$ + 7.00%	R\$ (76.00% of CDI)(3)	56.1	2.1
Swap	Exchange rate	From 01/2013 to 12/2013	US\$ + LIBOR 3M + 3.83%	R\$ (97.50% of CDI)(3)	330.8	(2.2)
Swap	Interest rate	From 01/2013 to 06/2018	US\$ + LIBOR 3M + 2.48%	US\$ + 4.27%	408.7	(23.0)
Swap	Interest rate	From 01/2013 to 02/2019	US\$ + LIBOR 6M + 2.37%	US\$ + 5.60%	728.4	(78.6)
					<b>4,830.7</b>	<b>(214.2)</b>
<b>Financial instruments not designated as hedge accounting</b>						
NDF	Exchange rate	Up to 03/2013	US\$ (0.28% fixed)	EUR	134.8	0.4
Swap	Exchange rate	Up to 03/2015	R\$ (8.41% fixed)	US\$ - 0.20%	31.7	(5.6)
Options	Live cattle	From 01/2013 to 07/2013	R\$	R\$	28.8	—
NDF	Live cattle	Up to 01/2013	R\$	R\$	0.9	0.1
Future contract	Exchange rate	Up to 02/2013	US\$	R\$	204.4	(0.8)
Future contract	Live cattle	Up to 10/2013	R\$	R\$	20.3	—
					<b>420.9</b>	<b>(5.9)</b>
					<b>5,251.6</b>	<b>(220.1)</b>

(1) The market value determination method used by the Company consists of calculating the future value based on the contracted conditions and determining the present value based on market curves, extracted from the database of Bloomberg and BM&F.

(2) Refers to the average exchange rates.

(3) Interbank Deposit Certificate (“CDI”).

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4.2. Breakdown of the balances of financial instruments designated for cash flow hedge accounting and export revenues

4.2.1. Non-deliverable forwards — NDF

The position of non-deliverable forwards is set forth below:

Maturities	R\$ x USD			R\$ x EUR			R\$ x GBP		
	Curve	MTM	Average USD	Curve	MTM	Average EUR	Curve	MTM	Average GBP
April 2013	5.2	5.2	2,055.1	2.3	2.4	2,700.1	1.5	1.5	3,311.1
May 2013	12.7	12.1	2,146.6	1.7	1.7	2,701.7	1.3	1.3	3,316.5
June 2013	11.4	10.8	2,130.4	1.3	1.3	2,685.1	1.2	1.2	3,333.4
July 2013	4.4	4.2	2,126.0	1.5	1.5	2,713.2	1.2	1.1	3,350.4
August 2013	6.9	6.5	2,151.3	2.3	2.2	2,777.9	0.8	0.8	3,304.2
September 2013	7.4	7.0	2,167.8	1.3	1.3	2,756.4	0.8	0.8	3,428.1
October 2013	5.2	5.3	2,151.2	1.3	1.3	2,793.1	0.8	0.8	3,433.1
November 2013	2.5	2.3	2,141.2	2.1	2.1	2,893.2	1.1	1.0	3,543.8
December 2013	(0.7)	(0.3)	2,099.1	1.3	1.2	2,834.0	0.5	0.3	3,349.3
January 2014	—	—	—	0.7	0.5	2,812.6	0.3	0.2	3,280.2
February 2014	—	—	—	(0.2)	(0.1)	2,712.2	(0.3)	(0.2)	3,133.9
	<b>55.0</b>	<b>53.1</b>	<b>2,125.2</b>	<b>15.6</b>	<b>15.4</b>	<b>2,749.5</b>	<b>9.2</b>	<b>8.8</b>	<b>3,341.0</b>

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4.2.2. Interest rate and currency swap

The positions of interest rate and currency swap are set forth below:

03.31.13						
Assets (Hedged object)	Liabilities (Protected risk)	Notional (R\$)	Notional (USD)	Maturity date	Balance (Contract curve)	Balance (MTM)
LIBOR 6M	4.06% p.a.	21,576	10,714	07.22.13	(0.1)	(0.4)
LIBOR 6M + 0.80% p.a.	4.31% p.a.	12,083	6,000	08.23.13	—	(0.2)
LIBOR 6M + 0.80% p.a.	4.36% p.a.	8,055	4,000	07.19.13	—	(0.1)
LIBOR 6M + 1.65% p.a.	4.15% p.a.	10,069	5,000	05.10.13	(0.1)	(0.1)
LIBOR 6M + 2.82% p.a.	5.86% p.a.	201,380	100,000	01.22.18	(0.5)	(20.0)
LIBOR 3M + 2.60% p.a.	5.47% p.a.	201,380	100,000	06.18.18	(0.3)	(19.9)
LIBOR 6M + 2.70% p.a.	5.90% p.a.	201,380	100,000	02.01.19	(0.4)	(23.6)
LIBOR 6M + 2.70% p.a.	5.88% p.a.	201,380	100,000	02.01.19	(0.4)	(23.4)
LIBOR 3M + 2.35% p.a.	3.07% p.a.	201,380	100,000	06.12.15	—	(1.1)
US\$ + 7.00% p.a.	76.00% CDI	70,483	35,000	07.15.13	0.5	1.0
LIBOR 3M + 2.50% p.a.	92.50% CDI	44,751	22,222	10.01.13	(0.2)	(0.5)
LIBOR 3M + 4.50% p.a.	100.00% CDI	67,127	44,444	12.23.13	—	(1.1)
R\$ + 9.80%	US\$ + 1.71%	65,440	40,000	03.17.14	(16.1)	(13.9)
R\$ + 9.70%	US\$ + 1.53%	47,910	30,000	03.17.14	(13.2)	(11.6)
R\$ + 9.70%	US\$ + 1.45%	112,080	70,000	03.17.14	(30.6)	(26.7)
R\$ + 9.80%	US\$ + 1.68%	48,600	30,000	03.17.14	(12.6)	(10.9)
R\$ + 9.80%	US\$ + 1.65%	48,960	30,000	03.17.14	(12.2)	(10.5)
		<u>1,564,034</u>	<u>827,380</u>		<u>(86.2)</u>	<u>(163.0)</u>

4.2.3. Fixed exchange rate

The position of fixed exchange rate is set forth below:

03.31.13					
R\$ x USD					
Maturities	Curve	MTM	Notional (USD)	Notional (R\$)	Average USD
April 2013	<u>1.5</u>	<u>1.5</u>	<u>20.0</u>	<u>40.3</u>	<u>2.0961</u>
	<u>1.5</u>	<u>1.5</u>	<u>20.0</u>	<u>40.3</u>	<u>2.0961</u>

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4.2.4. *Exports pre-payments — PPEs*

The position of the PPEs is set forth below:

Fiscal year ended	Hedge instrument	Subject to hedge	03.31.13			
			Type of risk hedged	Maturity	Notional (US\$)	MTM
03.31.13	PPE	Foreign Market Sales	US\$ (E.R.)	From 04.2013 to 02.2019	362.9	730.9
12.31.12	PPE	Foreign Market Sales	US\$ (E.R.)	From 10.2013 to 02.2019	399.2	815.8

The unrealized gains and losses from PPEs designated as hedge accounting, recorded in the shareholders' equity were a loss of R\$54.2 (R\$66.5 as of December 31, 2012), net of income tax of R\$27.9 (R\$34.3 as of December 31, 2012).

4.2.5. *Options*

The Company designates only variation in the intrinsic value of its options as a hedge instrument (hedge accounting), recognizing the time value of the premium in the financial result. If the hedge is not effective and the option is not exercised due to devaluation of the Real, the losses related to the options will be registered in the financial expenses in the statement of income.

The Company has designated as hedge accounting transactions involving options denominated collar where there is a purchase of a put option ("PUT") and a sale of a call option ("CALL").

When the quote of any of the options is not available in an active market, the fair value will be based on an option pricing model (Black-Scholes or Binomial).

Type	03.31.13				
	R\$ x USD				
	Maturities	MTM	Notional (USD)	Notional (R\$)	USD Average
Put	July 2013	0.3	20.0	40.3	2.0060
Call	July 2013	(0.2)	10.0	20.1	2.0250

4.2.6. *Senior Unsecured Notes — Bonds*

The position of the bonds designated as hedge accounting is set forth below:

Fiscal year ended	03.31.13					
	Hedge Instrument	Subject to hedge	Type of risk hedged	Maturity	Notional (US\$)	MTM
03.31.13	BRFSBZ 2022	Foreign Market Sales	US\$ (E.R.)	06.2022	150.0	302.1
12.31.12	BRFSBZ 2022	Foreign Market Sales	US\$ (E.R.)	06.2022	150.0	306.5

The unrealized gains and losses from bonds designated as hedge accounting, recorded in the shareholders' equity were a loss of R\$0.7, net of income tax of R\$0.4 (loss of R\$2.2, net of income tax of R\$1.1 as of December 31, 2012).

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**4.3. Gains and losses of derivative financial instruments designated as hedge accounting**

The unrealized gains and losses from derivative financial instruments designated as hedge accounting are recognized in shareholders' equity and when realized are recorded as financial income or expense, respectively. The details of these gains and losses are set forth below:

	<u>Shareholders' equity</u>		<u>Statement of income</u>	
	<u>03.31.13</u>	<u>12.31.12</u>	<u>03.31.13</u>	<u>03.31.12</u>
<b>Derivatives for the purpose of protection</b>				
Foreign exchange risks .....	79.5	(40.7)	(74.8)	(1.2)
Interest rate risk .....	(86.9)	(95.1)	(1.9)	(4.4)
	<u>(7.4)</u>	<u>(135.8)</u>	<u>(76.7)</u>	<u>(5.6)</u>
<b>Non derivatives for the purpose of protection</b>				
Foreign exchange risks .....	(81.0)	(104.1)	—	—
	<u>(81.0)</u>	<u>(104.1)</u>	<u>—</u>	<u>—</u>
<b>Derivatives for the purpose of financial results</b>				
Interest rate risk .....	—	—	—	(0.2)
Foreign exchange risks .....	—	—	(4.2)	(37.4)
Market risk of live cattle .....	—	—	(0.2)	(0.5)
	<u>—</u>	<u>—</u>	<u>(4.4)</u>	<u>(38.1)</u>
	<u>(88.4)</u>	<u>(239.9)</u>	<u>(81.1)</u>	<u>(43.7)</u>

As of March 31, 2013, the gains and losses from derivatives financial instruments designated as hedge accounting, recorded in the shareholders' equity, are represented by a loss of R\$21 (loss of R\$107.1 as of December 31, 2012), net of income tax of R\$13.6 (R\$28.7 as of December 31, 2012).



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**4.4. Determination of the fair value of financial instruments**

The Company discloses its financial assets and liabilities at fair value, based on the appropriate accounting pronouncements, which refers to concepts of valuation and practices, and requires certain disclosures on the fair value.

Particularly related to the disclosure, the Company applies the hierarchy requirements set out in IAS 39.

Management concluded that balances of cash and cash equivalents, trade accounts receivable and trade accounts payable approximate to their fair value due to the short-term cycle of these operations.

The book value of financing and loans in the interim consolidated financial statements approximate to the fair value as the major portion of the total gross debt bears interest based on the variation of Long Term Interest Rate (“TJLP”), London Interbank Offered Rate (“LIBOR”) and CDI, except the capital markets transactions (Bond). On March 31, 2013, the fair value adjustment for the Bond (“BRFSBZ”) is represented by a positive impact of R\$544.2, which R\$70.4 attributable to Sadia’s Bonds (“BRFSBZ6”), R\$292.6 attributable to BFF’s Notes (“BRFSBZ7”) and R\$181.2 attributable to BRF’s Notes (“BRFSBZ5”). This impact was measured only for disclosure purposes, not being recorded in the interim consolidated financial statements of the Company.

**4.4.1. Comparison between book value and fair value of financial instruments**

The comparison between book value and fair value of financial instruments is set forth below:

	03.31.13		12.31.12	
	Book value	Fair value	Book value	Fair value
Cash and cash equivalents	1,381.3	1,381.3	1,930.7	1,930.7
Restricted cash				
Held to maturity	95.9	95.9	93.0	93.0
Marketable securities				
Available for sale	257.0	257.0	273.1	273.1
Trading securities	216.0	216.0	280.7	280.7
Held to maturity	119.7	120.6	142.6	144.0
Trade accounts receivable, net	3,006.7	3,006.7	3,142.3	3,142.3
Credit notes	205.3	205.3	229.7	229.7
Other receivables — TCD	393.0	393.0	407.6	407.6
Loans and financing	(5,575.3)	(5,575.4)	(5,910.9)	(5,910.9)
Capital lease	(163.2)	(163.2)	(70.5)	(70.5)
Bonds BRF	(1,530.9)	(1,712.1)	(1,531.0)	(1,676.6)
Bonds BFF	(1,511.7)	(1,804.3)	(1,562.0)	(1,857.0)
Bonds Sadia	(515.6)	(586.0)	(514.4)	(594.9)
Trade accounts payable	(3,147.9)	(3,147.9)	(3,381.2)	(3,381.2)
Other financial assets	82.5	82.5	33.2	33.2
Other financial liabilities	(171.0)	(171.0)	(253.4)	(253.4)
	<u>(6,858.2)</u>	<u>(7,401.6)</u>	<u>(6,690.5)</u>	<u>(7,210.2)</u>



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4.4.2. *Fair value valuation hierarchy*

The table below depicts the overall classification of financial assets and liabilities according to the valuation hierarchy.

	03.31.13			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
<b>Financial assets</b>				
<b>Available for sale</b>				
Credit linked notes . . . . .	170.4	—	—	170.4
Brazilian foreign debt securities . . . . .	85.8	—	—	85.8
Stocks . . . . .	0.8	—	—	0.8
<b>Held for trading</b>				
Bank deposit certificates . . . . .	—	139.0	—	139.0
Treasury bills . . . . .	77.0	—	—	77.0
<b>Other financial assets</b>				
Derivatives designated as hedge . . . . .	—	81.9	—	81.9
Derivatives not designated as hedge . . . . .	—	0.6	—	0.6
	<u>334.0</u>	<u>221.5</u>	<u>—</u>	<u>555.5</u>
<b>Liabilities</b>				
<b>Financial liabilities</b>				
<b>Other financial liabilities</b>				
Derivatives designated as hedge . . . . .	—	(166.0)	—	(166.0)
Derivatives not designated as hedge . . . . .	—	(5.0)	—	(5.0)
	<u>—</u>	<u>(171.0)</u>	<u>—</u>	<u>(171.0)</u>

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	12.31.12			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
<b>Financial assets</b>				
<b>Available for sale</b>				
Credit linked notes .....	174.2	—	—	174.2
Brazilian foreign debt securities .....	89.0	—	—	89.0
Exclusive investment funds .....	9.2	—	—	9.2
Stocks .....	0.7	—	—	0.7
<b>Held for trading</b>				
Bank deposit certificates .....	—	180.2	—	180.2
Treasury bills .....	100.5	—	—	100.5
<b>Other financial assets</b>				
Derivatives designated as hedge .....	—	32.6	—	32.6
Derivatives not designated as hedge .....	—	0.6	—	0.6
	<u>373.6</u>	<u>213.4</u>	<u>—</u>	<u>587.0</u>
<b>Liabilities</b>				
<b>Financial liabilities</b>				
<b>Other financial liabilities</b>				
Derivatives designated as hedge .....	—	(247.0)	—	(247.0)
Derivatives not designated as hedge .....	—	(6.4)	—	(6.4)
	<u>—</u>	<u>(253.4)</u>	<u>—</u>	<u>(253.4)</u>

**4.5. Credit management**

On March 31, 2013, the Company held financial investments over R\$10,0 at the following financial institutions: Banco Bradesco, Banco do Brasil, Banco do Nordeste, Banco Itaú, Banco Safra, Banco Santander, Caixa Econômica Federal, Citibank, Credit Suisse, Deutsche Bank, Erste Bank, HSBC and JP Morgan.

The Company also held derivative contracts with the following financial institutions: ABN, Banco Bradesco, Banco BTG Pactual, Banco do Brasil, Banco Itaú, Banco Safra, Banco Santander, Banco Votorantim, Barclays, Citibank, Credit Suisse, Deutsche Bank, HSBC, ING Bank, JP Morgan, Morgan Stanley, Rabobank and Standard Bank.

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**4.6. Liquidity risk management**

Liquidity risk management aims to reduce the impacts caused by events which may affect the Company's cash flow performance.

The table below summarizes the commitments and contractual obligations that may impact the Company's liquidity as of March 31, 2013:

	<u>Book value</u>	<u>Cash flow contracted</u>	<u>Up to 9 months</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>After 5 years</u>
<b>Non derivatives financial liabilities</b>								
Loans and financing . . . . .	5,575.3	6,326.6	1,950.4	1,425.2	846.0	490.2	386.1	1,228.7
Bonds BRF . . . . .	1,530.9	2,353.1	88.7	88.7	88.7	88.7	88.7	1,909.6
Bonds BFF . . . . .	1,511.7	2,276.9	54.8	109.5	109.5	109.5	109.5	1,784.1
Bonds Sadia . . . . .	515.6	659.2	34.6	34.6	34.6	34.6	520.8	—
Trade accounts payable . . . . .	3,147.9	3,147.9	3,147.9	—	—	—	—	—
Financial lease payable(1) . . . . .	163.2	240.0	23.2	29.1	29.3	26.6	131.8	—
Operational lease . . . . .	—	294.1	45.2	54.7	32.1	28.6	38.9	94.6
<b>Derivatives financial liabilities</b>								
<b>Designated as hedge accounting</b>								
Interest rate and exchange rate derivatives . . . . .	164.1	178.8	3.6	53.0	32.4	31.8	31.9	26.2
Currency derivatives (NDF) . . . . .	1.7	(8.3)	(7.1)	(1.2)	—	—	—	—
Currency derivatives (options) . . . . .	0.2	0.2	0.2	—	—	—	—	—
<b>Not designated as hedge accounting</b>								
Interest rate and exchange rate derivatives . . . . .	4.7	(1.8)	(1.2)	(0.7)	0.2	—	—	—
Commodities derivatives . . . . .	0.3	0.3	0.3	—	—	—	—	—

(1) Does not comprise the financial leases contracted with financial institutions which are recorded as loans and financing.

**4.7. Commodity price risk management**

During the three month period ended March 31, 2013, the Company entered into agreements derivative instruments to mitigate the exposure of live cattle price variation.

The contracts are recorded at their fair value through the statement of income.

On March 31, 2013, the Company held a short position in the BM&F of 1,739 future contracts (636 contracts as of December 31, 2012) with maturity dates between May and December 2013.

In the counter market, the Company held a short position of 50 contracts with maturity dates during 2013. Additionally, through the options contracted, the Company held a short position of 700 allotments (450 allotments as of December 31, 2012).

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**4.8. Table of sensitivity analysis**

The Company has financing and loans and receivables denominated in foreign currency and in order to mitigate the risks resulting from exchange rate exposure it contracts and derivative financial instruments.

The Company understands that the current interest rate fluctuations do not significantly affect its financial results since it opted to change to fixed rate a considerable part of its floating interest rates debts by using derivative transactions (interest rates swaps). The Company designates such derivatives as hedge accounting and, therefore, the effectiveness is monitored through prospective and retrospective tests.

In the table presented below, five scenarios are considered for the next twelve-month period, considering the variations of the quote of the parity between the Brazilian Reais and U.S. Dollar, Brazilian Reais and Euro and Brazilian Reais and Pounds Sterling, whereas the most likely scenario is that one adopted by the Company. The total of export sales analyzed corresponds to the total of derivative financial instruments increased by the amortization flow of PPEs designated as hedge accounting.

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Parity — Brazilian Reals x U.S. Dollar	2.0138	1.8124	1.5104	2.5173	3.0207
Transaction/Instrument	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario V
Risk	<i>(probable) (10% appreciation) (25% appreciation) (25% devaluation) (50% devaluation)</i>				
NDF and Fixed exchange rate (hedge accounting) . . . . .	84.8	239.0	470.4	(300.9)	(686.5)
Options — currencies . . . . .	—	4.1	10.1	(4.2)	(9.2)
Pre payment export . . . . .	(82.1)	(9.0)	100.6	(264.8)	(447.6)
Bonds . . . . .	1.1	31.3	76.6	(74.4)	(149.9)
Swaps . . . . .	1.5	41.8	102.2	(99.2)	(199.9)
Exports . . . . .	(74.4)	(285.7)	(602.5)	447.8	970.8
<b>Net of tax effect . . . . .</b>	<b>(69.1)</b>	<b>21.5</b>	<b>157.4</b>	<b>(295.7)</b>	<b>(522.3)</b>
Statement of income . . . . .	—	—	—	—	—
Shareholders' equity . . . . .	(69.1)	21.5	157.4	(295.7)	(522.3)
<b>Parity — Brazilian Reals x Euro</b>	<b>2.5853</b>	<b>2.3268</b>	<b>1.9390</b>	<b>3.2316</b>	<b>3.8780</b>
Transaction/Instrument	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario V
Risk	<i>(probable) (10% appreciation) (25% appreciation) (25% devaluation) (50% devaluation)</i>				
NDF (hedge accounting) . . . . .	24.6	63.4	121.6	(72.3)	(169.3)
Exports . . . . .	(24.6)	(63.4)	(121.6)	72.3	169.3
<b>Net of tax effect . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Statement of income . . . . .	—	—	—	—	—
Shareholders' equity . . . . .	—	—	—	—	—
<b>Parity — Brazilian Reals x Pound Sterling</b>	<b>3.0574</b>	<b>2.7517</b>	<b>2.2931</b>	<b>3.8218</b>	<b>4.5861</b>
Transaction/Instrument	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario V
Risk	<i>(probable) (10% appreciation) (25% appreciation) (25% devaluation) (50% devaluation)</i>				
NDF (hedge accounting) . . . . .	12.3	25.5	45.4	(20.8)	(53.9)
Exports . . . . .	(12.3)	(25.5)	(45.4)	20.8	53.9
<b>Net of tax effect . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Statement of income . . . . .	—	—	—	—	—
Shareholders' equity . . . . .	—	—	—	—	—

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5. SEGMENT INFORMATION

The operating segments are reported consistently with Management's reports provided to Board of Directors and to its main executives for assessment of the performance of each reporting segment and determination of allocation of resources.

The segment information is prepared considering 4 reportable segments, as follows: domestic market, foreign market, dairy products and food service. The reportable segments identified primarily focus on division by sales channel and the criteria was detailed in note 5 of the financial statements for the year ended December 31, 2012.

The net sales for each reportable operating segment are presented below:

<u>Net sales</u>	<u>03.31.13</u>	<u>03.31.12</u>
<b>Domestic market</b>		
Poultry .....	392.9	273.0
Pork and beef .....	224.4	207.8
Processed products .....	1,586.0	1,640.1
Other processed products .....	643.3	677.9
Other .....	256.9	180.9
	<u>3,103.5</u>	<u>2,979.7</u>
<b>Foreign market</b>		
Poultry .....	2,039.6	1,538.2
Pork and beef .....	436.1	412.2
Processed products .....	550.3	363.3
Other processed products .....	63.4	45.4
Other .....	3.4	—
	<u>3,092.8</u>	<u>2,359.1</u>
<b>Dairy products</b>		
Milk .....	296.0	337.9
Dairy products and other beverages .....	351.6	307.6
	<u>647.6</u>	<u>645.5</u>
<b>Food service</b>		
Poultry .....	84.0	84.7
Pork and beef .....	55.0	53.4
Processed products .....	194.0	176.6
Other processed products .....	32.0	38.1
	<u>365.0</u>	<u>352.8</u>
	<u>7,208.9</u>	<u>6,337.1</u>

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The operating income for each reportable operating segment are presented below:

	<u>03.31.13</u>	<u>03.31.12</u>
<b>Operating income</b>		
Domestic market .....	<b>416.8</b>	284.2
Foreign market .....	<b>34.5</b>	(54.1)
Dairy products .....	<b>28.8</b>	(0.8)
Food service .....	<b>51.0</b>	38.8
	<u><b>531.1</b></u>	<u>268.1</u>

No individual customer or economic group represented more than 5% of the net sales for the three month period ended March 31, 2013 and 2012.

Net sales from exports were originated in the segments of the foreign market, dairy products and food service, as set forth below:

	<u>03.31.13</u>	<u>03.31.12</u>
<b>Export net sales per market</b>		
Foreign market .....	<b>3,092.8</b>	2,359.1
Dairy products .....	—	0.1
Food service .....	<b>46.6</b>	62.0
	<u><b>3,139.4</b></u>	<u>2,421.2</u>

Export net sales by region is presented below:

	<u>03.31.13</u>	<u>03.31.12</u>
<b>Export net sales per region</b>		
Europe .....	<b>416.6</b>	435.6
Far East .....	<b>608.5</b>	565.7
Middle East .....	<b>1,071.1</b>	735.1
Eurasia (including Russia) .....	<b>260.6</b>	164.6
America / Africa / Other .....	<b>782.6</b>	520.2
	<u><b>3,139.4</b></u>	<u>2,421.2</u>

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The goodwill originated from the expectation of future profitability, as well as the intangible assets with indefinite useful life (trademarks), were allocated to the reportable operating segments, taking into account the nature of the products manufactured in each segment (cash-generating unit). The allocation of intangible assets is presented below:

	Goodwill		Trademarks		Total	
	03.31.13	12.31.12	03.31.13	12.31.12	03.31.13	12.31.12
Domestic market	1,069.9	1,069.9	982.5	982.5	2,052.4	2,052.4
Foreign market	1,273.8	1,260.4	321.4	323.5	1,595.2	1,583.9
Dairy products	671.4	671.4	—	—	671.4	671.4
Food service	81.5	81.5	—	—	81.5	81.5
	<u>3,096.6</u>	<u>3,083.2</u>	<u>1,303.9</u>	<u>1,306.0</u>	<u>4,400.5</u>	<u>4,389.2</u>

Information referring to the total assets by reportable segments is not being disclosed, as it is not included in the set of information made available to the Company's Management, which make investment decisions and determine the allocation of assets on a consolidated basis.

## 6. CASH AND CASH EQUIVALENTS

	Average rate (% p.a.)	03.31.13	12.31.12
<b>Cash and bank accounts:</b>			
U.S. Dollar	—	54.2	81.8
Brazilian Reais	—	101.4	147.6
Euro	—	12.1	17.0
Other currencies		99.3	9.0
		<u>267.0</u>	<u>255.4</u>
<b>Highly liquid investments:</b>			
In Brazilian Reais:			
Investment funds	7.89%	13.8	13.6
Bank deposit certificates	7.00%	220.1	630.4
		<u>233.9</u>	<u>644.0</u>
In U.S. Dollar:			
Interest bearing account	0.05%	108.9	359.4
Fixed term deposit	0.57%	423.1	306.7
Overnight	0.13%	220.7	180.3
In Euro:			
Interest bearing account	0.13%	71.3	122.3
Fixed term deposit	1.20%	2.8	4.9
Other currencies:			
Interest bearing account	0.01%	48.6	54.2
Fixed term deposit	5.30%	5.0	3.5
		<u>880.4</u>	<u>1,031.3</u>
		<u>1,381.3</u>	<u>1,930.7</u>



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**7. MARKETABLE SECURITIES**

	<u>WATM(1)</u>	<u>Currency</u>	<u>Average interest rate (% p.a.)</u>	<u>03.31.13</u>	<u>12.31.12</u>
<b>Available for sale</b>					
Credit linked note . . . . .	5.94	US\$	4.78%	<b>170.4</b>	174.2
Brazilian foreign debt securities . . . . .	1.20	US\$	2.91%	<b>85.8</b>	89.0
Stocks . . . . .	—	R\$	—	<b>0.8</b>	0.7
Exclusive investment funds . . . . .	—	US\$	—	<b>—</b>	9.2
				<u><b>257.0</b></u>	<u>273.1</u>
<b>Held for trading</b>					
Bank deposit certificates . . . . .	2.82	R\$	7.01%	<b>139.0</b>	180.2
Treasury bills . . . . .	1.12	R\$	7.16%	<b>77.0</b>	100.5
				<u><b>216.0</b></u>	<u>280.7</u>
<b>Held to maturity</b>					
Credit linked note . . . . .	0.50	US\$	4.78%	<b>67.2</b>	90.9
Treasury bills . . . . .	4.50	R\$	7.16%	<b>52.5</b>	51.7
				<u><b>119.7</b></u>	<u>142.6</u>
				<u><b>592.7</b></u>	<u>696.4</u>
Current . . . . .				<b>540.1</b>	621.9
Non-current . . . . .				<b>52.6</b>	74.5

(1) Weighted average maturity in years.

There were no changes in the characteristics of marketable securities disclosed above, compared to the information disclosed in the financial statements for the year ended December 31, 2012 (note 8).

The unrealized gain resulted from the change in the fair value of the available for sale marketable securities, recorded in shareholders' equity, corresponds to the accumulated amount of R\$17.3 (R\$18.2 as of December 31, 2012), net of income tax of R\$0.3 (R\$0.4 as of December 31, 2012).

Additionally, on March 31, 2013, R\$76.9 of the total of marketable securities, were pledged as collateral for futures contract operations in U.S. Dollars and live cattle, traded on the Futures and Commodities Exchange ("BM&F") (R\$97.3 as of December 31, 2012).

On March 31, 2013, the maturities of the non-current balance of marketable securities is as follows:

<b>Maturities</b>	
2017 . . . . .	<u>52.6</u>
	<u><b>52.6</b></u>

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The Company conducted an analysis of sensitivity to foreign exchange rate as presented in note 4.8.

8. TRADE ACCOUNTS RECEIVABLE, NET AND OTHER RECEIVABLES	<u>03.31.13</u>	<u>12.31.12</u>
<b>Current</b>		
Domestic customers .....	1,436.4	1,568.4
Foreign customers .....	1,471.4	1,603.9
Foreign costumers related parties .....	124.0	—
( - ) Estimated losses on doubtful accounts .....	<u>(36.1)</u>	<u>(41.1)</u>
	<u>2,995.7</u>	<u>3,131.2</u>
Other receivables .....	<u>68.1</u>	<u>77.4</u>
	<u>68.1</u>	<u>77.4</u>
	<u>3,063.8</u>	<u>3,208.6</u>
<b>Non-current</b>		
Domestic customers .....	92.8	90.6
Foreign customers .....	2.6	2.6
( - ) Adjustment to present value .....	(0.2)	(0.2)
( - ) Estimated losses on doubtful accounts .....	<u>(84.2)</u>	<u>(81.9)</u>
	<u>11.0</u>	<u>11.1</u>
Other receivables .....	<u>137.2</u>	<u>152.3</u>
	<u>137.2</u>	<u>152.3</u>
	<u>148.2</u>	<u>163.4</u>

The trade accounts receivable involving related parties refers to transactions with the affiliated companies Federal Foods and Rising Star.

The rollforward of estimated losses on doubtful accounts is presented below:

	<u>12.31.12</u>	<u>Additions</u>	<u>Reversals</u>	<u>Write-offs</u>	<u>Exchange rate variation</u>	<u>03.31.13</u>
Estimated losses on doubtful accounts .....	<u>123.0</u>	<u>21.2</u>	<u>(16.4)</u>	<u>(6.1)</u>	<u>(1.4)</u>	<u>120.3</u>
	<u>123.0</u>	<u>21.2</u>	<u>(16.4)</u>	<u>(6.1)</u>	<u>(1.4)</u>	<u>120.3</u>

The breakdown by maturity of overdue amounts which were not included in the estimated losses on doubtful accounts is set forth below:

	<u>03.31.13</u>	<u>12.31.12</u>
91 to 120 days .....	<u>0.5</u>	<u>5.5</u>
121 to 180 days .....	<u>0.6</u>	<u>4.2</u>
181 to 360 days .....	<u>2.8</u>	<u>8.0</u>
More than 361 days .....	<u>0.6</u>	<u>0.7</u>
	<u>4.5</u>	<u>18.4</u>

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The receivables excluded from estimated losses on doubtful accounts are secured by letters of credit issued by financial institutions and credit insurance from insurance companies.

The breakdown of accounts receivable by maturity is as follows:

	<u>03.31.13</u>	<u>12.31.12</u>
Current .....	2,768.4	3,040.2
<b>Overdue:</b>		
01 to 60 days .....	226.5	83.7
61 to 90 days .....	7.8	9.6
91 to 120 days .....	9.1	9.6
121 to 180 days .....	8.0	12.5
181 to 360 days .....	13.9	15.7
More than 361 days .....	93.5	94.2
( - ) Adjustment to present value .....	(0.2)	(0.2)
( - ) Estimated losses on doubtful accounts .....	(120.3)	(123.0)
	<u>3,006.7</u>	<u>3,142.3</u>

**9. INVENTORIES**

	<u>03.31.13</u>	<u>12.31.12</u>
Finished goods .....	2,127.0	1,799.5
Goods for resale .....	24.3	24.6
Work in process .....	150.6	147.0
Raw materials .....	410.2	427.9
Packaging materials .....	78.8	84.2
Secondary materials .....	196.3	204.5
Spare parts .....	114.6	110.8
Goods in transit .....	14.1	152.1
Imports in transit .....	65.8	57.9
Advances to suppliers .....	10.0	10.1
	<u>3,191.7</u>	<u>3,018.6</u>

The transfers of products sold from inventories to cost of sales during the three month period ended March 31, 2013 totaled R\$5,512.0 (R\$4,993.6 as of March 31, 2012). Such amounts include the additions and reversals of inventory provisions presented in the table below:

	<u>12.31.12</u>	<u>Additions</u>	<u>Reversals</u>	<u>Write-offs</u>	<u>Exchange rate variation</u>	<u>03.31.13</u>
Provision for losses to the disposable value .....	(14.9)	(4.0)	4.5	—	(0.3)	(14.7)
Provision for deterioration .....	(21.7)	(5.2)	—	5.6	—	(21.3)
Provision for obsolescence .....	(1.6)	(0.4)	—	—	—	(2.0)
	<u>(38.2)</u>	<u>(9.6)</u>	<u>4.5</u>	<u>5.6</u>	<u>(0.3)</u>	<u>(38.0)</u>

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Additionally, during the three month period ended March 31, 2013, there were write-offs of inventories in the amount of R\$10.6 (R\$13.7 as of March 31, 2012), relating to deteriorated items, which have been charged to the statement of income directly.

Management expects inventories to be recovered in a period less than 12 months.

On March 31, 2013, R\$44.8 of the total balance of inventories was pledged as collateral for rural credit operations (R\$50.0 as of December 31, 2012).

**10. BIOLOGICAL ASSETS**

The biological assets of the Company comprise living animals which are segregated by the categories: poultry, pork and cattle. In addition, these categories are separated into consumable and for production.

In Management's opinion, the fair value of the biological assets is substantially represented by the cost of formation, mainly due to the short life cycle of the animals and to the fact that a significant portion of the profitability of the Company's products derives from the manufacturing process and not from obtaining in natura meat (raw materials at slaughtering point). This opinion is supported by a fair value appraisal report prepared by an independent appraiser in 2012, which presented an insignificant difference between the two methodologies. Therefore, biological assets are recorded at formation cost.

During the three month period ended March 31, 2013, Management did not identify any event that could impact the Company's business model or the assumptions utilized in the analysis performed in 2012.

The quantities and accounting balances per category of biological assets are presented below:

	<u>03.31.13</u>		<u>12.31.12</u>	
	<u>Quantity</u>	<u>Value</u>	<u>Quantity</u>	<u>Value</u>
<b>Consumable biological assets</b>				
Immature poultry .....	<b>206.9</b>	<b>567.5</b>	208.7	596.6
Immature pork .....	<b>3.4</b>	<b>626.2</b>	3.5	627.8
Immature cattle .....	<b>0.1</b>	<b>125.2</b>	0.1	146.6
<b>Total current</b> .....	<b><u>210.4</u></b>	<b><u>1,318.9</u></b>	<u>212.3</u>	<u>1,371.0</u>
<b>Production biological assets</b>				
Immature poultry .....	<b>7.5</b>	<b>101.7</b>	7.8	110.4
Mature poultry .....	<b>11.4</b>	<b>153.5</b>	11.0	139.4
Immature pork .....	<b>0.1</b>	<b>32.9</b>	0.2	32.4
Mature pork .....	<b>0.4</b>	<b>151.9</b>	0.4	146.0
<b>Total non-current</b> .....	<b><u>19.4</u></b>	<b><u>440.0</u></b>	<u>19.4</u>	<u>428.2</u>
	<b><u>229.8</u></b>	<b><u>1,758.9</u></b>	<u>231.7</u>	<u>1,799.2</u>

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The rollforward of biological assets for the period is presented below:

	Current				Non-current		
	Poultry	Pork	Cattle	Total	Poultry	Pork	Total
<b>Balance as of 12.31.12</b> .....	596.6	627.8	146.6	1,371.0	249.8	178.4	428.2
Increase due to acquisition .....	36.5	255.0	53.2	344.7	6.0	24.7	30.7
Increase due to reproduction, consumption of animal feed, medication and remuneration of animal outgrowers .....	1,199.2	339.3	3.0	1,541.5	87.8	2.9	90.7
Depreciation .....	—	—	—	—	(78.5)	(7.9)	(86.4)
Transfer between current and non-current ....	9.9	13.3	—	23.2	(9.9)	(13.3)	(23.2)
Reduction due to slaughtering .....	(1,274.7)	(609.2)	(77.6)	(1,961.5)	—	—	—
<b>Balance as of 03.31.13</b> .....	<u>567.5</u>	<u>626.2</u>	<u>125.2</u>	<u>1,318.9</u>	<u>255.2</u>	<u>184.8</u>	<u>440.0</u>

The costs of breeding animals are depreciated using the straight-line method for a period from 15 to 30 months.

**11. RECOVERABLE TAXES**

	03.31.13	12.31.12
State ICMS (“VAT”) .....	1,026.0	966.9
PIS and COFINS (“Federal Taxes to Social Fund Programs”) .....	820.8	890.6
Withholding income and social contribution tax .....	262.4	277.8
IPI (“Federal VAT”) .....	59.4	58.7
Other .....	93.6	84.9
( - ) Allowance for losses .....	(205.6)	(172.3)
	<u>2,056.6</u>	<u>2,106.6</u>
Current .....	918.6	964.8
Non-current .....	1,138.0	1,141.8

The balance decrease during the quarter is mainly due to the realization of credits of PIS and COFINS through compensation against other federal taxes.

The rollforward of the allowance for losses is presented below:

	12.31.12	Additions	03.31.13
State ICMS (“VAT”) .....	(145.9)	(33.2)	(179.1)
PIS and COFINS (“Federal Taxes to Social Fund Programs”) .....	(10.3)	—	(10.3)
IPI (“Federal VAT”) .....	(14.7)	—	(14.7)
Other .....	(1.5)	—	(1.5)
	<u>(172.4)</u>	<u>(33.2)</u>	<u>(205.6)</u>

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12. INCOME TAX AND SOCIAL CONTRIBUTION

12.1. *Deferred income tax and social contribution composition*

	<u>03.31.13</u>	<u>12.31.12</u>
<b>Assets:</b>		
Tax loss carryforwards (corporate income tax) . . . . .	651.4	670.4
Valuation allowance for tax losses . . . . .	(0.3)	(0.3)
Negative calculation basis (social contribution tax) . . . . .	245.3	252.4
Allowance for negative calculation basis losses . . . . .	(0.1)	(0.1)
Estimated annual effective tax rate . . . . .	85.9	—
<b>Assets temporary differences:</b>		
Provisions for tax, civil and labor risk . . . . .	118.6	115.5
Suspended collection taxes . . . . .	54.9	51.3
Provision for estimated losses on doubtful accounts . . . . .	9.2	10.7
Provision for property, plant and equipment losses . . . . .	5.1	3.3
Provision for tax credits realization . . . . .	72.4	60.9
Provision for other obligations . . . . .	37.6	29.7
Employees' profit sharing . . . . .	21.4	25.0
Provision for inventory losses . . . . .	10.6	10.9
Employees' benefits plan . . . . .	106.2	103.3
Amortization on fair value of business combination . . . . .	4.3	5.4
Business combination — Sadia . . . . .	817.9	817.9
Unrealized losses on derivatives . . . . .	1.1	45.0
Unrealized losses on inventories . . . . .	0.3	2.6
Adjustments relating to the transition tax regime . . . . .	55.2	143.6
Provision for losses . . . . .	13.8	14.7
Other temporary differences . . . . .	21.8	53.3
	<u>2,332.6</u>	<u>2,415.5</u>
<b>Liabilities temporary differences:</b>		
Business combination — Sadia and Quickfood . . . . .	(924.2)	(990.0)
Adjustments relating to the transition tax regime . . . . .	(718.9)	(677.1)
Other temporary differences . . . . .	(19.8)	(23.5)
	<u>(1,662.9)</u>	<u>(1,690.6)</u>
<b>Total deferred tax legally enforceable</b>	<b>669.7</b>	<b>724.9</b>
Business combination — Dánica and Avex . . . . .	(25.1)	(27.8)
<b>Total deferred tax</b>	<b>644.6</b>	<b>697.1</b>

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Certain subsidiaries of the Company have tax losses carryforwards and negative basis of social contribution of R\$19.7 and R\$19.6, respectively (R\$19.6 and R\$19.5 as of December 31, 2012), for which the Company have not recorded a deferred tax asset. If there was an expectation that such tax credits would be realized, the amount to be recognized in the balance sheet would be R\$6.7 (R\$6.7 as of December 31, 2012).

*12.2. Estimated time of realization*

Deferred tax assets arising from temporary differences will be realized as they are settled or realized. The period of the settlement or realization of such differences would not be properly estimated and is tied to several factors that are not under control of the management.

Management estimates that the deferred tax assets originated from tax losses carry forwards and negative basis of social contribution are expected to be realized as set forth below:

2013 .....	32.4
2014 .....	44.3
2015 .....	54.8
2016 .....	64.7
2017 .....	77.8
2018-2020 .....	340.3
2021-2022 .....	<u>282.0</u>
	<u>896.3</u>

When assessing the likelihood of the realization of deferred tax assets, Management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible.

Management considers the scheduled reversal of deferred tax liabilities, projected taxable income and tax-planning strategies when performing this assessment. Based on the level of historical taxable income and projections for future taxable income, Management believes that it is more likely than not that the Company will realize the benefits of these deductible differences. However, the amount of deferred tax asset could be impacted if estimates of future taxable income during the carryforward period are reduced.

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The rollforward of the deferred tax assets is set forth below:

	<u>12.31.12</u>	<u>Rollforward</u>	<u>Reclassification(1)</u>	<u>Exchange rate variation</u>	<u>03.31.13</u>
Tax loss carryforwards (corporate income tax) .....	670.2	(19.0)	—	—	651.2
Negative calculation basis (social contribution tax) ..	252.3	(7.1)	—	—	245.2
Temporary differences .....	(25.7)	(180.5)	—	—	(206.2)
Estimated annual effective tax rate .....	—	85.9	—	—	85.9
Deferred income tax on other comprehensive income .....	(91.0)	47.0	—	—	(44.0)
Business combination — Sadia and Quickfood .....	(172.2)	62.6	3.2	—	(106.4)
Business combination — Avex e Danica .....	(27.4)	0.8	—	1.5	(25.1)
Other adjustments .....	—	1.0	—	(1.0)	—
	<u><b>606.2</b></u>	<u><b>(9.3)</b></u>	<u><b>3.2</b></u>	<u><b>0.5</b></u>	<u><b>600.6</b></u>

(1) Refers to the reclassification of the allocation of R\$3.2 from intangible assets to deferred income tax due to the business combination of Quickfood.

**12.3. Income and social contribution taxes reconciliation**

	<u>03.31.13</u>	<u>03.31.12</u>
Income before taxes .....	<b>429.3</b>	193.1
<b>Nominal tax rate</b> .....	<b>34.00%</b>	34.00%
<b>Tax expense at nominal rate</b> .....	<b>(146.0)</b>	(65.7)
Adjustments of taxes and contributions on:		
Equity interest in income of affiliates .....	<b>2.4</b>	1.9
Exchange rate variation on foreign investments .....	<b>(21.6)</b>	(15.1)
Difference of tax rates on earnings from foreign subsidiaries .....	<b>(4.1)</b>	(47.2)
Results from foreign subsidiaries .....	<b>(0.6)</b>	(0.4)
Profit sharing .....	<b>(1.1)</b>	(0.7)
Donations .....	<b>(0.5)</b>	(0.5)
Penalties .....	<b>0.1</b>	(4.1)
Investment grant .....	<b>9.6</b>	3.5
Estimated annual effective tax rate .....	<b>85.9</b>	89.5
Other adjustments .....	<b>2.9</b>	(1.4)
	<u><b>(73.0)</b></u>	<u><b>(40.2)</b></u>
Current income tax .....	<b>(63.7)</b>	(38.2)
Deferred income tax .....	<b>(9.3)</b>	(2.0)



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The taxable income, current and deferred income tax from foreign subsidiaries is set forth below:

	<u>03.31.13</u>	<u>03.31.12</u>
Taxable income from foreign subsidiaries .....	<b>(42.5)</b>	(153.8)
Current income taxes expense from foreign subsidiaries .....	<b>1.1</b>	3.3
Deferred income taxes benefit from foreign subsidiaries .....	<b>4.1</b>	(0.1)

The Company determined that the total profit accounted for by holdings of their foreign wholly-owned subsidiaries will not be redistributed. Such resources will be used for investments in the subsidiaries, and thus no deferred income tax was recognized. The total of undistributed earnings corresponds to R\$1,273.4 as of March 31, 2013 (R\$2,223.4 as of December 31, 2012).

**13. JUDICIAL DEPOSITS**

The rollforward of the judicial deposits is set forth below:

	<u>12.31.12</u>	<u>Additions</u>	<u>Reversals</u>	<u>Write-offs</u>	<u>Price index update</u>	<u>03.31.13</u>
Tax(1) .....	240.6	8.8	(0.4)	(0.4)	2.6	<b>251.2</b>
Labor .....	93.5	16.8	(0.8)	(3.8)	0.7	<b>106.4</b>
Civil, commercial and other .....	31.2	1.7	(1.0)	—	—	<b>31.9</b>
	<u><b>365.3</b></u>	<u><b>27.3</b></u>	<u><b>(2.2)</b></u>	<u><b>(4.2)</b></u>	<u><b>3.3</b></u>	<u><b>389.5</b></u>

(1) The additions are mainly represented by judicial deposits related to tax question of VAT for certain products sold in the state of origin of R\$8.2.

**14. RESTRICTED CASH**

	<u>WATM(1)</u>	<u>Currency</u>	<u>Average interest rate (% p.a.)</u>	<u>03.31.13</u>	<u>12.31.12</u>
Guarantee deposit .....	1.78	US\$	0.22	<b>8.4</b>	9.1
National treasury certificates .....	7.02	R\$	19.78	<b>87.5</b>	83.9
				<u><b>95.9</b></u>	<u>93.0</u>

(1) Weighted average maturity term (in years).

The guarantee deposit above relates to financial debt of the subsidiary Quickfood with Rabobank.

The national treasury certificates classified as held to maturity are pledged as collateral for the loan obtained through the Special Program Asset Restructuring (“PESA”), see note 18.

**15. INVESTMENTS**

**15.1. Investments breakdown**

	<u>03.31.13</u>	<u>12.31.12</u>
Investment in affiliates .....	<b>102.7</b>	34.7
Other investments .....	<b>2.2</b>	2.0
	<u><b>104.9</b></u>	<u>36.7</u>



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16. PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment rollforward is set forth below:

	Weighted average depreciation rate (% p.a.)	12.31.12	Additions	Disposals	Transfers	Transfers to held for sale	Exchange rate variation	03.31.13
<b>Cost</b>								
Land .....	—	618.8	16.5	—	1.2	—	(1.3)	<b>635.2</b>
Buildings and improvements .....	—	4,966.8	118.4	(3.9)	101.2	—	(5.9)	<b>5,176.6</b>
Machinery and equipment .....	—	6,033.7	5.0	(19.4)	159.3	(1.0)	(23.0)	<b>6,154.6</b>
Facilities .....	—	1,446.3	1.7	(3.6)	30.3	—	(7.5)	<b>1,467.2</b>
Furniture .....	—	95.5	0.9	(1.3)	8.8	—	(2.3)	<b>101.6</b>
Vehicles and aircrafts .....	—	160.9	0.1	(0.7)	7.7	(0.6)	(0.5)	<b>166.9</b>
Other .....	—	223.2	1.2	(0.3)	15.4	—	2.2	<b>241.7</b>
Construction in progress .....	—	877.9	255.5	(0.1)	(301.0)	—	2.5	<b>834.8</b>
Advances to suppliers .....	—	60.5	19.7	—	(32.2)	—	(0.2)	<b>47.8</b>
		<b>14,483.6</b>	<b>419.0</b>	<b>(29.3)</b>	<b>(9.3)</b>	<b>(1.6)</b>	<b>(36.0)</b>	<b>14,826.4</b>
<b>Depreciation</b>								
Buildings and improvements .....	3.03	(1,179.8)	(32.4)	0.9	(13.6)	—	1.9	<b>(1,223.0)</b>
Machinery and equipment .....	5.86	(2,093.0)	(87.6)	9.5	4.0	0.4	9.3	<b>(2,157.4)</b>
Facilities .....	3.84	(389.3)	(15.2)	0.5	(2.2)	—	0.3	<b>(405.9)</b>
Furniture .....	8.03	(42.2)	(2.1)	1.3	(2.3)	—	0.2	<b>(45.1)</b>
Vehicles and aircrafts .....	15.05	(44.0)	(6.3)	0.2	14.2	0.6	0.3	<b>(35.0)</b>
Other .....	3.51	(55.4)	(3.9)	0.3	(0.1)	—	0.2	<b>(58.9)</b>
		<b>(3,803.7)</b>	<b>(147.5)</b>	<b>12.7</b>	<b>—</b>	<b>1.0</b>	<b>12.2</b>	<b>(3,925.3)</b>
Provision for losses .....		<b>(9.2)</b>	<b>(5.7)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(14.9)</b>
		<b>10,670.7</b>	<b>265.8</b>	<b>(16.6)</b>	<b>(9.3)(1)</b>	<b>(0.6)</b>	<b>(23.8)</b>	<b>10,886.2</b>

(1) Net transfer to intangible assets in the amount of R\$4.6 (note 17) and net transfer to other rights relating to employees' housing program in the amount of R\$4.7.

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The Company classifies its investments in the following categories:

- (i) growth: refers to projects that result in increase of revenue through expansion of operational capacity;
- (ii) efficiency: refers to projects focus on increase operating income with no impact on the production volume; and
- (iii) support: refers to projects focus on compliance with quality standards, safety or continuity of operations, not considering economic returns.

The acquisitions during the three month period ended March 31, 2013 are substantially represented by construction in progress in the total amount of R\$255.5 and buildings and improvements of R\$118.4 which are mainly comprised of:

**Growth**

Expansion of productive capacity of cooked sausages, frankfurters, sausage, frozen prepared entrees, cooked meals, pizzas and smoked products of the industrial units located in the cities of Lucas do Rio Verde (MT), Videira (SC), Ponta Grossa (PR), Capinzal (SC), Tatuí (SP) and Uberlândia (MG) . . . . .	39.8
Construction of a new margarine plant in the city of Vitória de Santo Antão (PE) . . . . .	31.6
Construction of a new cheese factory in the city of Três de Maio (RS) . . . . .	25.0
Construction of a new UHT plant in the city of Barra do Pirai (RJ) . . . . .	12.2
Expansion of slaughterhouse of industrial units located in the cities of Rio Verde (GO), Nova Mutum (MT) and Lucas do Rio Verde (MT) . . . . .	10.8
Construction of a distribution center in the city of Rio de Janeiro (RJ) . . . . .	<u>3.8</u>
	<b>123.2</b>

**Efficiency**

Automation of poultry production (gutting and deboning) in the cities of Carambeí (PR), Chapecó (SC), Lajeado (RS) and Várzea Grande (MT) . . . . .	33.6
Automation of production of yogurt, pizzas, ready meals and sandwiches in the city of Carambeí (PR) . . . . .	10.3
Adequacy of the production of raw materials (condiment) in the city of Concórdia (SC) . . . . .	3.1
Automation of poultry packaging in the city of Chapecó (SC) . . . . .	1.9
Improvement in the production of breeding stock (aiming the animal welfare) in the city of Uberlândia (MG) . . . . .	0.9
Expansion of the receiving grain process in the city of Dourados (MS) . . . . .	0.6
Automation of pork leg deboning process in the city of Lucas do Rio Verde (MT) . . . . .	<u>0.6</u>
	<b>51.0</b>

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**Support**

Formation of forests to generate stocks of firewood for the boilers .....	8.0
Construction of houses for employees — 270 units in the city of Nova Mutum (MT) and 280 units in the city of Mineiros (GO) .....	5.9
Compliance with the safety requirements from regulatory norm in the boiler operations, electrical facilities, freight elevators and logistics warehouse in the units located in the cities of Várzea Grande (MT), Concórdia (SC), Uberlândia (MG), Paranaguá (PR) and Embu (SP) .....	4.4
Adequacy of pork slaughtering facilities in the city of Toledo (PR) .....	4.2
Construction of a technology center in the city of Jundiá (SP) .....	2.3
Implementation of information systems in foreign units .....	1.9
Adequacy of cereal receiving facilities in the city of Arroio do Meio (RS) .....	<u>1.0</u>
	<b>27.7</b>
<b>Financial lease(1)</b>	<b>132.1</b>

(1) See note 21.1.

The disposals are mainly related to obsolete items in the total amount of R\$5.0 and replaced assets in the amount of R\$4.9, recorded within other operating results.

The Company has fully depreciated items that are still in operation, which are set forth below:

	<u>03.31.13</u>	<u>12.31.12</u>
<b>Cost</b>		
Buildings and improvements .....	<b>118.8</b>	118.0
Machinery and equipment .....	<b>574.1</b>	555.3
Facilities .....	<b>70.9</b>	70.9
Furniture .....	<b>17.4</b>	16.0
Vehicles and aircrafts .....	<b>4.4</b>	3.5
Others .....	<u><b>25.8</b></u>	<u>19.1</u>
	<u><b>811.4</b></u>	<u>782.8</u>

During the three month period ended March 31, 2013, the Company capitalized interest in the amount of R\$11.9 (R\$10.7 as of March 31, 2012). The weighted interest rate utilized to determine the capitalized amount was 8.08% p.a. (6.89% p.a. as of March 31, 2012).

On March 31, 2013, the Company had no commitments assumed related to acquisition and/or construction of properties, except for those disclosed in note 18, item 18.3.

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The property, plant and equipment that are held as collateral for transactions of different natures are presented below:

		<u>03.31.13</u>	<u>12.31.12</u>
	<u>Type of collateral</u>	<u>Book value of the collateral</u>	<u>Book value of the collateral</u>
Land .....	Financial/Labor/Tax/Civil	<b>354.9</b>	355.9
Buildings and improvements .....	Financial/Labor/Tax/Civil	<b>1,735.5</b>	1,735.4
Machinery and equipment .....	Financial/Labor/Tax	<b>2,115.5</b>	2,104.1
Facilities .....	Financial/Labor/Tax	<b>638.5</b>	638.5
Furniture .....	Financial/Labor/Tax/Civil	<b>20.1</b>	18.6
Vehicles and aircrafts .....	Financial/Tax	<b>1.3</b>	1.6
Others .....	Financial/Labor/Tax/Civil	<b>79.9</b>	73.6
		<u><b>4,945.7</b></u>	<u>4,927.7</u>

The Company is not allowed to designate these assets as collateral for other transactions or to sell them.

**17. INTANGIBLES**

Intangible assets are comprised of the following items:

	<u>Weighted average amortization rate (% p.a.)</u>	<u>Cost</u>	<u>Accumulated amortization</u>	<u>03.31.13</u>	<u>12.31.12</u>
Non-compete agreement .....	2.44	0.4	(0.1)	0.3	0.4
Goodwill .....	—	3,096.6	—	3,096.6	3,083.4
Exclusivity agreement .....	100.00	0.5	(0.3)	0.2	0.5
Outgrowers fidelization .....	12.50	18.6	(3.0)	15.6	16.6
Trademarks .....	—	1,303.9	—	1,303.9	1,305.9
Patents .....	17.45	5.1	(1.3)	3.8	3.9
Customer relationship .....	7.71	181.2	(3.3)	177.9	181.8
Supplier relationship .....	42.00	137.0	(134.1)	2.9	4.7
Software .....	20.00	286.8	(132.7)	154.1	154.5
		<u><b>5,030.1</b></u>	<u><b>(274.8)</b></u>	<u><b>4,755.3</b></u>	<u><b>4,751.7</b></u>

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The intangible assets rollforward is set forth below:

	12.31.12	Additions	Write-offs	Transfers(1)	Exchange rate variation	03.31.13
<b>Cost:</b>						
<b>Goodwill:</b>	3,083.3	20.3	—	(3.2)	(3.8)	3,096.6
Ava	49.4	—	—	—	—	49.4
Avex	38.0	—	—	—	(2.1)	35.9
Batavia	133.2	—	—	—	—	133.2
Cotochés	39.6	—	—	—	—	39.6
Dánica	10.1	—	—	—	(1.0)	9.1
Eleva Alimentos	1,273.3	—	—	—	—	1,273.3
Federal Foods	—	20.3	—	—	—	20.3
Heloísa	33.5	—	—	—	—	33.5
Incubatório Paraíso	0.6	—	—	—	—	0.6
Paraíso Agroindustrial	16.8	—	—	—	—	16.8
Perdigão Mato Grosso	7.6	—	—	—	—	7.6
Plusfood	17.6	—	—	—	(0.7)	16.9
Quickfood	249.5	—	—	(3.2)	—	246.3
Sadia	1,214.1	—	—	—	—	1,214.1
Non-compete agreement	0.4	—	—	—	—	0.4
Exclusivity agreement	0.6	—	—	—	(0.1)	0.5
Outgrowers fidelization	18.8	0.4	—	—	(0.6)	18.6
Trademarks	1,305.9	—	—	—	(2.0)	1,303.9
Patents	5.1	—	—	—	—	5.1
Customer relationship	182.5	—	—	—	(1.4)	181.1
Supplier relationship	137.0	—	—	—	—	137.0
Software	337.0	7.7	(60.9)	4.6	(1.5)	286.9
	<u>5,070.6</u>	<u>28.4</u>	<u>(60.9)</u>	<u>1.4</u>	<u>(9.4)</u>	<u>5,030.1</u>
<b>Amortization:</b>						
Non-compete agreement	(0.1)	—	—	—	—	(0.1)
Exclusivity agreement	(0.2)	(0.1)	—	—	—	(0.3)
Outgrowers fidelization	(2.1)	(1.0)	—	—	0.1	(3.0)
Patents	(1.2)	(0.1)	—	—	—	(1.3)
Customer relationship	(0.7)	(2.7)	—	—	0.1	(3.3)
Supplier relationship	(132.2)	(1.9)	—	—	—	(134.1)
Software	(182.4)	(10.8)	60.4	—	0.1	(132.7)
	<u>(318.9)</u>	<u>(16.6)</u>	<u>60.4</u>	<u>—</u>	<u>0.3</u>	<u>(274.8)</u>
	<u>4,751.7</u>	<u>11.8</u>	<u>(0.5)</u>	<u>1.4</u>	<u>(9.1)</u>	<u>4,755.3</u>

(1) Refers to the reclassification of allocation of intangible assets to deferred tax due to the acquisition of Quickfood.

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For the three month period ended March 31, 2013, Management did not identify any event that could indicate an impairment of such assets.

18. LOANS AND FINANCING

	Charges (% p.a.)	Weighted average interest rate (% p.a.)	WAMT(1)	Current	Non-current	03.31.13	12.31.12
<b>Local currency</b>							
BNDES, FINEM, development bank credit lines, other secured debts and financial lease . . . . .	FIXED RATE + TJLP + 4.23% (FIXED RATE + TJLP + 4.13% on 12.31.12)	6.96% (7.28% on 12.31.12)	2.7	378.6	911.2	<b>1,289.8</b>	1,390.6
Export credit facility . . . . .	102.21% CDI + TJLP + 3.80% (102.21% CDI + TJLP + 3.80% on 12.31.12)	7.69% (7.91% on 12.31.12)	1.7	349.0	700.0	<b>1,049.0</b>	1,048.1
Working capital . . . . .	5.58% (5.66% on 12.31.12)	5.58% (5.66% on 12.31.12)	0.5	1,298.4	1.5	<b>1,299.9</b>	1,244.8
Fiscal incentives . . . . .	FIXED RATE + IGPM + 1.42% (FIXED RATE + IGPM + 1.22% on 12.31.12)	1.97% (1.89% on 12.31.12)	12.3	—	15.0	<b>15.0</b>	12.4
PESA . . . . .	IGPM + 4.90% (IGPM + 4.90% on 12.31.12)	12.68% (12.46% on 12.31.12)	7.0	0.8	193.5	<b>194.3</b>	193.9
				<u>2,026.8</u>	<u>1,821.2</u>	<u>3,848.0</u>	<u>3,889.8</u>
<b>Foreign currency</b>							
BNDES, FINEM, development bank credit lines, other secured debts and financial lease . . . . .	UMBNDDES + 2.14% (UMBNDDES + 2.15% on 12.31.12) e.r. (US\$ and other currencies)	5.99% (6.08% on 12.31.12) e.r. (US\$ and other currencies)	1.4	42.1	49.4	<b>91.5</b>	109.5
Export credit facility . . . . .	LIBOR + FIXED RATE + CDI + 2.49% (LIBOR + FIXED RATE + CDI + 2.36% on 12.31.12) e.r. (US\$ and other currencies)	3.24% (3.28% on 12.31.12) e.r. (US\$ and other currencies)	3.4	303.1	1,229.1	<b>1,532.2</b>	1,691.6
Advances for foreign exchange rate contracts . . . . .	(0.62% + e.r. US\$ on 12.31.12)	(0.62% + e.r. US\$ on 12.31.12)	—	—	—	—	102.2
Working capital . . . . .	19.03% (21.25% on 12.31.12) e.r. ARS	19.03% (21.25% on 12.31.12) e.r. ARS	0.6	88.0	15.6	<b>103.6</b>	117.8
Bonds . . . . .	7.20% (7.20% on 12.31.12) e.r. US\$	7.20% (7.20% on 12.31.12) e.r. US\$	6.5	60.3	3,497.9	<b>3,558.2</b>	3,607.4
				<u>493.5</u>	<u>4,792.0</u>	<u>5,285.5</u>	<u>5,628.5</u>
				<u>2,520.3</u>	<u>6,613.2</u>	<u>9,133.5</u>	<u>9,518.3</u>

(1) Weighted average maturity term (in years).



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The main characteristics of loans and financing agreements entered by the Company were detailed disclosed in note 19 of financial statements for the year ended December 31, 2012.

**18.1. Loans and financing maturity schedule**

The maturity schedule of the loans and financing balance is as follow:

	<u>03.31.13</u>
2013 .....	1,856.0
2014 .....	1,253.6
2015 .....	744.2
2016 .....	424.1
2017 onwards .....	<u>4,855.6</u>
	<u>9,133.5</u>

**18.2. Guarantees**

	<u>03.31.13</u>	<u>12.31.12</u>
Total of loans and financing .....	<u>9,133.5</u>	<u>9,518.3</u>
<b>Mortgage guarantees</b> .....	<u>1,304.0</u>	<u>1,405.7</u>
Related to FINEM-BNDES .....	800.2	900.2
Related to FNE-BNB .....	361.6	361.1
Related to tax incentives and other .....	142.3	144.4
<b>Statutory lien on assets acquired with financing</b> .....	<u>80.9</u>	<u>91.1</u>
Related to FINEM-BNDES .....	4.1	5.2
Related to financial lease .....	76.8	85.9

The Company is the guarantor of a loan obtained by Instituto Sadia de Sustentabilidade with BNDES. The loan was obtained with the purpose of allowing the implementation of biodigestors in the farms of the outgrowers which take part in the Company's integration system, targeting the reduction of the emission of Greenhouse Gases. The value of these guarantees totaled R\$69.4 on March 31, 2013 (R\$72.1 as of December 31, 2012).

The Company is the guarantor of loans related to a special program, which aimed the local development of outgrowers in the central region of Brazil. The proceeds of such loans were utilized to improve farm conditions and will be paid in 10 years, taking as collateral the land and equipment acquired by the outgrowers though this program. The total of guarantee as of March 31, 2013 amounted to R\$440.2 (R\$441.1 as of December 31, 2012).

On March 31, 2013, the Company contracted bank guarantees in the amount of R\$1,270.8 (R\$1,234.2 as of December 31, 2012) offered mainly in litigations involving the Company's use of tax credits. These guarantees have an average cost of 0.95% p.a. (0.87% p.a. as of December 31, 2012).

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**18.3. Commitments**

In the normal course of the business, the Company enters into agreements with third parties such as purchases of raw materials, mainly corn, soymeal and hog, in which the agreed prices can be fixed or to be fixed. The agreements consider the market value of the commodities at the balance sheet date and are set forth below:

	<u>03.31.13</u>
2013 .....	<b>1,625.8</b>
2014 .....	<b>454.4</b>
2015 .....	<b>428.3</b>
2016 .....	<b>420.6</b>
2017 onwards .....	<b>1,272.8</b>
	<u><b>4,201.9</b></u>

The Company entered into agreements denominated “built to suit” in which office facilities will be built by third parties. The agreements terms are 10 years from the signing date as well as the charge of rent expenses. If the Company defaults on its obligations, it will be subject to fines and/or acceleration of rent falling due, according to the terms of each contract.

The estimated schedule of future payments related to these agreements is set forth below:

	<u>03.31.13</u>
2013 .....	<b>0.7</b>
2014 .....	<b>0.9</b>
2015 .....	<b>0.9</b>
2016 .....	<b>0.9</b>
2017 onwards .....	<b>5.6</b>
	<u><b>9.0</b></u>

The decrease in the estimate of future payments of R\$203.1 on December 31, 2012 to R\$9.0 on March 31, 2013, is due to the conclusion of the construction of the distribution center in the city of Salvador (BA) and the shared services center located in the city of Curitiba (PR), which were recorded as finance leases, see note 21.2.

**19. TRADE ACCOUNTS PAYABLE**

	<u>03.31.13</u>	<u>12.31.12</u>
<b>Domestic suppliers</b>		
Third parties .....	<b>2,674.4</b>	2,890.9
Related parties .....	<b>11.8</b>	10.6
	<u><b>2,686.2</b></u>	<u>2,901.5</u>
<b>Foreign suppliers</b>		
Third parties .....	<b>461.7</b>	479.7
	<u><b>461.7</b></u>	<u>479.7</u>
	<u><b>3,147.9</b></u>	<u>3,381.2</u>

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Accounts payable to suppliers are not subject to interest charges and are generally settled in average within 39 days.

**20. OTHER FINANCIAL ASSETS AND LIABILITIES**

	<u>03.31.13</u>	<u>12.31.12</u>
<b>Derivative financial instruments</b>		
<b>Cash flow hedge</b>		
<b>Assets</b>		
Non-deliverable forward (NDF) .....	79.0	28.5
Currency option contracts .....	0.3	—
Fixed exchange rate contracts .....	1.5	2.1
Exchange rate contracts (Swap) .....	<u>1.1</u>	<u>2.0</u>
	<u>81.9</u>	<u>32.6</u>
<b>Liabilities</b>		
Non-deliverable forward (NDF) .....	(1.7)	(66.3)
Currency option contracts .....	(0.2)	—
Exchange rate contracts (Swap) .....	<u>(164.1)</u>	<u>(180.7)</u>
	<u>(166.0)</u>	<u>(247.0)</u>
<b>Derivatives not designated as hedge accounting</b>		
<b>Assets</b>		
Non-deliverable forward (NDF) .....	0.2	0.4
Live cattle forward contracts .....	—	0.1
Live cattle option contracts .....	0.1	0.1
Dollar future contracts .....	<u>0.3</u>	<u>—</u>
	<u>0.6</u>	<u>0.6</u>
<b>Liabilities</b>		
Live cattle option contracts .....	(0.3)	—
Exchange rate contracts (Swap) .....	(4.7)	(5.6)
Dollar future contracts .....	<u>—</u>	<u>(0.8)</u>
	<u>(5.0)</u>	<u>(6.4)</u>
Current assets .....	82.5	33.2
Current liabilities .....	<u>(171.0)</u>	<u>(253.4)</u>

The collaterals given in the transactions presented above are disclosed in note 8.

**21. LEASES**

The Company is the lessee in several contracts, which are classified as operating or finance lease.

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**21.1. Operating lease**

The minimum future payments of non-cancellable operating lease agreements, for each of the following years, are presented below:

	<u>03.31.13</u>
2013 .....	<b>45.2</b>
2014 .....	<b>54.7</b>
2015 .....	<b>32.1</b>
2016 .....	<b>28.6</b>
2017 onwards .....	<b>133.5</b>
	<u><b>294.1</b></u>

During the three months period ended March 31, 2013, the payments of lease agreements recognized as expense amounted to R\$65.6 (R\$51.0 as of March 31, 2012).

**21.2. Finance lease**

The leased assets are presented below:

	<u>Weighted average interest rate (% p.a.)(1)</u>	<u>03.31.13</u>	<u>12.31.12</u>
<b>Cost</b>			
Machinery and equipment .....	—	<b>36.4</b>	21.1
Software .....	—	<b>22.1</b>	22.1
Vehicles .....	—	<b>140.2</b>	135.7
Land .....	—	<b>16.5</b>	0.4
Buildings(2) .....	—	<b>110.5</b>	15.0
		<u><b>325.7</b></u>	<u>194.3</u>
<b>Accumulated depreciation</b>			
Machinery and equipment .....	19.41	<b>(9.5)</b>	(9.2)
Software .....	20.00	<b>(5.6)</b>	(4.5)
Vehicles .....	14.21	<b>(22.3)</b>	(17.0)
Buildings .....	12.41	<b>(1.5)</b>	(0.2)
		<u><b>(38.9)</b></u>	<u>(30.9)</u>
		<u><b>286.8</b></u>	<u>163.4</u>

- (1) The period of depreciation of leased assets corresponds to the lowest of term of the contract and the useful life of the asset, as determined by IAS 17 “Leases”.
- (2) The increase is due to the conclusion of construction of distribution center located in the city of Salvador (BA) and the shared services center located in the city of Curitiba (PR).

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The minimum future payments required for these finance leases are presented as follows:

	Present value of minimum payments(1)	Interest	03.31.13 Minimum future payments(2)
2013 .....	67.1	8.2	75.3
2014 .....	43.8	9.4	53.2
2015 .....	21.4	8.2	29.6
2016 .....	18.6	7.9	26.5
2017 onwards .....	85.4	46.5	131.9
	<u>236.3</u>	<u>80.2</u>	<u>316.5</u>

(1) Comprises the amount of R\$76.6 related to financial lease of vehicles which are recorded as loans and financing.

(2) Comprises the amount of R\$73.1 related to financial lease of vehicles which are recorded as loans and financing.

## 22. SHARE BASED PAYMENT

The rules for the stock options plan granted to Company's executives, were disclosed in the annual financial statements for the year ended December 31, 2012 (note 23) and has not changed during this period.

The breakdown of the outstanding granted options is presented as follows:

Grant date	Date		Quantity		Price of converted share		Share price at 03.31.13
	Beginning of the year	End of the year	Options granted	Outstanding options	Granting date	Updated IPCA	
05/03/10	05/02/11	05/02/15	1,540,011	800,857	23.44	27.66	44.60
07/01/10	06/30/11	06/30/15	36,900	36,900	24.75	27.04	44.60
05/02/11	05/01/12	05/01/16	2,463,525	2,056,449	30.85	34.18	44.60
05/02/12	05/01/13	05/01/17	3,708,071	3,478,221	34.95	36.84	44.60
			<u>7,748,507</u>	<u>6,372,427</u>			

The rollforward of the outstanding granted options for the three month period ended March 31, 2013 is presented as follows:

<b>Quantity of outstanding options as of December 31, 2012</b>	<b>6,617,581</b>
Exercised — grant of 2012 .....	(15,900)
Exercised — grant of 2011 .....	(130,181)
Exercised — grant of 2010 .....	(62,733)
Canceled Grant of 2012 .....	(36,340)
<b>Quantity of outstanding options as of March 31, 2013</b> .....	<b><u>6,372,427</u></b>

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The weighted average strike prices of the outstanding options is R\$34.77 (thirty four Brazilian Reais and seventy seven cents) and the weighted average of the remaining contractual term is 43 months.

The Company presented in shareholders' equity the fair value of the options in the amount of R\$49.7 (R\$45.5 as of December 31, 2012). In the statement of income for the three month period ended March 31, 2013 the amount recognized as expense was R\$4.2 (R\$3.6 as of March 31, 2012).

During the three month period ended March 31, 2013, the Company's executives exercised 208,814 shares, with an average price of R\$32.08 (thirty two Brazilian Reais and eight cents) totaling R\$6.7. In order to comply with this commitment, the Company utilized treasury shares with an acquisition cost of R\$21.63 (twenty one Brazilian Reais and sixty three cents), recording a gain in the amount of R\$2.2 as capital reserve.

The fair value of the stock options was measured using the Black-Scholes pricing model, as disclosed in the annual financial statements for the year ended December 31, 2012 (note 23). There is no change in the methodology during the three month period ended March 31, 2013.

### 23. SUPPLEMENTARY RETIREMENT PLAN AND OTHER BENEFITS TO EMPLOYEES

The Company offers supplementary retirement plans and other benefits to its employees. The characteristics of the supplementary retirement plans, and other employee benefits were disclosed in the annual financial statements for the year ended December 31, 2012 (note 24) and have not changed during this period.

The actuarial liabilities and the amounts recognized in the statement of income are presented below:

	<u>Liabilities</u>		<u>Statement of income</u>	
	<u>03.31.13</u>	<u>12.31.12</u>	<u>03.31.13</u>	<u>03.31.12</u>
Retirement supplementary plan — BFPP(1) . . . . .	—	—	<b>(3.9)</b>	(3.6)
Retirement supplementary plan — FAF(2) . . . . .	—	—	<b>9.2</b>	12.5
Medical plan . . . . .	<b>94.2</b>	92.4	<b>(1.8)</b>	(3.2)
F.G.T.S. penalty(3) . . . . .	<b>155.7</b>	150.7	<b>(5.0)</b>	(4.5)
Award for length of service . . . . .	<b>41.8</b>	40.5	<b>(1.3)</b>	(1.2)
Other . . . . .	<b>20.7</b>	20.2	<b>(0.5)</b>	(1.1)
	<u><b>312.4</b></u>	<u>303.8</u>	<u><b>(3.3)</b></u>	<u>(1.1)</u>
Current . . . . .	<b>17.9</b>	17.4		
Non-current . . . . .	<b>294.5</b>	286.4		

- (1) BFPP — Brasil Foods Pension Plan  
(2) FAF — Attilio Francisco Xavier Fontana Foundation  
(3) F.G.T.S. — Government Severance Indemnity Fund for employees

### 24. PROVISION FOR TAX, CIVIL AND LABOR RISK

The Company and its subsidiaries are involved in certain legal proceedings arising from the regular course of business, which include civil, administrative, tax, social security and labor claims.

The Company classifies the risk of unfavorable court decisions as “probable”, “possible” or “remote”. The provisions recorded relating to such proceedings is determined by the Company's Management, based on the legal advice and reasonably reflect the estimated probable losses.

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The Company's Management believes that the provisions for tax, civil and labor contingencies, accounted for according to IAS 37, is sufficient to cover estimated losses related to its legal proceedings, as presented below:

**24.1. Contingencies for probable losses**

The rollforward of the provisions for tax, civil and labor risks is summarized below:

	<u>12.31.12</u>	<u>Additions</u>	<u>Reversals</u>	<u>Payments</u>	<u>Price index update</u>	<u>Exchange rate variation</u>	<u>03.31.13</u>
Tax .....	179.5	6.6	(5.1)	(2.1)	2.1	—	<b>181.1</b>
Labor .....	134.4	45.5	(18.0)	(18.9)	2.5	—	<b>145.5</b>
Civil, commercial and other .....	50.4	4.2	(2.3)	(2.9)	1.2	—	<b>50.6</b>
Contingent liabilities .....	<u>570.5</u>	<u>—</u>	<u>(1.0)</u>	<u>—</u>	<u>—</u>	<u>(1.2)</u>	<b><u>568.2</u></b>
	<u>934.8</u>	<u>56.3</u>	<u>(26.4)</u>	<u>(23.9)</u>	<u>5.8</u>	<u>(1.2)</u>	<b><u>945.4</u></b>
Current .....	173.9						88.1
Non-current .....	760.9						857.3

**24.2. Contingencies classified as a risk of possible loss**

The Company is involved in other labor and social security, civil and tax lawsuits, which the expected loss evaluated by management and supported by legal advisors is classified as possible, and therefore, no provision has been recognized. Tax lawsuits totaled R\$6,760.4 (R\$6,582.1 as of December 31, 2012), from which R\$551.0 (R\$552.1 as of December 31, 2012) were recorded at the estimated fair value resulting from business combinations with Sadia, Avex and Dánica as determined by paragraph 23 of IFRS 3 "Business Combination". The main natures of these contingencies were properly disclosed in the annual financial statements for the year ended December 31, 2012 (note 25.2).

**25. SHAREHOLDERS' EQUITY**

**25.1. Capital stock**

On March 31, 2013 and December 31, 2012, the capital subscribed and paid by the Company was R\$12,553,417,953.36 (twelve billion, five hundred and fifty three million, four hundred and seventeen thousand, nine hundred and fifty three Brazilian Reais and thirty six cents), which is composed of 872,473,246 of common shares without par value. The realized value of the capital stock in the balance sheet is net of the expenses with public offering in the amount of R\$92.9.

The Company is authorized to increase the capital stock, irrespective of amendments to the bylaws, up to the limit of 1,000,000,000 of common shares, in book-entry form, and without par value.

**25.2. Interest on shareholders' equity and dividends**

On February 15, 2013, the payment of R\$174.7 was made related to the interest on shareholders' equity proposed by the Management on December 20, 2012 and approved in the Shareholders Ordinary and Extraordinary Meeting on April 9, 2013. In the same meeting an additional distribution of dividends was approved in the amount of R\$45.3, to be paid on April 30, 2013.

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**25.3. Breakdown of capital stock by nature**

	<u>03.31.13</u>	<u>12.31.12</u>
Common shares . . . . .	<b>872,473,246</b>	872,473,246
Treasury shares . . . . .	<b>(2,190,521)</b>	(2,399,335)
<b>Outstanding shares . . . . .</b>	<b><u>870,282,725</u></b>	<u>870,073,911</u>

**25.4. Rollforward of outstanding shares**

	<u>Quantity of outstanding of shares</u>	
	<u>03.31.13</u>	<u>12.31.12</u>
<b>Shares at the beginning of the period . . . . .</b>	<b>870,073,911</b>	869,453,804
Sale of treasury shares . . . . .	<b>208,814</b>	620,107
<b>Shares at the end of the period . . . . .</b>	<b><u>870,282,725</u></b>	<u>870,073,911</u>

**25.5. Treasury shares**

The Company has 2,190,521 shares in treasury, with an average cost of R\$21.63 (twenty one Brazilian Reais and sixty three cents) per share, with a market value of R\$97.7. The reduction of 208,814 in the number of treasury shares occurred due the options exercised by the Company's executives.

**26. EARNINGS PER SHARE**

	<u>03.31.13</u>	<u>03.31.12</u>
<b>Basic numerator</b>		
Net income for the period attributable to BRF shareholders . . . . .	<b>358.5</b>	153.2
<b>Basic denominator</b>		
Common shares . . . . .	<b>872,473,246</b>	872,473,246
Weighted average number of outstanding shares — basic (except treasury shares) . . . . .	<b>870,113,882</b>	869,453,964
<b>Earnings per share basic — R\$ . . . . .</b>	<b><u>0.41205</u></b>	<u>0.17620</u>
<b>Diluted numerator</b>		
Net income for the period attributable to BRF shareholders . . . . .	<b>358.5</b>	153.2
<b>Diluted denominator</b>		
Weighted average number of outstanding shares — basic (except treasury shares) . . . . .	<b>870,113,882</b>	869,453,964
Number of potential shares (stock options) . . . . .	<b>652,252</b>	249,418
Weighted average number of outstanding shares — diluted . . . . .	<b>870,766,134</b>	869,703,382
<b>Earnings per share diluted — 57R\$ . . . . .</b>	<b><u>0.41175</u></b>	<u>0.17615</u>

On March 31, 2013, all of the 6,372,427 outstanding options granted to the Company's executives were considered in the calculation of the diluted earnings per share due to the fact that the strike price was lower than the average market price.



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**27. GOVERNMENT GRANTS**

The Company has tax benefits related to ICMS for investments granted by the governments of the States of Goiás, Pernambuco, Mato Grosso and Bahia. Such incentives are directly associated to the manufacturing facilities operations, job generation and to the economic and social development in the respective states, being accounted for as a reserve for tax incentives in the shareholders' equity.

As of March 31, 2013, the amount related to this incentive totaled R\$28.0 (R\$67.4 as of December 31, 2012).

**28. RELATED PARTIES**

Within the Company's business operations context, rights and obligations arise between related parties, resulting from transactions of purchase and sale of products, loans agreed on normal conditions of market for similar transactions, based on contracts.

All the companies listed in note 1.1 are controlled by BRF, except for UP! Alimentos Ltda, Nutrifont, Rising Star Food Company Ltd and Federal Foods. which are jointly-controlled subsidiaries.

The Company entered into loan agreements with Instituto Perdigão de Sustentabilidade. On March 31, 2013, the total receivable is R\$10.9 (R\$9.0 as of December 31, 2012), being remunerated at interest rate of 12% p.a.

The Company also recorded a liability in the amount of R\$11.0 (R\$16.0 as of December 31, 2012) related to the fair value of the guarantees offered to BNDES concerning a loan made by the Instituto Sadia de Sustentabilidade.

Due to the acquisition of biodigesters from Instituto Sadia de Sustentabilidade, as of March 31, 2013, the Company recorded a liability in the amount of R\$57.9 in other obligations (R\$57.9 as of December 31, 2012).

The Company and its subsidiaries carry out intercompany loans. Below is a summary of the balances and rates charged for the transactions which corresponding balance is above R\$10.0 at the balance sheet date:

<u>Counterparty</u>	<u>Debtor</u>	<u>03.31.13</u>	<u>Interest rate</u>
BFF International Ltd.	Perdigão International Ltd.	848.3	8.0% p.a.
BFF International Ltd.	Wellax Food Comércio	576.9	8.0% p.a.
Sadia Overseas Ltd.	Wellax Food Comércio	513.7	7.0% p.a.
Sadia International Ltd.	Wellax Food Comércio	120.9	LIBOR
BRF GmbH	Plusfood Holland B.V.	89.7	3.0% p.a.
BRF GmbH	BRF Foods LLC	36.1	7.0% p.a.
Wellax Food Comércio	BRF GmbH	20.2	1.0% p.a.
BRF GmbH	Qualy B.V.	15.6	1.5% p.a.

**28.1. Other related parties**

The Company leased properties owned by FAF. For the three month period ended March 31, 2013 the amount paid as rent amounted to R\$1.6 (R\$2.6 as of March 31, 2012). The rent value is based on market conditions.

**28.2. Granted guarantees**

All granted guarantees on behalf of related parties were disclosed in note 18.2.

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**28.3. Management remuneration**

The management key personnel includes the directors and officers, members of the executive committee and the head of internal audit. On March 31, 2013, there were 25 professionals (25 professionals as of December 31, 2012).

The total remuneration and benefits paid to these professionals is demonstrated below:

	<u>03.31.13</u>	<u>03.31.12</u>
Salary and profit sharing .....	<b>3.9</b>	2.5
Short term benefits(1) .....	<b>0.3</b>	0.3
Termination benefits .....	<b>0.6</b>	—
Share-based payment .....	<u><b>1.9</b></u>	<u>1.7</u>
	<u><b>6.7</b></u>	<u>4.5</u>

(1) Comprises medical assistance, educational expenses and other.

**29. NET SALES**

	<u>03.31.13</u>	<u>03.31.12</u>
<b>Gross sales</b>		
Domestic sales .....	<b>3,757.5</b>	3,572.8
Foreign sales .....	<b>3,229.0</b>	2,417.5
Dairy products .....	<b>765.0</b>	766.6
Food service .....	<u><b>417.3</b></u>	<u>399.7</u>
	<u><b>8,168.8</b></u>	<u>7,156.6</u>
<b>Sales deductions</b>		
Domestic sales .....	<b>(654.0)</b>	(593.1)
Foreign sales .....	<b>(136.2)</b>	(58.4)
Dairy products .....	<b>(117.4)</b>	(121.1)
Food service .....	<u><b>(52.3)</b></u>	<u>(46.9)</u>
	<u><b>(959.9)</b></u>	<u>(819.5)</u>
<b>Net sales</b>		
Domestic sales .....	<b>3,103.5</b>	2,979.7
Foreign sales .....	<b>3,092.8</b>	2,359.1
Dairy products .....	<b>647.6</b>	645.5
Food service .....	<u><b>365.0</b></u>	<u>352.8</u>
	<u><b>7,208.9</b></u>	<u>6,337.1</u>

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**30. RESEARCH AND DEVELOPMENT COSTS**

Consists of expenditures on internal research and development of new products, recognized when incurred in the statement of income. The total expenditure with research and development for the three month period ended March 31, 2013, amounted to R\$10.3 (R\$7.5 as of March 31, 2012).

**31. EXPENSES WITH EMPLOYEE'S REMUNERATION**

	<u>03.31.13</u>	<u>03.31.12</u>
Salaries and social charges .....	<b>719.2</b>	661.3
Social security cost(1) .....	<b>86.6</b>	172.4
Government severance indemnity fund for employees, guarantee fund for length of service .....	<b>49.2</b>	48.1
Medical assistance and ambulatory care .....	<b>28.8</b>	26.0
Retirement supplementary plan .....	<b>3.9</b>	3.6
Employees profit sharing .....	<b>34.7</b>	22.5
Other benefits .....	<b>141.5</b>	126.5
Provision for labor risks .....	<b>28.2</b>	20.6
	<u><b>1,092.1</b></u>	<u>1,081.0</u>

(1) The reduction of the balance refers to the application of the Provisional Measure No. 563/12 enacted in January, 2013 (partial payroll exemption), when such expenses started to be computed considering sales as calculation basis.

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**32. OTHER OPERATING EXPENSES, NET**

	<u>03.31.13</u>	<u>03.31.12</u>
<b>Income</b>		
Employee benefits .....	9.2	12.5
Provision reversal .....	8.2	81.2
Insurance indemnity .....	5.7	5.5
Recovery of expenses .....	5.6	3.2
Other .....	<u>3.2</u>	<u>8.3</u>
	<u>31.9</u>	<u>110.7</u>
<b>Expenses</b>		
Employees profit sharing .....	(34.7)	(74.3)
Idleness costs(1) .....	(18.9)	(30.0)
Other employees benefits .....	(8.6)	(10.2)
Insurance claims costs .....	(8.4)	(10.3)
Net losses from disposals of property, plant and equipment .....	(5.6)	(4.2)
Stock options plan .....	(4.2)	(3.6)
Management profit sharing .....	(3.9)	(4.9)
Provision for civil and labor risks .....	(2.4)	(2.4)
Provision for tax risks .....	(1.4)	(5.8)
Other .....	<u>(12.1)</u>	<u>(7.0)</u>
	<u>(100.2)</u>	<u>(152.7)</u>
	<u>(68.3)</u>	<u>(42.0)</u>

(1) Idleness cost includes depreciation expense in the amount of R\$10.0 and R\$9.9 for the three month periods ended March 31, 2013 and March 31, 2012, respectively.

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33. FINANCIAL INCOME AND EXPENSES

	<u>03.31.13</u>	<u>03.31.12</u>
<b>Financial income</b>		
Gains on the translation of foreign investments . . . . .	74.8	144.0
Exchange rate variation on other liabilities . . . . .	26.4	80.8
Interest on other assets . . . . .	22.4	6.8
Exchange rate variation on loans and financing . . . . .	19.9	—
Interests on financial assets classified as: . . . . .	12.5	23.9
Held to maturity . . . . .	5.5	2.4
Held for trading . . . . .	3.9	17.8
Available for sale . . . . .	3.1	3.6
Financial income on accounts payable . . . . .	12.3	—
Exchange rate variation on other assets . . . . .	10.7	—
Exchange rate variation on marketable securities . . . . .	6.6	—
Interest on marketable securities . . . . .	5.8	7.0
Interest income on loans to related parties . . . . .	0.3	4.8
Gains on derivative transactions . . . . .	—	10.1
Other . . . . .	10.8	6.6
	<u>202.5</u>	<u>284.0</u>
<b>Financial expenses</b>		
Losses on the translation of foreign investments . . . . .	(138.5)	(188.6)
Interest on loans and financing . . . . .	(128.1)	(107.8)
Interest on other liabilities . . . . .	(26.3)	(17.5)
Losses on derivative transactions . . . . .	(3.5)	—
Exchange rate variation on other assets . . . . .	—	(16.6)
Exchange rate variation on loans and financing . . . . .	—	(9.9)
Exchange rate variation on marketable securities . . . . .	—	(5.4)
Financial expenses on accounts payable . . . . .	—	(2.8)
Interest expenses on loans to related parties . . . . .	—	(0.6)
Other . . . . .	(7.9)	(9.8)
	<u>(304.3)</u>	<u>(359.0)</u>
	<u>(101.8)</u>	<u>(75.0)</u>

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**34. STATEMENT OF INCOME BY NATURE**

The Company has chosen to disclose its statement of income by function and thus presents below the details by nature:

	<u>03.31.13</u>	<u>03.31.12</u>
<b>Costs of sales</b>		
Costs of goods .....	<b>4,022.6</b>	3,555.6
Depreciation .....	<b>226.9</b>	208.1
Amortization .....	<b>3.2</b>	3.2
Salaries and employees benefits .....	<b>730.0</b>	749.3
Other .....	<b>529.3</b>	477.4
	<u><b>5,512.0</b></u>	<u>4,993.6</u>
<b>Sales expenses</b>		
Depreciation .....	<b>12.3</b>	7.8
Amortization .....	<b>0.6</b>	0.3
Salaries and employees benefits .....	<b>237.4</b>	226.6
Direct logistics expenses .....	<b>407.5</b>	370.1
Other .....	<b>344.1</b>	348.6
	<u><b>1,001.9</b></u>	<u>953.4</u>
<b>Administrative expenses</b>		
Depreciation .....	<b>4.6</b>	1.7
Amortization .....	<b>12.9</b>	8.5
Salaries and employees benefits .....	<b>61.8</b>	62.0
Fees .....	<b>5.3</b>	5.4
Other .....	<b>18.4</b>	8.1
	<u><b>103.0</b></u>	<u>85.7</u>
<b>Other operating expenses(1)</b>		
Depreciation .....	<b>10.0</b>	8.0
Other .....	<b>90.2</b>	144.7
	<u><b>100.2</b></u>	<u>152.7</u>

(1) The composition of other operating expenses is presented in note 32.

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**35. INSURANCE COVERAGE**

The Company adopts the policy of contracting insurance coverage for assets subject to risks in amounts sufficient to cover any claims, considering the nature of its activity.

<u>Assets covered</u>	<u>Coverage</u>	<u>03.31.13</u>	
		<u>Insured amounts</u>	<u>Amount of coverage</u>
Inventories and property, plant and equipment	Fire, lightning, explosion, windstorm, deterioration of refrigerated products, breakdown of machinery, loss of profit and other	25,616.2	2,137.2
Garantee	Judicial, traditional and customer guarantees	936.1	367.9
National transport	Road risk and civil liability of cargo carrier	18,781.2	406.9
International transport	Transport risk during imports and exports	10,579.9	132.8
General civil liability for directors and officers	Third party complaints	29,690.1	1,502.7
Credit	Customer default	291.4	291.4

**36. NEW RULES AND PRONOUNCEMENTS RECENTLY ADOPTED**

***IAS 1 – Presentation of Items of Other Comprehensive Income***

In June 2011, the IASB revised IAS 1, which. This review addressed the obligation to separate items which will not be further reclassified to the statement of income and items that can be further reclassified to the statement of income.

The Company disclosed this segregation on this interim consolidated financial statements which can be verified in the statement of changes in shareholders' equity.

***IAS 19 – Employee Benefits***

In June 2011, the IASB revised IAS 19. The Company had already adopted these changes, except for the segregation between short and long term of the liabilities which was introduced on this interim consolidated financial statements retroactively to December 31, 2012 for comparison purposes of the balance sheet.

***IAS 27 – Separate Financial Statements***

In May 2011, the IASB revised IAS 27. The change addresses issues related to investments in subsidiaries, jointly-controlled entities and associate companies, when an entity prepares separate financial statements. The revised standard is effective for annual reporting periods beginning on or after January 1, 2013. As disclosed in the annual financial statements for the year ended December 31, 2012, the Company does not prepare separate financial statements and thus there is no impact arising from these changes in this interim consolidated financial statements.

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***IAS 28 – Investments in associates and joint ventures***

In May 2011, the IASB revised IAS 28. The change addresses issues related to investments in associate companies and establishes the rules for using the equity accounting method for investments in associate companies and jointly-controlled entities. The revised standard is effective for annual reporting periods beginning on or after January 1, 2013. The Company had already adopted these changes, thus there is no impact in this interim consolidated financial statements.

***IFRS 7 – Financial Instruments – Disclosures: Offsetting of Financial Assets and Liabilities***

In December 2011, the IASB issued a revision of the rule establishing requirements for disclosure of compensation arrangements of financial assets and liabilities. This standard is effective for annual periods beginning on or after January 1, 2013. The Company does not have any compensation agreements related to financial assets and liabilities, thus there is no impact in this interim consolidated financial statements.

***IFRS 10 – Consolidated Financial Statements***

In May 2011, the IASB issued IFRS 10. This standard provides the principles for the presentation and preparation of financial statements of the Consolidated Financial Statement when the entity controls one or more entities. The standard provides additional guidance to assist in determining control when there is doubt in the assessment. This standard is effective for annual reporting periods beginning on or after January 1, 2013. The Company had already adopted these changes, thus there is no impact in this interim consolidated financial statements.

***IFRS 11 – Joint Arrangements***

In May 2011, the IASB issued IFRS 11. This standard deals with aspects related to the accounting treatment for jointly-controlled entities and joint operations. This standard also limit the use of proportional consolidation just for joint operations, and also establish the equity accounting method as the only method acceptable for joint ventures. This standard is effective for annual reporting periods beginning on or after January 1, 2013. There was no impact arising from the adoption of this standard, due to the fact that investments in jointly-controlled entities were not proportionally consolidated in the financial statements of the Company.

***IFRS 12 – Disclosure of Interests in Other Entities***

In May 2011, the IASB issued IFRS 12. This standard deals with aspects related to the disclosure of nature and risks related to interests owned in subsidiaries, jointly-controlled entities and associate companies. This standard is effective for annual reporting periods beginning on or after January 1, 2013. The Company's Management believes that the information disclosed in these interim consolidated financial statements regarding the risks mentioned above is sufficient for the expected content regarding to interim consolidated financial statements.

***IFRS 13 – Fair Value Measurement***

In May 2011, the IASB issued IFRS 13. This standard establishes fair value and consolidates in a single standard the aspects of fair value measurement and establishes the requirements of disclosure related to fair value. This standard is effective for annual reporting periods beginning on or after January 1, 2013. The Company's Management believes that those requirements were properly disclosed in the financial statements for the year ended December 31, 2012 and the disclosure considered relevant for interim consolidated financial statements was maintained.



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**37. NEW RULES AND PRONOUNCEMENTS NOT ADOPTED**

The interpretations and amendments to the rules existent below, applicable to the following accounting periods, were published by IASB and its application to the financial statements of the Company to be filed with CVM (the Brazilian Securities Commission) only if there is a Deliberation by that agency, therefore, there was no anticipated adoption of these rules.

***IFRS 9 – Financial Instruments***

In October 2010, the IASB revised IFRS 9. The change of this standard addresses the first stage of the project of replacement of IAS 39. The date of application of this standard was extended to January 1, 2015. The Company is evaluating the impact of adopting this standard and any differences from IAS 39 in its Financial Statements.

**38. SUBSEQUENT EVENTS**

In the Shareholders Ordinary Meeting occurred on April 9, 2013 the distribution of dividends in the amount of R\$45.3, to be paid on April 30, 2013, was approved.

**39. APPROVAL OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The interim consolidated financial statements were approved by the Board of Directors on April 29, 2013.

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