

There are no restrictions on ownership of capital share of the Company by individuals or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of Common Shares into foreign currency and to remit such amounts outside Brazil is subject to exchange control restrictions and foreign investment legislation that generally requires, among other things, obtaining an Electronic Registration under the Resolution No. 4,373. Under Resolution No. 4,373, qualified foreign investors registered with the CVM and acting through authorized custody accounts managed by local agents may buy and sell shares on Brazilian share exchanges without obtaining separate Electronic Registration for each transaction. Investors under the Resolution No. 4,373 are also generally entitled to favorable tax treatment.

Electronic Registrations by the Brazilian Central Bank have been issued in the name of the Company with respect to the ADRs. Pursuant to the electronic registration, the Custodian will be able to convert dividends and other distributions with respect to the shares represented by the ADRs into foreign currency and remit the proceeds outside Brazil.

#### **E. Taxation**

The following summary contains a description of certain Brazilian and U.S. federal income tax consequences of the acquisition, ownership and disposition of common shares or ADRs, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase common shares or ADRs. The summary is based upon the tax laws of Brazil and regulations thereunder and on the tax laws of the United States and regulations thereunder as in effect on the date hereof, which are subject to change. Prospective purchasers of common shares or ADRs should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of common shares or ADRs.

Although there is at present no tax treaty to avoid double taxation between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. Holders (as defined below under “—U.S. Federal Income Tax Considerations”) of common shares or ADRs. Prospective holders of common shares or ADRs should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of common shares or ADRs in their particular circumstances.

#### **Brazilian Tax Considerations**

The following discussion summarizes the material Brazilian tax consequences of the acquisition, ownership and disposition of common shares or ADRs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation (a “Non-Resident Holder”) and does not specifically address all of the Brazilian tax considerations applicable to any particular Non-Resident Holder. Each Non-Resident Holder should consult its own tax adviser concerning the Brazilian tax consequences of an investment in common shares or ADRs. The discussion below is based on Brazilian law as currently in effect. Any change in that law may change the consequences described below.

#### **Income Tax**

*Dividends.* Dividends paid by a Brazilian corporation, such as our company, including stock dividends and other dividends paid to a Non-Resident Holder of common shares or ADRs, are currently not subject to Brazilian withholding income tax, as far as such amounts are related to profits generated on or after January 1, 1996. Dividends relating to profits generated prior to January 1, 1996 may be subject to Brazilian withholding tax at varying rates, depending on the year the profits were generated.

*Interest on Shareholders’ Equity.* Law No. 9,249, dated December 26, 1995, as amended, permits a Brazilian corporation, such as our company, to make distributions to shareholders of interest on shareholders’ equity. These distributions may be paid in cash. Such payments represent a deductible expense from the payer’s corporate income tax and social contribution on net profits tax basis. For tax purposes, this interest is limited to the daily pro rata variation of the TJLP, as determined by the Central Bank from time to time, and may not exceed the greater of:

- 50% of net income (after the social contribution on net profits tax, and before the provision for corporate income tax and the amounts attributable to shareholders as interest on shareholders' equity) for the period in respect of which the payment is made; and
- 50% of the sum of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made.

Payment of interest to a Non-Resident Holder is subject to withholding income tax at the rate of 15%, or 25% if the Non-Resident Holder is a Tax Haven Resident. For this purpose, a "tax haven" is a country or location that does not impose income tax, where the income tax rate is lower than 20% or where the local legislation imposes restrictions on disclosing the shareholding composition or the ownership of the investment. These payments of interest on shareholders' equity may be included, at their net value, as part of any mandatory dividend. To the extent payment of interest on shareholders equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable Brazilian withholding income tax, plus the amount of declared dividends is at least equal to the mandatory dividend.

We believe that the best interpretation of the current tax legislation leads to the conclusion that a Non-Resident Holder domiciled in a privileged tax regime is not subject to the increased tax rate of 25%. In this case, the applicable tax rate would be 15%. For this purpose, under Law No. 11,727, dated June 23, 2008, a "privileged tax regime" is a tax regime that: i) does not impose income tax or where the income tax rate is lower than 20% for income earned inside its territory or abroad; ii) provides tax advantage to non-residents: a) without demanding execution of substantive economic activity; or b) conditioned to the non-execution of substantive economic activity; or iii) pursuant to the local legislation imposes restrictions on disclosing the shareholding composition, the ownership of the investment or the economic operations executed in its territory.

Nevertheless, we cannot assure you whether subsequent legislation or interpretations by the Brazilian tax authorities regarding the definition of a "privileged tax regime" provided by Law No. 11,727 will also apply to a Non-Resident Holder on payments potentially made by a Brazilian source. In other words, Brazilian tax authorities may determine that the increased tax rate of 25% must apply to payments made by a Brazilian source to a Non-Resident Holder subject to "privileged tax regimes".

We recommend prospective investors to consult their own tax advisors from time to time to verify any possible tax consequences arising from Normative Instruction No. 1,037/2010 (that provides an exhaustive list of all the countries deemed as a "tax haven" and all tax regimes deemed as a "privileged tax regime") and Law No. 11,727.

Distributions of interest on shareholders equity to Non-Resident Holders may be converted into U.S. dollars and remitted outside Brazil, subject to applicable exchange controls, to the extent that the investment is registered with the Central Bank.

The Brazilian President enacted the Provisional Measure No. 694/15 to effect the following changes:

- the maximum TJLP will be 5% (currently this rate is approximately 6.75%); and
- the withholding tax will rise from 15% to 18% (except for Tax Haven Residents who continue to be subject to 25% withholding tax).

Such Provisional Measure had not been converted into law within the required legal deadlines and therefore had not changed the rules about interest on shareholders' equity as initially intended.

## Gains

According to Law No. 10,833/03, the gains recognized on a disposition of assets located in Brazil, such as our common shares, by a Non-Resident Holder, are subject to withholding income tax in Brazil. This rule is applicable regardless of whether the disposition is conducted in Brazil or abroad and/or if the disposition is or is not made to an individual or entity resident or domiciled in Brazil.

As a general rule, capital gains realized as a result of a disposition transaction are the positive difference between the amount realized on the disposition of the common shares and the respective acquisition cost.

Capital gains realized by Non-Resident Holders on the disposition of common shares sold on the Brazilian stock exchange (which includes the transactions carried out on the organized over-the-counter market):

- are subject to withholding income tax at a rate of 0% with respect to gains realized by a Non-Resident Holder that (i) is a Registered Holder and (ii) is not a Tax Haven Resident;
- are subject to withholding income tax at a rate of 15% with respect to gains realized by a Non-Resident Holder that is neither a Registered Holder (including a Non-Resident Holder who qualifies under Law No. 4,131/62) nor a Tax Haven Resident. In this case, a withholding income tax of 0.005% shall be applicable and can be offset against any income tax due on the capital gain; and
- are subject to withholding income tax at a rate of 15% with respect to gains realized by a Non-Resident Holder that is a Tax Haven Resident regardless of being a Registered Holder or not. In this case, a withholding income tax of 0.005% shall be applicable and can be offset against any income tax due on the capital gain.

Any other gains realized on the disposition of common shares that are not carried out on the Brazilian stock exchange:

- are subject to income tax at the following progressive rate when realized by any Non-Resident Holder that is not a Tax Haven Resident, whether or not such holder is a Registered Holder:
  - i. 15% upon the portion of capital gains that is lower than R\$5,000,000.00;
  - ii. 17.5% upon the portion of capital gains that exceed R\$5,000,000.00 and is lower than R\$10,000,000.00;
  - iii. 20% upon the portion of capital gains that exceed R\$10,000,000.00 and is lower than R\$30,000,000.00; and
  - iv. 22.5% upon the portion of capital gains that exceed R\$30,000,000.00.
- are subject to income tax at a rate of 25% when realized by a natural or legal person that is a Tax Haven Resident, \whether or not such holder is a Registered Holder.

In the cases described above, if the gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset against any income tax due on the capital gain.

Any exercise of preemptive rights relating to common shares will not be subject to Brazilian withholding income tax. Gains realized by a Non-Resident Holder on the disposition of preemptive rights will be subject to Brazilian income tax according to the same rules applicable to disposition of common shares.

In the case of a redemption of common shares or a capital reduction, the positive difference between the amount received by the Non-Resident Holder and the acquisition cost of the common shares redeemed in reais is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market and is therefore subject to income tax at the abovementioned progressive rate, or 25%, as the case may be.

**There can be no assurance that the current favorable tax treatment of Registered Holders will continue in the future.**

*Sale of ADRs by U.S. Holders to Other Non-Residents in Brazil*

As discussed above, the sale of property located in Brazil involving Non-Resident Holders is subject to Brazilian withholding income tax as of February 1, 2004. Our understanding is that ADRs do not qualify as property located in Brazil and, thus, should not be subject to the Brazilian withholding tax. Insofar as the regulatory norm referred to in Article 26 of Law No. 10,833/03 is generic and has not been tested through the administrative or judicial courts, we are unable to assure the final outcome of such discussion.

*Gains on the Exchange of ADRs for Common Shares*

Although there is no clear regulatory guidance, the exchange of ADRs for common shares should not be subject to Brazilian withholding tax. Non-Resident Holders may exchange the ADSs evidenced by ADRs for the underlying common shares, sell the common shares on a Brazilian stock exchange and remit abroad the proceeds of the sale within five business days from the date of exchange (in reliance on the depository's electronic registration) with no tax consequences.

Upon receipt of the underlying common shares in exchange for ADSs evidenced by ADRs, Non-Resident Holders may also elect to register with the Central Bank the U.S. dollar value of such common shares as a foreign portfolio investment under Resolution No. 4,373, which will entitle them to the tax treatment discussed above.

Alternatively, the Non-Resident Holder is also entitled to register with the Central Bank the U.S. dollar value of such common shares as a foreign direct investment under Law No. 4,131/62, in which case the respective sale would be subject to the tax treatment applicable to transactions carried out on the Brazilian stock exchange.

*Gains on the Exchange of Common Shares for ADRs*

The deposit of common shares in exchange for the ADRs may be subject to Brazilian withholding income tax on capital gains if the amount previously registered with the Central Bank as a foreign investment in common shares or, in the case of other market investors under Resolution No. 4,373, the acquisition cost of the common shares, as the case may be, is lower than:

- the average price per common share on the Brazilian stock exchange on which the greatest number of such common shares were sold on the day of deposit; or
- if no common shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of common shares were sold during the 15 preceding trading sessions.

The difference between the amount previously registered, or the acquisition cost, as the case may be, and the average price of the common shares, calculated as set forth above, is considered a capital gain subject to income tax at the abovementioned progressive rate from 15% to 22.5%, or 25% for Tax Haven Residents.

***Tax on Foreign Exchange and Financial Transactions***

***Foreign Exchange Transactions.*** Brazilian law imposes a Tax on Foreign Exchange Transactions, or "IOF/Exchange Tax," on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*. Currently, IOF rates for almost all foreign currency exchange transactions are 0.38%. In the case of transactions performed in the stock market or under the regulations issued by the Monetary Council of Brazil, the applicable rate is zero. In any situation, the Ministry of Finance is permitted to increase the rate at any time up to 25% on the foreign exchange transaction amount. However, any increase in the rate will not apply retroactively.

***Tax on Transactions Involving Bonds and Securities.*** Brazilian law imposes a Tax on Transactions Involving Bonds and Securities, or "IOF/Bonds Tax," including those carried out on a Brazilian stock exchange. The rate of IOF/Bonds Tax applicable to transactions involving common shares is currently zero, but the Minister of Finance is permitted to increase such rate at any time up to 1.5% of the transaction amount per day, but any increase in the rate will not apply retroactively.

**Other Brazilian Taxes**

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of common shares or ADRs, except for gift and inheritance taxes imposed by some Brazilian states on gifts or bequests by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such states. There are no Brazilian stamp, issue, registration or similar taxes or duties payable by holders of common shares or ADRs.

**U.S. Federal Income Tax Considerations**

The following summary describes certain U.S. federal income tax consequences of the acquisition, ownership and disposition of our common shares and ADRs as of the date hereof. Except where noted, this summary deals only with U.S. Holders (as defined below) that hold our common shares or ADRs as capital assets for U.S. federal income tax purposes (generally, property held for investment). As used in this summary, the term "U.S. Holder" means a holder of our common shares or ADRs that is for U.S. federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. 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 U.S. 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 does not represent a detailed description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;
- a person holding our common shares or ADRs as part of a hedging, integrated or conversion transaction or a straddle;
- a person deemed to sell our common shares or ADRs under the constructive sale provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code");
- a trader in securities that has elected the mark-to-market method of accounting for your securities;

- a person liable for alternative minimum tax;
- a person who owns or is deemed to own 10% or more of our stock (by vote or value);
- a partnership or other pass-through entity for U.S. federal income tax purposes;
- a person required to accelerate the recognition of any item of gross income with respect to our common shares or ADRs as a result of such income being recognized on an applicable financial statement; or
- a person whose “functional currency” for U.S. federal income tax purposes is not the U.S. dollar.

The discussion below is based upon the provisions of the Code, and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in U.S. federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the depositary to us and assumes that the deposit agreement relating to the ADRs, and all other related agreements, will be performed in accordance with their terms.

If a partnership holds our common shares or ADRs, 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 our common shares or ADRs, you should consult your tax advisors.

This summary does not contain a detailed description of all the U.S. federal income tax consequences to you in light of your particular circumstances and does not address the Medicare tax on net investment income or the effects of any state, local or non-United States tax laws. If you are considering the purchase, ownership or disposition of our common shares or ADRs, you should consult your own tax advisors concerning the U.S. federal income tax consequences to you in light of your particular situation, as well as any consequences arising under the laws of any other taxing jurisdiction.

#### **ADRs**

If you hold ADRs, for U.S. federal income tax purposes, you generally will be treated as the owner of the underlying common shares that are represented by the ADSs evidenced by ADRs. Accordingly, deposits or withdrawals of common shares for ADRs will not be subject to U.S. federal income tax.

#### **Taxation of Dividends**

Subject to the discussion under “—Passive Foreign Investment Company” below, the gross amount of distributions on the ADRs or our common shares (including amounts withheld to reflect Brazilian withholding taxes and distributions of interest on shareholders’ equity, as described above under “—Brazilian Tax Considerations”) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of our common shares, or by the depositary, in the case of ADRs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

With respect to non-corporate U.S. Holders, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. Subject to certain limitations, a foreign corporation is treated as a qualified foreign corporation with respect to dividends received from that corporation on shares (or ADRs backed by such shares) that are readily tradable on an established securities market in the United States. U.S. Treasury Department guidance indicates that the ADRs (which are listed on the NYSE), but not our common shares, are readily tradable on an established securities market in the United States. Thus, although we believe that dividends received with respect to ADRs currently meet the conditions required for those reduced tax rates, we do not believe that dividends received with respect to common shares (rather than ADRs) currently meet the conditions required for those reduced tax rates. We cannot assure you that the ADRs will be considered readily tradable on an established securities market in later years. Non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as “investment income” pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to a dividend if the recipient of the dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Furthermore, non-corporate U.S. Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a passive foreign investment company (as discussed below under “—Passive Foreign Investment Company”) in the taxable year in which such dividends are paid or in the preceding taxable year. You should consult your own tax advisors regarding the application of these rules given your particular circumstances.

The amount of any dividend paid in *reais* will equal the U.S. dollar value of the *reais* received calculated by reference to the exchange rate in effect on the date the dividend is received by you, in the case of common shares, or by the depository, in the case of ADRs, regardless of whether the *reais* are converted into U.S. dollars. If the *reais* received as a dividend are converted into U.S. dollars on the date they are received, you generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the *reais* received as a dividend are not converted into U.S. dollars on the date of receipt, you will have a basis in the *reais* equal to their U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the *reais* will be treated as U.S. source ordinary income or loss.

Subject to certain conditions and limitations, Brazilian withholding taxes on distributions (including distribution of interest on shareholders' equity) will be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the ADRs or our common shares will be treated as income from sources outside the United States and will generally constitute passive category income. In addition, in certain circumstances, if you have held ADRs or common shares for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on the ADRs or common shares. 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. Instead of claiming a credit, you may, at your election, deduct such otherwise creditable Brazilian withholding taxes in computing your taxable income, but only for a taxable year in which you elect to do so with respect to all foreign income taxes paid or accrued in such taxable year and subject to generally applicable limitations under U.S. law.

To the extent that the amount of any distribution (including amounts withheld to reflect Brazilian withholding taxes and distributions of interest on shareholders' equity, as described above under "Brazilian Tax Considerations") exceeds our current and accumulated earnings and profits for a taxable year, as determined under U.S. federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the ADRs or common shares, and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange (as discussed below under "Taxation of Capital Gains"). However, we do not expect to calculate earnings and profits in accordance with U.S. federal income tax principles. Therefore, you should assume that a distribution will generally be treated as a dividend (as discussed above).

Distributions of common shares or ADRs, or rights to subscribe for common shares or ADRs, which are received as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

#### **Passive Foreign Investment Company**

Based on our financial statements, relevant market and shareholder data, and the projected composition of our income and valuation of our assets, including goodwill, we do not believe we were a PFIC for U.S. federal income tax purposes for 2017, and we do not expect to be a PFIC for 2018 or in the future, although we can provide no assurances in this regard.

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income, or
- at least 50% of the value (determined on a quarterly basis) of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, cash is a passive asset and passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income.

The determination of whether we are a PFIC must be made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our income or asset composition. Because we have valued our goodwill based on the market value of our equity, a decrease in the price of our ADRs or common shares may also result in our becoming a PFIC. If we are a PFIC for any taxable year during which you hold our ADRs or common shares, you will be subject to special tax rules discussed below and could suffer adverse tax consequences.

If we are a PFIC for any taxable year during which you hold our ADRs or common shares, you will be subject to special tax rules with respect to any "excess distribution" received and any gain realized from a sale or other disposition, including a pledge, of ADRs or common shares. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ADRs or common shares will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADRs or common shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In addition, non-corporate U.S. Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You will generally be required to file Internal Revenue Service Form 8621 if you hold our ADRs or common shares in any year in which we are classified as a PFIC.

If we are a PFIC for any taxable year and any of our non-United States subsidiaries is also a PFIC, a U.S. Holder would be treated as owning a proportionate amount (by value) of the common shares of the lower-tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

In certain circumstances, in lieu of being subject to the excess distribution rules discussed above, you may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such stock is regularly traded on a qualified exchange. Under current law, the mark-to-market election may be available to holders of ADRs because the ADRs are listed on the NYSE, which constitutes a qualified exchange, although there can be no assurance that the ADRs will be "regularly traded" for purposes of the mark-to-market election. It should also be noted that only the ADRs and not the common shares are listed on the NYSE. Our common shares are listed on the *Novo Mercado* (New Market) of the São Paulo Stock Exchange, which must meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable Treasury regulations for purposes of the mark-to-market election, and no assurance can be given that the common shares will be "regularly traded" for purposes of the mark-to-market election.



If you make an effective mark-to-market election, you will include in each year that we are a PFIC as ordinary income the excess of the fair market value of your ADRs or common shares at the end of the year over your adjusted tax basis in the ADRs or common shares. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted tax basis in the ADRs or common shares over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, in each year that we are a PFIC any gain you recognize upon the sale or other disposition of your ADRs or common shares will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

Your adjusted tax basis in the ADRs or common shares will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADRs or common shares are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

Alternatively, you can sometimes avoid the rules described above by electing to treat a PFIC as a “qualified electing fund” under Section 1295 of the Code. This option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election. You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding ADRs or common shares if we are considered a PFIC in any taxable year.

#### ***Taxation of Capital Gains***

For U.S. federal income tax purposes, you will recognize taxable gain or loss on any sale, exchange or redemption of common shares or ADRs in an amount equal to the difference between the amount realized for the common shares or ADRs (including any amounts withheld to reflect Brazilian withholding taxes) and your tax basis in the common shares or ADRs, both determined in U.S. dollars. Subject to the discussion under “—Passive Foreign Investment Company” above, such gain or loss will generally be capital gain or loss. Capital gains of non-corporate holders derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as U.S. source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any Brazilian tax imposed on the disposition of our common shares or ADRs unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from sources outside the United States in the appropriate category for foreign tax credit purposes.

#### ***Other Brazilian Taxes***

It is important to note that any Brazilian IOF/Exchange Tax or IOF/Bonds Tax (as discussed above under “—Brazilian Tax Considerations”) will not be treated as a creditable foreign tax for U.S. federal income tax purposes, although you may be entitled to deduct such taxes, subject to applicable limitations under the Code. You should consult your tax advisors regarding the U.S. federal income tax consequences of these other Brazilian taxes.

#### ***Information Reporting and Backup Withholding***

In general, information reporting will apply to dividends in respect of common shares or ADRs and the proceeds from the sale, exchange or redemption of common shares or ADRs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. Backup withholding may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

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

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

The Company makes its filings in electronic form under the EDGAR filing system of the U.S. Securities and Exchange Commission. Its filings are available through the EDGAR system at [www.sec.gov](http://www.sec.gov). In addition, the Company's filings are available to the public over the internet at BRF's web site at <http://www.brf-br.com/ir>. Such filings and other information on its website are not incorporated by reference in this Annual Report on Form 20-F. You may request a copy of this filing, and any other report, at no cost, by contacting us at:

Investor Relations Department  
BRF S.A.  
Rua Hungria, 1400 - 5th Floor  
01455-000 - São Paulo - SP - Brazil  
Tel.: +55 11 2322-5377  
E-mail: [acoesi@brf-br.com](mailto:acoesi@brf-br.com)

**I. Subsidiary Information**

See Note 1.1 to our consolidated financial statements for a description of the Company's subsidiaries.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to a variety of market risks related to potential losses resulting from adverse changes in interest rates, exchange rates and the price of some commodities. We have established policies and procedures to manage our sensitivity to such risks, the so-called Financial Risk Management Policy. These procedures include the monitoring of our level of exposure to each market risk through an analysis based on our balance-sheet exposure combined with an analysis of expected cash flows. We also use derivative financial instruments to mitigate our exposure to these risks, guided by our risk policy under the management of our Financial Risk Management Committee, our board of executive officers and our board of directors.

Our risk management department is responsible for monitoring, evaluating and reporting our financial risk. Our board of directors is responsible for approving our risk policy and periodically evaluating improvements to it, defining the limits of risk tolerance for different types of risks to which we are exposed and defining action plans to align the risks within these limits. Our Financial Risk Management Committee is in charge of the execution of our risk policy, which includes supervising the risk management process, planning and verifying the impact of the decisions implemented, evaluating and approving hedging alternatives, and monitoring the exposure levels to risks in order to ensure compliance with our risk policy. Our risk policy defines the risk management strategies to be adopted. Among other things, our risk policy does not authorize us to engage in leveraged transactions in derivative markets and states that the notional amount of individual hedging transactions must be limited to 2.5% of our shareholders' equity.

Under IFRS, we have accounted for our derivative instruments using the fair value method. For more information on our financial instruments and risk management, see Note 4 to our consolidated financial statements.

The following section describes the significant market risks associated to our activities and the related financial instruments.

## Interest Rate Risk

We are exposed to risk from changes in interest rates, which may be caused by factors related to the global economic crisis, changes in monetary policy in the Brazilian and foreign markets, and other factors. Our interest rate exposure under our indebtedness is primarily to the LIBOR rate, the TJLP rate, the UMBNDES rate and the CDI rate. We also have indebtedness denominated in *reais* and U.S. dollars that bear interest at fixed rates. With regards to our marketable securities, our principal exposure is to the CDI rate for investments in the Brazilian market. Our marketable securities in foreign markets are generally U.S. dollar instruments at a fixed coupon.

The table below provides information about our financial instruments that are sensitive to changes in interest rates at December 31, 2017. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. The information is presented in *real* equivalents. The instruments' actual cash flows are denominated in U.S. dollars, euro and *reais*, as applicable, once these currencies are subject to interest rate risks. See also "Foreign Exchange Risk" below, which describes our foreign exchange derivatives. Even though these derivatives were entered into primarily to manage foreign exchange risk, they may also have an interest rate risk component because certain derivatives are linked to variable interest rates such as the CDI rate.

To facilitate the analysis of market risk, the table below includes cash, cash equivalents and debt (amounts in millions of *reais*, except weighted average annual interest rates).

Financial Instruments	All-in weighted average annual interest rate	Short Term	2019	2020	2021	2022	Thereafter	Fair value
<b>Assets - Short/Long-term</b>		<b>6,367.1</b>	<b>704.0</b>	<b>272.6</b>	-	-	-	<b>7,343.7</b>
<b>Fixed rate</b>		<b>2,400.8</b>	<b>157.6</b>	-	-	-	-	<b>2,558.3</b>
In US dollar	0.51%	2,279.4	157.6	-	-	-	-	2,436.9
Other Currencies	7.23%	121.4	-	-	-	-	-	121.4
<b>Variable rate</b>		<b>3,812.3</b>	<b>217.6</b>	<b>272.6</b>	-	-	-	<b>4,302.5</b>
In Reais	99.14% CDI	3,646.0	217.6	-	-	-	-	3,863.5
In Reais	100% SELIC	166.3	-	82.4	-	-	-	248.7
In Reais	IGPM +12%	-	-	190.2	-	-	-	190.2
		-	-	-	-	-	-	-
<b>Without rate</b>		<b>154.0</b>	<b>328.8</b>	-	-	-	-	<b>482.9</b>
In Reais	-	135.0	276.9	-	-	-	-	411.9
In US dollar	-	13.9	-	-	-	-	-	13.9
Other Currencies		5.2	51.9	-	-	-	-	57.1
		-	-	-	-	-	-	-
<b>Liabilities - Short/Long-term</b>		<b>5,031.4</b>	<b>3,983.9</b>	<b>1,684.7</b>	<b>125.4</b>	<b>3,106.2</b>	<b>6,512.9</b>	<b>20,444.4</b>
<b>Fixed rate</b>		<b>2,627.2</b>	<b>927.5</b>	<b>505.5</b>	<b>125.4</b>	<b>2,510.8</b>	<b>5,815.4</b>	<b>12,511.9</b>
In Reais	7.78%	2,138.8	923.9	0.0	0.0	-	-	3,062.7
In US dollar	4.55%	78.5	-	448.8	82.7	475.2	5,005.0	6,890.2
In Euros	2.75%	31.0	-	-	-	1,966.6	-	1,997.5
In ARS	26.1%	120.6	3.6	56.8	42.7	69.1	10.4	312.1
Other Currencies	15.95%	249.2	-	-	-	-	-	249.2
		-	-	-	-	-	-	-
<b>Variable rate</b>		<b>2,404.1</b>	<b>3,056.4</b>	<b>1,179.2</b>	-	<b>595.4</b>	<b>697.4</b>	<b>7,932.5</b>
In Reais		1,453.9	3,060.0	1,068.9	-	-	697.4	6,280.3
Index	TJLP+2.28%	177.0	122.3	19.3	-	-	-	318.7
Index	IGPM+4.9%	3.5	-	245.8	-	-	0.0	249.4
Index	97.84% CDI	1,137.1	2,846.3	780.0	-	-	697.4	5,460.9
Index	SELIC+2.26%	136.3	91.4	23.8	-	-	-	251.4
In US dollar		947.5	(3.7)	110.3	-	-	-	1,054.1
Index	LIBOR+2.61%	946.5	-	110.3	-	-	-	1,056.8
Index	UMBNDDES+1.73%	2.6	1.0	-	-	-	-	3.6
In Euro		2.7	-	-	-	595.4	-	598.1
Index	EURIBOR+2.05%	2.7	-	-	-	595.4	-	598.1
		-	-	-	-	-	-	-
<b>Net</b>		<b>1,335.7</b>	<b>3,279.9</b>	<b>1,412.1</b>	<b>125.4</b>	<b>3,106.2</b>	<b>6,512.9</b>	<b>13,100.7</b>

## Foreign Exchange Risk

In managing our foreign exchange risk, we try to balance our assets denominated in foreign currency against our liabilities also denominated in foreign currency. We also consider future cash flows resulting from transactions in foreign currency, especially exports denominated in U.S. dollars, euro and pounds sterling. We usually enter into derivative instruments, mainly local short-term swaps, to manage such foreign exchange risk, but these derivatives generally do not cover 100% of the principal amount of our U.S. dollar-denominated obligations.

The table below provides information about our financial instruments and presents such information in *real* equivalents as of December 31, 2017. The table summarizes information on instruments and transactions that are sensitive to foreign currency exchange rates. The table presents principal cash flows and related weighted average interest rates by expected maturity dates (amounts in millions of *reais*, except average annual interest rates).

On-balance Sheet Financial Instruments	Short Term	2019	2020	2021	2022	Thereafter	Fair value
<b>US dollars denominated instruments</b>	<b>1,253.3</b>	<b>161.2</b>	<b>(559.1)</b>	<b>(82.7)</b>	<b>(475.2)</b>	<b>(5,895.0)</b>	<b>(5,507.4)</b>
<b>Assets</b>	-	-	-	-	-	-	-
Short/Long-term investments	2,279.4	157.6	-	-	-	-	2,436.9
Average annual interest rate	0.28%	3.82%	-	-	-	-	-
<b>Liabilities</b>	-	-	-	-	-	-	-
Short/Long-term debt	1,026.0	(3.7)	559.1	82.7	475.2	5,895.0	7,944.4
Average annual interest rate	3.99%	1.62%	4.3%	3.86%	4.48%	4.59%	-
<b>Euro denominated instruments</b>	<b>(33.7)</b>	-	-	-	<b>(2,561.9)</b>	-	<b>(2,595.6)</b>
<b>Assets</b>	-	-	-	-	-	-	-
Short/Long-term investments	-	-	-	-	-	-	-
Average annual interest rate	-	-	-	-	-	-	-
<b>Liabilities</b>	-	-	-	-	-	-	-
Short/Long-term debt	33.7	-	-	-	2,561.9	-	2,595.6
Average annual interest rate	2.67%	-	-	-	2.52%	-	-
<b>ARS denominated instruments</b>	<b>(129.6)</b>	<b>(3.6)</b>	<b>(56.8)</b>	<b>(42.7)</b>	<b>(69.1)</b>	<b>(10.4)</b>	<b>(312.1)</b>
<b>Liabilities</b>	-	-	-	-	-	-	-
Short/Long-term debt	129.6	3.6	56.8	42.7	69.1	10.4	312.1
Average annual interest rate	26.31%	26.43%	25.81%	25.81%	26.13%	25.81%	-
<b>Other Currencies denominated instruments</b>	<b>(122.7)</b>	<b>51.9</b>	-	-	-	-	<b>(70.8)</b>
<b>Assets</b>	-	-	-	-	-	-	-
Short/Long-term investments	126.6	51.9	-	-	-	-	178.5
Average annual interest rate	6.94%	0%	-	-	-	-	-
<b>Liabilities</b>	-	-	-	-	-	-	-
Short/Long-term debt	249.2	-	-	-	-	-	249.2
Average annual interest rate	15.95%	-	-	-	-	-	-

(1) Includes overnight deposits, time deposits, long-term Brazilian government bonds, credit linked notes and other short-term investments.

(2) Denominated in U.S. dollars.

The table below presents our derivative financial instruments under which we have exposure to foreign exchange risk and interest rate risk, using the notional amounts and weighted average exchange rates by expected (contractual) maturity dates.

Exchange / Interest rate derivatives	Short Term	2019	2020	2021	2022	Thereafter	Fair value
<b>Total Notional</b>	<b>9,653.0</b>	<b>989.2</b>	-	-	-	-	<b>(115.6)</b>
<b>Cross currency swaps:</b>	250.0	156.4	-	-	-	-	(238.2)
<b>Receive U.S.\$ Pay R\$</b>	-	-	-	-	-	-	-
Notional amount	-	156.4	-	-	-	-	1.3
Average annual interest received in U.S.\$	-	2.7%	-	-	-	-	-
Average annual interest paid in 110.9% of CDI	-	7.6%	-	-	-	-	-
Duration	-	1.3	-	-	-	-	-
<b>Receive R\$. Pay U.S.\$</b>	-	-	-	-	-	-	-
Notional amount	250.0	-	-	-	-	-	(153.0)
Average annual interest received in R\$	7.8%	-	-	-	-	-	-
Average annual interest paid in U.S.\$	1.6%	-	-	-	-	-	-
Duration	0.4	-	-	-	-	-	-
<b>Interest rate swaps:</b>	231.0	832.8	-	-	-	-	10.6
<b>Receive U.S.\$ Pay U.S.\$</b>	-	-	-	-	-	-	-
Notional amount	181.0	333.8	-	-	-	-	(13.3)
Average annual interest received in U.S.\$ Libor	-	-	-	-	-	-	-
1.54% + spread	4.2%	4.2%	-	-	-	-	-
Average annual interest paid in U.S.\$	5.5%	5.9%	-	-	-	-	-
Duration	0.4	1.1	-	-	-	-	-
<b>Receive R\$. Pay R\$</b>	-	-	-	-	-	-	-
Notional amount	50.0	499.0	-	-	-	-	23.9
Average annual interest received in R\$	7.8%	9.6%	-	-	-	-	-
Average annual interest paid in 91.6% of CDI	4.5%	6.5%	-	-	-	-	-
Duration	0.4	1.3	-	-	-	-	-
<b>Non-deliverable forward</b>	5,952.6	-	-	-	-	-	28.8
<b>Receive R\$. Pay U.S.\$</b>	-	-	-	-	-	-	-
Notional amount	957.6	-	-	-	-	-	(4.2)
Average annual interest received in R\$	8.1%	-	-	-	-	-	-
Average annual interest paid in U.S.\$	-	-	-	-	-	-	-
Duration	0.1	-	-	-	-	-	-
<b>Receive R\$. Pay Euro</b>	-	-	-	-	-	-	-
Notional amount	59.2	-	-	-	-	-	(0.6)
Average annual interest received in R\$	23.8%	-	-	-	-	-	-
Average annual interest paid in Euro	-	-	-	-	-	-	-
Duration	0.1	-	-	-	-	-	-
<b>Receive R\$. Pay Pounds</b>	-	-	-	-	-	-	-
Notional amount	110.9	-	-	-	-	-	(0.9)
Average annual interest received in R\$	17.2%	-	-	-	-	-	-
Average annual interest paid in Pounds	-	-	-	-	-	-	-
Duration	0.1	-	-	-	-	-	-
<b>Receive Euro Pay U.S.\$</b>	-	-	-	-	-	-	-
Notional amount	2,168.9	-	-	-	-	-	36.2
Average annual interest received in Euro	0.6%	-	-	-	-	-	-
Average annual interest paid in U.S.\$	-	-	-	-	-	-	-
Duration	0.3	-	-	-	-	-	-
<b>Receive Euro Pay R\$</b>	-	-	-	-	-	-	-
Notional amount	118.3	-	-	-	-	-	0.2
Average annual interest received in Euro	10.4%	-	-	-	-	-	-
Average annual interest paid in U.S.\$	-	-	-	-	-	-	-
Duration	0.0	-	-	-	-	-	-
<b>Receive U.S.\$ Pay R\$</b>	-	-	-	-	-	-	-
Notional amount	2,656.0	-	-	-	-	-	(2.0)
Average annual interest received in U.S.\$	5.3%	-	-	-	-	-	-
Average annual interest paid in R\$	0.0%	-	-	-	-	-	-
Duration	0.3	-	-	-	-	-	-
<b>FX Options:</b>	3,100.3	-	-	-	-	-	(2.9)
Notional amount U.S.\$	3,100.3	-	-	-	-	-	(2.9)
Duration	0.3	-	-	-	-	-	-
<b>FX Futures:</b>	119.1	-	-	-	-	-	(0.2)
Notional amount	119.1	-	-	-	-	-	(0.2)
Duration	0.1	-	-	-	-	-	-

The table below provides further detail on our foreign currency-denominated assets and liabilities as of the dates indicated below.

	As of December 31,	
	2017	2016
<b>(in millions of R\$)</b>		
Cash and cash equivalents	278.1	27.7
Trade accounts receivable - third parties	862.2	1,512.4
Trade accounts payable	31.4	(707.3)
Loans and financing	(6,136.4)	(5,425.2)
Hedge <sup>(1)</sup>	3,049.7	3,477.7
Investments, net	1,985.7	441.8
Other assets and liabilities, net	(15.4)	74.8
Foreign exchange exposure in U.S.\$	55.4	(598.3)

<sup>(1)</sup> Swaps, U.S. dollar futures and embedded derivative not designated as hedge accounting instruments, that impact our financial results and not our shareholders' equity.

We account for the exchange rate variation clauses of our export prepayment facilities as hedging instruments that mitigate the risk of exchange rate variations relating to our exports. See "Item 5. Operating and Financial Review and Prospects-B. Liquidity and Capital Resources-Export Credit Facilities-Export Prepayment Facilities" for a general description of our export prepayment facilities. For more information about our accounting relating to these facilities, see Note 4.2.2.d to our consolidated financial statements.

The table below presents a sensitivity analysis relating to our foreign exchange risk that considers five scenarios in the next twelve months for the variations in exchange rates between the *real* and the U.S. dollar, the *real* and the euro, and the *real* and the pound sterling. We have adopted what we believe is the most likely scenario shown in the table. The total of export sales analyzed corresponds to the total of derivative financial instruments plus the amortization flow under export prepayment facilities designated as hedge accounting instruments.

Parity - Brazilian Reais x U.S. Dollar		3.3080	2.9772	2.4810	4.1350	4.9620
Transaction/Instrument	Risk	Current	Scenario I	Scenario II	Scenario III	Scenario IV
		Scenario	10% appreciation	25% appreciation	25% devaluation	50% devaluation
Designated as hedge accounting						
Non-deliverable forward	Devaluation of R\$	(1.3)	94.1	237.2	(239.9)	(478.4)
Options - currencies	Devaluation of R\$	0.7	115.1	313.6	(277.9)	(688.7)
Export prepayments	Devaluation of R\$	(300.8)	(231.9)	(128.5)	(473.1)	(645.4)
Bonds	Devaluation of R\$	(343.1)	(254.2)	(120.9)	(565.3)	(787.4)
Swaps	Devaluation of R\$	(157.8)	(117.0)	(55.9)	(259.8)	(361.7)
Exports (object)	Appreciation of R\$	802.2	396.2	(240.0)	1,810.1	2,870.3
Costs (object)	Appreciation of R\$	0.1	(2.3)	(5.6)	5.8	11.3
Not designated as hedge accounting						
NDF - Purchase	Appreciation of R\$	(24.1)	(288.7)	(685.7)	637.5	1,299.1
Futures purchase - B3	Appreciation of R\$	(0.2)	(12.1)	(30.0)	29.6	59.3
Net effect		(24.3)	(300.8)	(715.7)	667.1	1,358.5

Parity - Brazilian Reais x Euro		3.9693	3.5724	2.9779	4.9616	5.9540
Transaction/Instrument	Risk	Current	Scenario I	Scenario II	Scenario III	Scenario IV
		Scenario	10% appreciation	25% appreciation	25% devaluation	50% devaluation
Designated as hedge accounting						
Non-deliverable forward	Devaluation of R\$	(0.7)	5.3	14.2	(15.6)	(30.4)
Exports (object)	Appreciation of R\$	0.7	(5.3)	(14.2)	15.6	30.4
Not designated as hedge accounting						
NDF - Purchase EUR x U.S.\$	Devaluation of R\$	33.1	(185.2)	(512.7)	578.9	1,124.7
NDF - Purchase	Devaluation of R\$	(0.9)	(12.8)	(38.7)	28.8	58.6
Net effect		32.2	(198.0)	(543.4)	607.7	1,183.3
Parity - Brazilian Reais x GBP		4.4714	4.0243	3.3536	5.5893	6.7071
Transaction/Instrument	Risk	Current	Scenario I	Scenario II	Scenario III	Scenario IV
		Scenario	10% appreciation	25% appreciation	25% devaluation	50% devaluation
Designated as hedge accounting						
Non-deliverable forward	Devaluation of R\$	(1.0)	10.1	26.9	(29.0)	(56.9)
Exports (object)	Appreciation of R\$	1.0	(10.1)	(26.9)	29.0	56.9
Net effect		-	-	-	-	-

- (1) Represents contract liabilities from prepayment and exports.  
(2) Represents net sales from exports that have hedge instruments indicated in this table.

#### Commodity Price Risk

In the normal course of our operations, we purchase commodities, mainly corn, soy meal and live hogs, which make up a significant portion of our raw materials and costs of production.

Corn and soy meal prices are subject to volatility resulting from weather conditions, crop yield, transportation costs, storage costs, agricultural policy of the government, foreign exchange rates and the prices of these commodities on the international market, among other factors. The price of hogs acquired from third parties is subject to market conditions and are determined by supply and demand in the international market, among other factors.

Our risk policy provides guidelines to hedging against increases in the price of corn and soy meal. In 2017, we used derivative instruments such as corn futures in addition to inventory management for this purpose.

The table below presents the notional amounts of our derivative financial instruments under which we have exposure in the corn price:

Commodities derivatives	Short Term	2018	2019	2020	2021	Thereafter	Fair value
<b>Commodities Futures:</b>	676.3	-	-	-	-	-	(5.8)
<b>Receive Corn/ Pay U.S.\$</b>	-	-	-	-	-	-	-
Notional amount (Ton/U.S.\$)	491.6	-	-	-	-	-	(4.5)
Duration	0.3	-	-	-	-	-	-
<b>Receive U.S.\$/ Pay Corn</b>	-	-	-	-	-	-	-
Notional amount (Ton/U.S.\$)	54.7	-	-	-	-	-	0.7
Duration	0.7	-	-	-	-	-	-
<b>Receive U.S.\$/ Pay Soy</b>	-	-	-	-	-	-	-
Notional amount (Ton/U.S.\$)	23.0	-	-	-	-	-	1.1
Duration	0.2	-	-	-	-	-	-
<b>Receive Soy Oil/ Pay U.S.\$</b>	-	-	-	-	-	-	-
Notional amount (Ton/U.S.\$)	15.0	-	-	-	-	-	0.01
Duration	0.5	-	-	-	-	-	-
<b>Receive Soybean / Pay U.S.\$</b>	-	-	-	-	-	-	-
Notional amount (Ton/U.S.\$)	92.0	-	-	-	-	-	(3.0)
Duration	0.6	-	-	-	-	-	-
<b>SoyBean Options:</b>	49.9	-	-	-	-	-	(1.5)
Notional amount (Ton/U.S.\$)	49.9	-	-	-	-	-	(1.5)
Duration	0.4	-	-	-	-	-	-
<b>Corn Futures:</b>	99.1	-	-	-	-	-	0.3
Notional amount (Ton/U.S.\$)	99.1	-	-	-	-	-	0.3
Duration	0.4	-	-	-	-	-	-

The table below presents a sensitivity analysis relating to our commodity price risk that considers five scenarios in the next twelve months for the variations in *Corn*, *Soybean meal* and *Soybean* prices.

Price parity CBOT - Corn - U.S.\$/Ton		143.85	129.47	107.89	179.81	215.78
Transaction/Instrument	Risk	Current Scenario	Scenario I Decrease 10%	Scenario II Decrease 25%	Scenario III Increase 25%	Scenario IV Increase 50%
<b>Designated as hedge accounting</b>						
NDF - Corn Sale	Increase in corn price	1.0	3.6	7.6	(5.5)	(12.0)
NDF - Corn purchase	Decrease in corn price	(4.2)	(27.6)	(62.7)	54.3	112.8
Costs (object)	Decrease in corn price	3.1	23.9	55.1	(48.8)	(100.8)
Net effect		-	-	-	-	-
Price parity CBOT - Soybean meal - U.S.\$/Ton		127.11	114.40	95.33	150.89	190.66
Transaction/Instrument	Risk	Current Scenario	Scenario I Decrease 10%	Scenario II Decrease 25%	Scenario III Increase 25%	Scenario IV Increase 50%
<b>Designated as hedge accounting</b>						
NDF - Soybean meal purchase	Decrease in soybean meal price	(1.1)	(4.9)	(10.7)	8.6	18.3
Soybean meal options		(0.2)	(5.6)	(14.3)	6.2	20.8
Costs (object)	Increase in soybean meal price	1.3	10.5	25.1	(14.8)	(39.1)
Net effect		-	-	-	-	-
Price parity CBOT - Soybean - U.S.\$/Ton		353.38	318.04	265.04	441.73	530.07
Transaction/Instrument	Risk	Current Scenario	Scenario I Decrease 10%	Scenario II Decrease 25%	Scenario III Increase 25%	Scenario IV Increase 50%
<b>Designated as hedge accounting</b>						
NDF - Soybean purchase	Decrease in soybean price	(1.1)	(3.7)	(7.8)	5.7	12.4
Costs (object)	Increase in soybean price	1.1	3.7	7.8	(5.7)	(12.4)
Net effect		-	-	-	-	-

#### Equity Risk

On August 16, 2017, we sold 12,134,300 of our common shares at a cost of R\$650,373, with a sale value of R\$509,875 and, on the same date, entered into a Total Return Swap, or TRS, contract, registered in B3, in amounts equivalent to the common shares sold. The TRS contract matures on February 5, 2019, with no possibility of renewal. The contract provides for intermediary settlements in 60 tranches of equally proportional amounts, between August 15, 2018 and the maturity date of February 5, 2019. The settlement amount for the contract will be (A) the market value of our common shares at the date of settlement, less (B) the reference price of the common shares agreed at the inception of the contract, plus an interest rate of 110.5% of CDI. Settlement will be either a payment from or to the counterparty, depending on whether (A) is more or less than (B).

The table below presents the notional amounts of our derivative financial instruments under which we have exposure in equity prices:

Equity derivatives	Short Term	2019	2020	2021	2022	Thereafter	Fair value
Total Return Swap							
Receive BRFS3/ Pay R\$							
Notional amount (R\$)		510.1					(86.4)
Average annual interest to be paid in fixed-rate <sup>(1)</sup>		7.6%					
Duration		1.1					

<sup>(1)</sup> The number represents an estimative based in the interest rate futures curve and does not denote what will happen.

During the lifespan of the TRS contracts, the marking to market price will be registered on a monthly basis in our financial statements, under the financial expenses item, and the changes may result in relevant impacts (positive or negative) in our net income. As of December 31, 2017, we had recorded R\$86.4 million of financial expenses in connection with this TRS contract. The table provides a sensitivity analysis of our TRS contract demonstrating the potential impact in 4 different scenarios:

Price parity - Brazilian Reais/BRFS3		36.60	40.26	45.75	27.45	18.30
Transaction/Instrument	Risk	Current Scenario	Scenario I 10% increase	Scenario II 25% increase	Scenario III 25% decrease	Scenario IV 50% decrease
<b>Not designated as hedge accounting</b>						
Total Return Swap	Decrease in BRFS3 price	(86,416)	(40,990)	27,149	(199,982)	(313,548)
<b>Net effect</b>		<b>(86,416)</b>	<b>(40,990)</b>	<b>27,149</b>	<b>(199,982)</b>	<b>(313,548)</b>

#### ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

##### A. Debt Securities

Not applicable.

##### B. Warrants and Rights

Not applicable.

##### C. Other Securities

Not applicable.

##### D. American Depositary Shares

The following table sets for the fees and charges that a holder of ADRs may have to pay pursuant to our Amended and Restated Deposit Agreement, dated as of November 2, 2011 (the "Deposit Agreement"), with The Bank of New York Mellon, as depositary, in connection with our ADR program:

#### Fees and Reimbursement Provisions



Rates and Fees	Service
1. U.S.\$0.05 (or less) per ADR	Issuance of ADRs, including issuances resulting from a distribution of shares, rights or other property; and Cancellation of ADRs for the purpose of withdrawal, including if the deposit agreement terminates.
2. U.S.\$0.02 (or less) per ADR	Any cash distribution to ADR holders.
3. U.S.\$0.02 (or less) per ADRs per calendar year	Depository services.
4. A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADRs	Distribution of securities distributed to holders of deposited securities which are distributed by the Depository to ADR holders.
5. Registration or transfer fees	Transfer and registration of shares on BRF's share registry to or from the name of the Depository or its agent when you deposit or withdraw shares.
6. Expenses of the Depository	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement); and Converting foreign currency to U.S. dollars.
7. Taxes and other governmental charges the Depository or the Custodian may have to pay on any ADR or share underlying an ADR	As necessary.
8. Any charges incurred by the Depository or its agents for servicing the deposited securities	As necessary.

The fee and reimbursement provisions described in rows 3. and 8. of the table above may, at the depository's discretion, be billed to the holders of ADRs or deducted from one or more cash dividends or other cash distributions.

For the year ended December 31, 2017, pursuant to a letter agreement between BRF and the depository, the depository reimbursed us for fees, expenses and related taxes in the gross amount of U.S.\$2.2 million or net amount of U.S.\$1.6 million.

A form of the Deposit Agreement is filed as Exhibit 2.01 to this Annual Report on Form 20-F. We encourage you to review this document carefully if you are a holder of ADRs.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

### ITEM 15. CONTROLS AND PROCEDURES

#### A. Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 20-F, management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ("Exchange Act"). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective. Consistent with the guidance issued by the Securities and Exchange Commission that an assessment of recently acquired businesses may be omitted from management's report on internal control over financial reporting in the year of acquisition, management excluded the assessment of the effectiveness of internal control over financial reporting of the following company acquired in 2017: Banvit Bandirma Vitamini Yem SanaYii A.S. For information about the significance of these entities, see "- B. Management's Annual Report on Internal Control Over Financial Report." Based on our management's evaluation and subject to the exclusions of the recently acquired companies listed above, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2017, our disclosure controls and procedures were effective at the reasonable assurance level.

**B. Management's Annual Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the 2013 criteria in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Consistent with the guidance issued by the Securities and Exchange Commission that an assessment of recently acquired businesses may be omitted from management's report on internal control over financial reporting in the year of acquisition, management excluded the assessment of the effectiveness of internal control over financial reporting of the following companies acquired in 2017:

Entities	Transaction Date	As of December 31, 2017			
		Total Assets (in millions of Reais)	Percentage of BRF Total Assets (%)	Net Assets (in millions of Reais)	Percentage of BRF Net Assets (%)
Banvit Bandirma Vitamini Yem Sanayi A.S.	May 25, 2017	1,146.8	2.54%	533.1	4.55%

  

Entities	Transaction Date	For the year ended December 31, 2017			
		Net Sales (in millions of Reais)	Percentage of BRF Net Sales (%)	Net Profit (Loss) (in millions of Reais)	Percentage of Net Profit (Loss) (%)
Banvit Bandirma Vitamini Yem Sanayi A.S.	May 25, 2017	1,385.1	4.14%	154.6	14.07%

The amounts above were included in our consolidated financial statements for the year ended December 31, 2017.

Based on its assessment and subject to the exclusions listed above, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2017, based on criteria in Internal Control-Integrated Framework, issued by the COSO (2013).

KPMG Auditores Independentes, an independent registered public accounting firm, which has audited and reported on the consolidated financial statements contained in this Annual Report on Form 20-F, has issued an attestation report on management's assessment of our internal control over financial reporting.