

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.

Year	Reais per U.S. Dollar			
	High	Low	Average	Period End
2010	1.8811	1.6554	1.7596	1.6662
2011	1.9016	1.6345	1.6746	1.8758
2012	2.1121	1.7024	1.9550	2.0435
2013	2.4457	1.9528	2.1605	2.3426
2014 (through March 20)	2.4397	2.3094	2.3740	3.3420

Month	Reais per U.S. Dollar		
	High	Low	
October 2013		2.2123	2.1611
November 2013		2.3362	2.2426
December 2013		2.3817	2.3102
January 2014		2.4397	2.3335
February 2014		2.4238	2.3334
March 2014 (through March 20)		2.3649	2.3094

Source: Central Bank.

The exchange rate on March 20, 2014 was U.S.\$1.00 per R\$2.3420.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to Our Business and Industry

Our results of operations are subject to cyclicalities 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, a particular concern given the recent significant depreciation of the Brazilian *real* against the U.S. dollar. 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 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 cyclicalities and volatility on costs and expenses or the pricing of our products, and our overall financial performance may be adversely affected. Natural disasters, pandemics or extreme weather, including floods, excessive cold or heat, hurricanes or other storms, as well as fires, such as a recent one we experienced at our plant in Toledo that required the temporary re-allocation of plant functions to other facilities, could impair the health or growth of livestock or interfere with our operations due to power outages, damage to our production and processing facilities or disruption in transportation channels or information systems, among other issues.

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 suppliers because such contracts are not customary in our industry. In 2013, the average corn price in Brazil was 11.2% lower than the average corn price in 2012, and prices were considerably lower throughout the year. For example, corn prices in December 2013 were 23.8% lower than in December 2012. In 2013, the average soybean meal price in Brazil was 3.7% higher than the average price in 2012, and comparing December 2012 to December 2013, soybean meal prices in Brazil were up by 10.6%. The effect of decreases or increases in the price of raw materials on our gross margin is greater for our products that are similar to commodities in nature, rather than our value-added products. They are also affected by political and market conditions in the regions where suppliers are located.

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) but any product contamination could have a material adverse impact on our business, results of operations, financial condition and prospects.

Recent and future 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." 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 Heloisa 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.

In addition, on May 7, 2013, BRF undertook to sell and JBS undertook to acquire the Ana Rech Industrial Unit located in the state of Rio Grande do Sul (pork processing plant and poultry farms), the biological assets (live animals) and the real estate located at Granja André da Rocha, in the municipality of Nova Prata, in the state of Rio Grande do Sul.

On November 1, 2013, BRF and Minerva S.A. entered into an investment agreement that lays out the terms and conditions of an operation through which BRF will allocate its beef slaughtering plants in Várzea Grande and Mirassol, as well as the BRF employees involved in these activities, to a closed capital company that will be incorporated within Minerva, in return for equity in Minerva. Closing is subject to unconditional approval by CADE. For more details on these and other transactions, see “—2013 Acquisitions, Joint Ventures and Other Investments.”

We may be unable to realize synergies and efficiency gains from our recent acquisitions. In addition, we may be unable to identify, negotiate or finance future acquisitions, particularly as part of our international growth strategy and BRF 17 guidelines, successfully or at favorable valuations, or to effectively integrate these acquisitions with our current businesses. Any future acquisitions of businesses, technologies, services or products might require us to obtain additional equity or debt financing, which may not be available on favorable terms, or at all. Future acquisitions may result in unforeseen operating difficulties and expenditures, as well as strain on our organizational culture.

We may not be able to fully execute our business strategy.

Our ability to implement our business strategy depends on a number of factors, including our ability to:

- Maximize operating efficiencies through economies of scale and synergies;
- Identify and negotiate favorable terms for future acquisitions, joint ventures and divestitures;
- Continue to expand and gain market share in new export markets; and
- Implement our BRF 17 business strategy.

Our BRF 17 Strategic Plan is an important pillar of our growth strategy. It is guided by eleven key principles, demonstrating the cycle change and guiding our strategic planning. These include building a strong and unique culture, an orientation towards customers and clients, robust and flexible medium-term value chain planning, and ensuring service levels are a true element of differentiation from competitors, among others.

Deterioration of general economic conditions could negatively impact our business.

Our business may be adversely affected by changes in Brazilian and global economic conditions such as the recent 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. 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. After the challenging scenario in 2012, when exports of Brazilian chicken to Europe and certain areas of the Middle East continued to decline and oversupply in certain other markets undermined our profitability, we saw gradual recovery on these issues in 2013, especially in markets such as Japan and the Middle East. 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 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, which may result in the destruction of some or all of these animals. Our poultry business in Brazilian and export markets could also 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 648 confirmed human cases of avian influenza and over 384 deaths, according to the World Health Organization, or "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. 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. In addition, in Mexico the H7N3 virus has caused serious damage to the local poultry industry. From January to August 2013, OIE reported 64 outbreaks, with 695.6 thousand cases of bird infections and 550.3 thousand deaths in the country. See "Item 4: Information on the Company-Business Overview-Export Markets" for further details.

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.

We may also be subject from time to time to additional outbreaks of animal-related diseases, such as Pork and Epidemic Diarrhea (PED) and foot-and-mouth disease affecting cattle. See “Item 5: Operating and Financial Review and Prospects—A. Operating Results—Effect of Animal Diseases—Other Animal Diseases” for further information.

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 tariffs 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. In 2007, Russia reopened its market to Brazilian pork and beef from certain states, after having imposed restrictions in 2006. Again in June 2011, Russia imposed restrictions on imports of Brazilian poultry, pork and beef from about 100 producing units due to alleged sanitary concerns, including a complete ban on imports from the states of Rio Grande do Sul, Santa Catarina and Mato Grosso. There has been some progress toward the reopening of these units, but nothing has been agreed upon yet, despite several meetings between technical bodies from the two governments. Up to November 2013, 5 of our 20 pork producing units were authorized to export, 22 of our 56 bovine meat units were authorized to export, and 8 out of 38 of our poultry units were approved to export, one of which under enhanced control.

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. 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 interrupted Brazilian exports. The final resolution of the investigation, announced in December 2012 in favor of Brazil, with no application of anti-dumping penalties.

In March 2009, Ukraine initiated an anti-dumping investigation on imports of poultry meat originating in the U.S. and Brazil. In 2010, the investigation on Brazilian exports was halted when no evidence of dumping was found.

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, between late 2012 and early 2013, several countries (including Japan, South Africa, China, Saudi Arabia, Peru, Lebanon and others) suspended Brazilian bovine imports after a possible case of Bovine Spongiform Encephalopathy, or “BSE,” in the state of Paraná was reported. Throughout 2013, some countries have resumed imports from Brazil, but most embargoes remain.

In addition, many developed countries use direct and indirect subsidies to enhance the competitiveness of their producers in other markets. In addition, local producers in some markets 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.

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 40.0% in 2011, 41.6% in 2012, and 43.8% in 2013. 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, particularly since the election of the most recent President, Nicolás Maduro;
- decreases in demand, particularly from large markets such as China;
- 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 are parties to 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. 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.

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 performance depends on favorable labor relations with our employees and our compliance with labor laws. Any deterioration of those relations or increase in labor costs could adversely affect our business.

As of December 31, 2013, we had a total of 110,138 employees worldwide. All of our production employees are represented by labor unions. Upon the expiration of existing collective bargaining agreements or other collective labor agreements, we may not reach new agreements without union action and any such agreements may not be on terms satisfactory to us, which could result in us paying higher wages or benefits to union workers. If we are unable to negotiate acceptable labor agreements, we may become subject to work stoppages or strikes.

Labor costs is one of our most significant expenditures. In 2013, they represented 15.0% of our cost of goods sold, representing an increase of 4.2% compared to 2012.

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 to R\$10 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.

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 2013 are included in “Item 8. Financial Information—Legal Proceedings” and Note 25 to our consolidated financial statements. We may face risks arising from tax liabilities and the monetization of tax credits, which can negatively impact our results.

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.

As of December 31, 2013, we had R\$48.2 million in provisions for civil contingencies, R\$141.5 million in provisions for tax contingencies and R\$276.1 million in provisions for labor contingencies. See note 25 to our consolidated financial statements.

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.” If it were to become necessary to revisit this contractual structure, we could incur additional operating expenses.

With regard to tax contingencies, we are currently defendants in tax cases that involves tax credit offsets. These cases have not yet reached a final ruling by the Brazilian courts. We expect the collection of evidence and materials for each lawsuit to take several years.

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, as well as the expenses associated to this losses can impact our results.

We rely on our positive image and reputation in the marketplace.

BRF has a strong image related to solid corporate governance and is reviewed as aligned with values such as trust, ethics and transparency, which we wish to maintain. We have a clear image and reputation risk policy that supports all business segments and its commercial standards cover internal and external market relations. In cases of bad publicity or acts that may negatively affect our image, we have put a Crisis Committee in place to work with BRF stakeholders. Any negative reflection on our image or the strength of our brand could have a negative impact on our results of operations, as well as our ability to achieve our growth 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 2011, fires affected a part of the installations of our Nova Mutum, Mato Grosso unit and part of the installations of our Brasilia 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 December 31, 2013, our total consolidated debt (comprised of short-term and long-term debt) was R\$10,181.2 million (U.S.\$4,346.1 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;
- increasing our expenditures due to depreciations in the Brazilian *real*, which can lead to an increased amount of capital needed to service indebtedness that are denominated in U.S. dollars;
- 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 December 31, 2013, we had R\$2,696.6 million of debt that matures in 2014, R\$356.9 million of debt that matures in 2015, R\$280.2 million of debt that matures in 2016, R\$947.2 million of debt that matures in 2017 and R\$5,900.3 million of debt that matures in 2018 and thereafter.

A substantial portion of our outstanding debt is denominated in foreign currencies, primarily U.S. dollars. As of December 31, 2013, we had R\$6,108.7 million of foreign currency debt, including R\$281.4 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 *reals* 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.

The global stock and credit markets experienced extreme disruption in 2008 and 2009, including severely diminished liquidity, constrained credit availability and extreme volatility in securities prices. Any future uncertainty in the stock and credit markets could also 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, or
- we are unable to refinance any of our debt that becomes due,

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 or rationalization;
- liquidity of domestic capital and lending markets;
- changes in environmental regulation; and
- social and political instability, particularly in light of recent protests against public policy and related vandalism in major Brazilian cities.

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 and the market price of our common shares or the ADRs.

A presidential election will be held in Brazil in 2014. The President of Brazil has considerable power to determine governmental policies and actions that relate to the Brazilian economy and, consequently, affect the operations and financial performance of businesses, such as our company. The run-up to the presidential election may result in changes in existing governmental policies, and the post-election administration—even if incumbent Dilma Rouseff is re-elected—may seek to implement new policies. For example, the current administration or the post-election administration may face domestic pressure to retreat from the current macroeconomic policies in an attempt to achieve higher rates of economic growth. We cannot predict what policies will be adopted by the Brazilian government and whether these policies will negatively affect the economy or our business or financial performance. In addition, uncertainty leading up to and after the election over whether the Brazilian government may implement changes in policy or regulations may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian issuers.

Inflation, and government measures to curb inflation, may adversely affect the Brazilian economy, the Brazilian securities market, our business and operations, financial condition and the market prices of our common shares or the ADRs.

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 9.8% in 2008, 1.7% in 2009, 11.3% in 2010, 5.1% in 2011, 7.82% in 2012 and 5.4% in 2013. In addition, according to the IPCA, published by the IBGE, Brazilian consumer price inflation rates were 5.9% in 2010, 6.5% in 2011, 5.8% in 2012 and 5.9% in 2013. In 2010, 2011, 2012 and 2013 the actual inflation rate was significantly higher than the Central Bank’s target of 4.5% with a tolerance range of two percentage points above or below. See “Item 5. Operating and Financial Review and Prospects—A. Operating and Financial Review and Prospects—Principal Factors Affecting Our Results of Operations—Brazilian and Global Economic Conditions” and “—Effects of Exchange Rate Variations and Inflation.”

Brazil may continue experiencing high levels of inflation in 2014, above the Central Bank’s target. Periods of higher inflation like in 2013 slow the growth rate of the Brazilian economy, which may lead to lower growth in consumption of food products. Inflation also is likely to continue to put pressure on industry costs of production and expenses, which will force companies to search for innovative solutions in order to remain competitive. We may not be able to pass this cost onto our customers and, as a result, it 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, financial condition and the market prices of our common shares and the ADRs.

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 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. In 2013, the *real* depreciated 15.8% against the U.S. dollar.

Appreciation of Brazilian *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. 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 appreciation could reduce the competitiveness of our exports and adversely affect our net sales and our cash flows from exports. On the other hand, a depreciation of Brazilian *real* against the U.S. dollar may lead to higher exports and revenues, but costs may be higher.

Costs are also directly impacted by the exchange rate. 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\$6,108.7 million at December 31, 2013, representing approximately 60.0% of our total consolidated indebtedness at that date. Although we manage a portion of our exchange rate risk through foreign currency derivative instruments and future cash flows from exports in U.S. dollars and other foreign currencies, our foreign currency debt obligations are not completely hedged. A significant devaluation of the *real* in relation to the U.S. dollar or other currencies would increase the amount of *reais* that we would need in order to meet debt service requirements of our foreign currency-denominated obligations.

Fluctuations in interest rates may have an adverse effect on our business, financial condition and the market prices of our common shares or the ADRs.

The interest rate is one of the instruments used by the Central Bank to keep inflation under control or to stimulate the economy. In 2013, inflation reached 5.91%, according to IBGE. If interest rates fall much, the population has greater access to credit and consume more. This increase in demand can push prices if the industry is not prepared to meet higher consumption. On the other hand, if interest rates go up, the monetary authority inhibits consumption and investment once they get more expensive. Brazilian government used the benchmark interest rate (SELIC), in 2013 to control the inflation impacting the credit. Another consequence is the greater return paid by the government securities, impacting directly in the investments which became less attractive. Investment in debt absorbs money that would fund the productive sector.

At the end of former president Luiz Inacio 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, 5.8% in 2012, and 5.9% in 2013 leading to the Central Bank's decision to increase interest rates to stabilize the economy.

At December 31, 2013, approximately 21.9% of our total liabilities with respect to indebtedness and derivative instruments of R\$10,538.4 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 tax rates 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.

On November 11, 2013, Provisional Measure No. 627 was published which revokes the Transition Tax Regime ("RTT") and introduces other measures, among them: (i) amendments in Decree-Law No. 1,598/77 which deals with the corporate income tax as well as amending the relevant legislation to social contribution on net income, (ii) provides that with respect to the amendment or adoption of accounting methods and criteria through administrative acts issued based on jurisdiction assigned by business law, which are subsequent to the publication of this Provisional Measure, there is no implication in the calculation of federal taxes until tax law regulates the subject; (iii) includes specific treatment on the potential taxation of profits or dividends; (iv) includes provisions concerning the calculation of interest on shareholders' equity and (v) includes considerations on investments measured at equity method.

The provisions of the Provisional Measure are in force from 2015 onwards. The early adoption for 2014 may eliminate potential tax effects, especially related to payment of dividends and interest on shareholders' equity that were effectively paid up to the date of publication of this Provisional Measure as well as equity pick. We understand that given the legislation published so far, its early adoption or not, would result in non-material adjustments in our consolidated financial statements regarding "RTT" matters. However, the proposed changes regarding profits earned abroad could result in an increase of our income tax burden. Our management awaits the evolution and negotiations of the amendments to the text of the Provisional Measure so that we can evaluate their impact on our business.

Risks Relating to Our Common Shares and the ADRs***Holders of ADRs may find it difficult to exercise voting rights at our shareholders' meetings.***

Holders of ADRs may exercise voting rights with respect to our common shares represented by ADSs and evidenced by ARSs only in accordance with the deposit agreement governing the ADRs. Holders of ADRs face practical limitations in exercising their voting rights because of the additional steps involved in our communications with ADRs holders. For example, we are required to publish a notice of our shareholders' meetings in specified newspapers in Brazil. Holders of our common shares are able to exercise their voting rights by attending a shareholders' meeting in person or voting by proxy. By contrast, holders of ADRs will receive notice of a shareholders' meeting by mail from the ADR depositary if we give notice to the depositary requesting the depositary to do so. To exercise their voting rights, holders of ADRs must instruct the ADR depositary on a timely basis. This voting process necessarily takes longer for holders of ADRs than for holders of our common shares. If the ADR depositary fails to receive timely voting instructions for all or part of the ADRs, the depositary will assume that the holders of those ADRs are instructing it to give a discretionary proxy to a person designated by us to vote their ADRs, to the extent permitted by the rules of the New York Stock Exchange.

Holders of ADRs also may not receive the voting materials in time to instruct the depositary to vote our common shares underlying the ADSs that are evidenced by their ADRs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions of the holders of ADRs or for the manner of carrying out those voting instructions. Accordingly, holders of ADRs may not be able to exercise voting rights, and they have little, if any, recourse if the common shares underlying the ADSs that are evidenced by their ADRs are not voted as requested.

Non-Brazilian holders of ADRs and common shares may face difficulties in protecting their interests because we are subject to different corporate rules and regulations as a Brazilian company, and our shareholders may have less extensive rights.

Holders of ADRs are not direct shareholders of our company and are unable to enforce the rights of shareholders under our bylaws and the Brazilian Corporation Law.

Our corporate affairs are governed by our bylaws and the Brazilian Corporation Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the State of Delaware or New York, or elsewhere outside Brazil. Even if a holder of ADRs surrenders its ADRs and becomes a direct shareholder, its rights as a holder of our common shares under the Brazilian Corporation Law to protect its interests relative to actions by our board of directors or executive officers may be fewer and less well-defined than under the laws of those other jurisdictions.

Although insider trading and price manipulation are crimes under Brazilian law, the Brazilian securities markets are subject to different levels of regulations and supervision than the U.S. securities markets or the markets in some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well defined and enforced in Brazil than in the United States and certain other countries, which may put holders of our common shares and the ADRs at a potential disadvantage. Corporate disclosures also may be less complete or informative than for a public company in the United States or in certain other countries.

Non-Brazilian holders of ADRs and common shares may face difficulties in serving process on or enforcing judgments against us and other persons.

We are a corporation (*sociedade anônima*) organized under the laws of Brazil, and all of our directors and executive officers and our independent public accountants reside or are based in Brazil. Most of the assets of our company and of these other persons are located in Brazil. As a result, it may not be possible for non-Brazilian holders of ADRs and common shares to effect service of process upon us or these other persons within the United States or other jurisdictions outside Brazil or to enforce against us or these other persons judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain conditions are met, holders may face greater difficulties in protecting their interests in the case of actions by us or our directors or executive officers than would shareholders of a U.S. corporation.

Judgments of Brazilian courts with respect to our common shares may be payable only in reais.

If proceedings are brought in the courts of Brazil seeking to enforce our obligations in respect of the common shares, we may not be required to discharge our obligations in a currency other than *reais*. Under Brazilian exchange control limitations, an obligation in Brazil to pay amounts denominated in a currency other than *reais* may only be satisfied in Brazilian currency at the exchange rate, as determined by the Central Bank, in effect on the date the judgment is obtained, and such amounts are then adjusted to reflect exchange rate variations through the effective payment date. The then prevailing exchange may not afford non-Brazilian investors with full compensation for any claim arising out of or related to our obligations under the common shares or the ADRs.

Holders of ADRs and non-Brazilian holders of our common shares may be unable to exercise preemptive rights and tag-along rights with respect to our common shares underlying the ADSs evidenced by their ADRs.

Holders of ADRs and non-Brazilian holders of our common shares may be unable to exercise the preemptive rights and tag-along rights relating to our common shares (including common shares underlying the ADSs evidenced by their ADRs) unless a registration statement under the U.S. Securities Act of 1933, as amended, or the "Securities Act," is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights, and we cannot assure you that we will file any such registration statement. Unless we file a registration statement or an exemption from registration is available, a holder may receive only the net proceeds from the sale of his or her preemptive rights or tag-along rights, or if these rights cannot be sold, they will lapse and the holder will receive no value from them.

Provisions in our bylaws may prevent efforts by our shareholders to change our control or management.

Our bylaws contain provisions that may discourage, delay or make more difficult a change in control of our company or removal of our directors. Subject to limited exceptions, these provisions require any shareholder that acquires shares representing 20.0% or more of our share capital to, within 30 days from the date of such acquisition, commence a tender offer with respect to all of our share capital for a price per share equivalent to the greatest of: (1) the economic value of our company, which shall be equivalent to the arithmetic average of the mean points of the economic value ranges obtained in two appraisal reports prepared based on the discounted cash flow method, as long as the variation between these mean points shall not exceed 10.0%, in which case the economic value shall be determined through arbitration; (2) 135.0% of the issue price of the shares issued in any capital increase through a public offering that takes place within the 24-month period before the date on which the public offering shall become mandatory, duly adjusted in accordance with the IPCA variation up to the date of payment; and (3) 135.0% of the unit price of our shares within the 30-day period before the public offering. These provisions of our bylaws may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our shareholders.

Holders of ADRs could be subject to Brazilian income tax on capital gains from sales of ADRs.

Historically, any capital gain realized on a sale or other disposition of ADRs between non-Brazilian holders outside Brazil was not subject to Brazilian income tax. However, a December 2003 Brazilian law (Law No. 10,833, of December 29, 2003) provides that “the acquirer, individual or legal entity resident or domiciled in Brazil, or the acquirer’s attorney-in-fact, when such acquirer is resident or domiciled abroad, shall be responsible for the retention and payment of the income tax applicable to capital gains earned by the individual or legal entity resident or domiciled abroad who disposes of property located in Brazil.” The Brazilian tax authorities have issued a normative instruction confirming that they intend to assess income tax on capital gains earned by non-Brazilian residents whose assets are located in Brazil. It is unclear whether ADSs representing our common shares and evidenced by ADRs, which are issued by the ADR depository outside Brazil, will be deemed to be “property located in Brazil” for purposes of this law. Accordingly, we cannot determine whether Brazilian tax authorities will attempt to tax any capital gains arising from the sale or other disposition of the ADRs, even when the transaction is consummated outside Brazil between non-Brazilian residents.

Brazilian taxes may apply to a gain realized by a non-Brazilian holder on the disposition of common shares to another non-Brazilian holder.

The gain realized by a non-Brazilian holder on the disposition of common shares to another non-Brazilian holder (other than a disposition of shares held pursuant to Resolution No. 2,689, as amended, of the Brazilian National Monetary Council (*Conselho Monetário Nacional*), or “CMN,” is generally viewed as being subject to taxation in Brazil. Pursuant to Article 26 of Law No. 10,833/03, Brazilian tax authorities may assess income tax on capital gains earned by non-Brazilian residents in transactions involving assets that are located in Brazil. In this case, the tax rate applicable on the gain would be 15.0% (or 25.0% in the case of a non-Brazilian holder organized under the laws of or a resident of a tax haven). For additional discussion of the tax consequences of a disposition of our common shares, see “Item 10. Additional Information--Taxation.”

The relative volatility and limited liquidity of the Brazilian securities markets may negatively affect the liquidity and market prices of our common shares and the ADRs.

The Brazilian securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The Brazilian Securities, Commodities and Futures Exchange, BM&FBOVESPA had a total traded volume of R\$1.7 trillion, or U.S.\$767.1 billion, at December 31, 2013 and an average daily trading volume of R\$7.4 billion, or U.S.\$3,459.5 million, in 2013. By contrast, the New York Stock Exchange had a market traded volume of U.S.\$19.0 trillion at December 31, 2013 (U.S. domestic listed companies) and an average daily trading volume of U.S.\$54.7 billion in 2013. The Brazilian securities markets are also characterized by considerable share concentration.

The ten largest companies in terms of market capitalization represented approximately 51.18% of the aggregate market capitalization of the São Paulo Stock Exchange at December 31, 2013. In addition, the ten most widely traded stocks in terms of trading volume accounted for approximately 41.3% of all shares traded on the São Paulo Stock Exchange in 2013. These market characteristics may substantially limit the ability of holders of the ADRs to sell common shares underlying ADSs evidenced by ADRs at a price and at a time when they wish to do so and, as a result, could negatively impact the market prices of these securities.

Developments and the perception of risks in other countries, especially emerging market countries, may adversely affect the market prices of our common shares and the ADRs.

The market for securities issued by Brazilian companies is influenced, to varying degrees, by economic and market conditions in other emerging market countries. Although economic conditions are different in each country, the reaction of investors 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 also is affected by international economic and market conditions generally, especially economic and market conditions in the United States. Share prices on the São Paulo Stock Exchange, for example, have historically been sensitive to fluctuations in U.S. interest rates as well as movements of the major U.S. stock indexes.

Developments in other countries and securities markets could adversely affect the market prices of our common shares or the ADRs 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.

We may become a passive foreign investment company, which could result in adverse U.S. tax consequences to U.S. investors.

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 that we were a passive foreign investment company, or "PFIC," for U.S. federal income tax purposes for 2013, and we do not expect to be a PFIC for 2014 or in the future, although we can provide no assurances in this regard. If we become a PFIC, U.S. holders of our common shares or ADRs may become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, for any taxable year we will be classified as a PFIC for U.S. tax purposes if either (i) 75.0% or more of our gross income in that taxable year is passive income or (ii) the average percentage of our assets (which includes cash) by value in that taxable year which produce or are held for the production of passive income is at least 50.0%. The calculation of the value of our assets will be based, in part, on the quarterly market value of our common shares and ADRs, which is subject to change. See "Item 10. Additional Information--E. Taxation--U.S. Federal Income Tax Considerations--Passive Foreign Investment Company."