

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to Our Business and Industry

Pandemics or human disease outbreaks, such as the novel coronavirus (COVID-19), may disrupt consumption and trade patterns, supply chains and production processes, which could materially affect our operations and results of operations.

Pandemics or human disease outbreaks, such as the novel coronavirus (COVID-19) originating in China in late 2019 and declared a global pandemic by the World Health Organization on March 11, 2020, may adversely affect our business and operations. The worldwide spread of COVID-19 has triggered the implementation of significant measures by governments and private sector entities that, in turn, have disrupted consumption and trade patterns, supply chains and production processes on a global scale and specifically relating to our business, including with respect to product shipments. In addition, customers from certain regions in which we operate are being affected, mainly by the measures of social distancing imposed by authorities and restrictions on public gatherings or interactions, which may limit the opportunity for our customers to purchase our products. The consequences of the pandemic could also result in the destabilization of commodity prices or the economies and financial markets of many countries, resulting in an economic downturn that could affect demand for our products and have a material adverse effect on our results of operations. Any deterioration in the credit cycle of our customers as a result of the pandemic or the measures implemented to address it, may adversely affect our results and cash flows in the future.

Our operations include global production and distribution facilities, and if there is an outbreak of a human disease such as COVID-19 in our facilities or the communities where we operate and distribute our products, our production, operations, employees, suppliers, customers and distribution channels could be severely impacted. Ports and other channels of entry may be closed or operate at only a portion of capacity, as workers may be prohibited or otherwise unable to report to work, and means of transporting products within regions or countries may be limited for the same reason, along with the potential for transport restrictions related to quarantines or travel bans. In addition, countries to which we export our products may institute bans on the importation of our products, products produced by our partners or on all or some food products from Brazil in general based on perceived COVID-19 concerns.

Since the beginning of the global pandemic, we have continued to operate our plants, distribution centers, logistics, supply chain and administrative offices, although currently we have implemented a remote work program in some of our corporate offices, and we had to close our Lajeado plant for a week in May 2020 and our Rio Verde plant for 14 days in June 2020, in each case as the result of an outbreak. Our operations may be further affected by COVID-19 through reduction of the available labor force, reducing the productivity of manufacturing operations, lack of raw materials and packaging, and delay in line growth and maintenance projects due to reduced availability of third-party suppliers. We have incurred direct and incremental expenditures, mainly related to personnel, prevention, control, logistics and philanthropic donations, as a result of the pandemic in the amount of R\$499,299 thousand.

Despite having more visibility on the impact of the pandemic compared to March 2020, we may still suffer changes in our operational performance, which may in turn adversely affect our financial position. We also recognize that unfavorable operating results may have an adverse impact on our financial metrics, such as leverage. At the same time, we may experience increases in general customer default rates in connection with the pandemic and a resulting increase in our expected credit losses. The possible deterioration in the credit cycle of our customers may adversely affect our results, financial position and cash flows in the future.

The recent increase in volatility of market risks has significantly affected the fair value of our assets and liabilities, particularly considering wide variations in foreign exchange rates. Additionally, the heightened uncertainty of projections has increased the challenge of accurately measuring certain of our assets and liabilities.

The COVID-19 pandemic also resulted in a widespread health crisis that destabilized commodity prices and the economic conditions and financial markets of many countries, resulting in an economic downturn that could affect demand for our products and have a material adverse effect on our results of operations. The current pandemic and any future pandemics could also adversely affect consumer demand, as quarantines may inhibit consumption, and restrictions on public gatherings or interactions may limit the opportunity for our customers and consumers to purchase our products. In addition, demand for our products has been affected as a result of the COVID-19 pandemic worldwide, especially in our international operations, due to the partial discontinuation of our foodservice channel, weakening of global commercial activities, reduction of population income, and changes in consumption habits. As a result, over the past year we have observed lower average prices as a consequence of relocating production from foodservice to other channels with lower prices and profitability, ultimately having an adverse effect on our results of operations and financial position.

Our results of operations are subject to cyclicalities and volatility affecting the prices of commodities, poultry and pork, which could adversely affect our entire business.

Our business is largely dependent on the cost and supply of corn, soy meal, soybeans, hogs, packaging (resin, petrol), food ingredients, animal feed ingredients and other raw materials, as well as the selling prices of our poultry and pork. These prices are determined by 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 and hog production levels, environmental and conservation regulations, economic conditions, Covid-19 Pandemic, weather, animal and crop diseases, cost of national and international freight and exchange rate and interest rate fluctuations. In addition, prices for our raw materials, including corn, soy meal and soybeans, have been affected, and may continue to be affected, by the ongoing trade dispute between the U.S. and China, China soybean and corn purchases and crop results due to the weather conditions, all of them reflecting in the world commodities stock prices. Any changes in the price of raw materials required to produce our products as a result of the foregoing or other factors could have a material impact on our business.

Our industry, both in Brazil and abroad, is generally characterized by cyclical periods of higher prices and higher profitability, followed by overproduction, leading to periods of lower prices and lower profitability or losses. There can be no assurance that we will be able to adequately adapt to any such cyclicalities or volatility, which may have an adverse effect on our operations and financial results.

Natural disasters or extreme weather, including floods, excessive cold or heat, hurricanes or other storms, as well as any interruption at our plants that may require the temporary re-allocation of plant functions to other facilities could, among other things, 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.

The prices of our raw materials, including corn, soy meal and soybeans, have been affected, and may continue to be affected, by the ongoing trade dispute between the U.S. and China. It is unclear whether this trade dispute will be resolved and what effects it may have on global political and economic conditions in the long term. For more information on the trade dispute between the U.S. and China, see “—More stringent trade barriers in key export markets may negatively affect our results of operations.” Any changes in the price of raw materials required for our production as a result of the foregoing or other factors could have a material adverse impact on our business.

Health and food safety risks related to our business and the food industry could adversely affect our production and shipping processes as well as 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 and sabotage, the possible unavailability and expense of liability insurance, public perception of product safety for both the industry as a whole and also our products specifically, but not exclusively, as a result of disease outbreaks or the fear of such outbreaks, the potential cost and disruption of a product recall and possible impacts on our image and brands. Among such risks are those related to raising animals, including disease and adverse weather conditions. For example, the perceived risk of contamination of our food or related packaging by COVID-19 led to production, shipping and sales disruptions in Brazil and our export markets, particularly in China, in early 2020.

Meat can be subject to contamination during processing and distribution. In particular, processed meat may become exposed to various disease-producing pathogens, including *Listeria monocytogenes*, *Salmonella enteritidis*, *Salmonella tiphimurium* and *E. coli O157:H7*. These pathogens can also be introduced to our products during production or as a result of improper handling by third-party food processors, franchisees, distributors, foodservice providers or consumers. Spoilage, especially spoilage due to failure of temperature-controlled storage and transportation systems, is also a risk. The systems we maintain to monitor food safety risks throughout all stages of production and distribution could fail to function properly and product contamination could still occur. Failures in our systems to ensure food safety could result in harmful publicity that could cause damage to our brands, reputation and image and negatively impact sales, which could have a material adverse impact on our business, results of operations, financial condition and prospects.

On February 13, 2019, we announced a voluntary recall of approximately 164.7 metric tons of fresh chicken meat for the Brazilian domestic market and approximately 299.6 metric tons of fresh chicken meat for the international market due to a potential presence of *Salmonella enteritidis*. This recall and possible future recalls have resulted and may result, respectively, in increased costs and could negatively affect our brands' reputation. In the future, a product that has been actually or allegedly contaminated could result in product withdrawals or recalls, disposal of product inventory, negative publicity, temporary plant closings, substantial cost of compliance or remediation and potentially significant product liability judgments against us. Any of these events could result in a loss of demand for our products, which may have a material adverse effect on our business, results of operations, financial condition and prospects.

Even if our own products are not affected by contamination, our industry may face adverse publicity in certain of its markets if the products of other producers become contaminated, which could result in negative public perception about the safety of our products and reduced consumer demand for our products in the affected category. Significant lawsuits, widespread product recalls and other negative events faced by us or our competitors could result in a widespread loss of consumer confidence in the safety and quality of our products. Our sales are ultimately dependent on consumer preferences, and any actual or perceived health risks associated with our products could cause customers to lose confidence in the safety and quality of our products and have a material adverse impact on our business, results of operations, financial condition and prospects.

Outbreaks, or fears of outbreaks, of any animal diseases may lead to cancellation of orders by our customers and create adverse publicity that may have a material adverse effect on consumer demand for our products. Moreover, outbreaks of animal diseases in Brazil may result in foreign governmental action to close export markets for some or all of our products, which may result in the loss of some or all of these animals.

Our operations involve raising poultry and hogs and processing their meat, which requires us to maintain certain standards of animal health and disease control. We could be required to dispose of animals or suspend the sale or export 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: (i) in the case of hogs and certain other animals, foot-and-mouth disease, influenza (H5N1) and African swine fever and (ii) in the case of poultry, avian influenza and Newcastle disease. In addition, if the Porcine Reproductive and Respiratory Syndrome (PRRS), which has broken out in Europe and the United States in 1990 and 1985, respectively, the Porcine Epidemic Diarrhea (PEDV), which has broken out in Europe and the United States in 2014 and 2013, respectively, or the African swine fever which broke out in China in 2018, were to break out in Brazil, we could be required to dispose of hogs. While there have been outbreaks of Classical Swine Fever in Brazil, and although none have occurred in the free zones where we source our hogs for production, any such occurrence could require us to dispose the affected hogs. Disposal 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 and loss of inventory. An outbreak of foot-and-mouth disease or other similar diseases could have an effect on livestock we own and the availability of livestock for purchase. In addition, the global effects of avian influenza or other similar diseases would impact consumer perception of certain protein products and our ability to access certain markets, which would adversely affect our results of operations and financial condition.

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

In recent years, some human cases of avian influenza and related deaths were reported, according to the World Health Organization. The cases reported were caused by the H5N1 virus. In early 2017, Chile, a neighboring country to Brazil, confirmed the occurrence of avian influenza. In 2019 and 2020, several countries within Europe, Asia and Africa reported cases of highly pathogenic avian influenza in poultry. Additionally, Mexico also reported cases in 2019 and the United States also reported cases in 2020.

Even though Brazil has not yet had a documented case of avian influenza, 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 the required disposal of our poultry flocks, which would result in decreased sales in the poultry industry, prevent recovery of costs incurred in raising or purchasing poultry and result in additional expense for the disposal of 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 results of operations and financial condition. 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.

Climate change may negatively affect our business and results of operations.

According to the 16th Global Risks Report published by the World Economic Forum in January 2021, risks related to climate change are considered to be the most concerning for the world in the next 10 years.

We take into consideration the potential effects of climate change on our operations and supply chain, and we recognize vulnerabilities associated with natural resources and agricultural products that are essential for our activities. The main risks to our business that we have identified with respect to climate change relate to the changes in temperature (global warming) and rainfall, including drought and natural disasters (such as flooding and storms), which may affect agricultural productivity, animal welfare and the availability of water and energy. These changes may adversely affect our costs and results of operations, including by raising the price of agricultural commodities as a result of long periods of drought or excessive rainfall, increasing operating costs to ensure animal welfare, increasing the risk of rationing and raising the price of electricity. We may fail to effectively implement programs or have proper environmental or sustainability certifications related to reducing our exposure to climate change, which may adversely affect our business and results of operations in the future.

We are also subject to regulatory changes, such as carbon pricing or taxation, and changes in legislation for greenhouse gas emissions at the domestic and international levels. Any such changes may increase our costs and adversely affect our results of operations.

Our operations are largely dependent on electricity, and energy-related expenses are one of our highest fixed costs. Energy costs have historically fluctuated significantly over time and increases in energy costs could result in reduced profits. A significant interruption in energy supply or outright loss of energy at any of our facilities could result in a temporary disruption in production and delivery of products to customers and additional costs, materially adversely affecting our results of operations.

A significant portion of Brazil's electricity generation capacity is currently dependent on hydroelectric facilities. Hydroelectric production is vulnerable to a variety of factors, including levels of precipitation. There can be no assurance that our efforts to increase our energy efficiency and reduce electricity demand will be successful. If the amount of water available to energy producers becomes increasingly scarce due to drought or diversion for other uses, as has occurred in recent years, our energy expenses may increase, and our results of operations may be materially adversely affected.

Any shortage or lack of water, and any failure to comply with applicable rules and regulations related to water usage and management, could materially adversely affect our business and results of operations.

In the last century, water use has grown globally. According to the SDG6 Brief Report, published by United Nations Environment Programme, water scarcity affects more than 40% of the global population and this percentage is expected to increase. Over 1.7 billion people are currently living in river basins where water usage exceeds natural replenishment. Water is an essential resource for our businesses and is used in the production of grains and other agricultural inputs required for our production processes. The industrial use of water may also adversely affect its availability. As a result, the shortage or lack of water, including the increasing risk of droughts in the regions where we operate, represents a critical risk for our business and may materially and adversely affect our business and results of operations. We are also subject to restrictions on the volume of water that we can collect from the environment under our water usage permits, which may be lower than the actual water demands of our business in these areas. In the event we cannot collect enough water to meet our operational demands, due to restrictions under water permits or otherwise, our business and results of operations may be materially adversely affected.

The procedures that we have developed to reduce our water consumption and increase water reuse in order to comply with applicable rules and regulations, and to minimize our impact on the environment and the community, may prove to be ineffective or insufficient. Additionally, the methods we employ to analyze the water vulnerability of our industrial plants, as well as our assessments of the micro and macro watersheds in the regions in which we operate and the industrial activities and characteristics of the use of water resources, may be inaccurate in understanding local water demand growth. We may fail to accurately assess the water supply or anticipate water-related risks, and the increased industrial use of water by water intensive businesses may also adversely affect the continuing availability and quality of water in Brazil. This may result in us or our key suppliers encountering water shortages. Any of these factors may materially adversely affect our business and results of operations.

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 of particular concern, especially sanitary and technical restrictions.

As a result of the regulators' inquiries and the public announcement of allegations of wrongdoing involving us and other companies in the Brazilian meat industry in the context of the *Carne Fraca* Operation and *Trapaça* Operation, some export markets have been temporarily closed, and our average selling prices for some products and in some markets have decreased. For additional information, see "Health risks related to our business and the food industry could adversely affect our ability to sell our products" and "We have been subject to significant investigations relating to, among other things, food safety and quality control, and an adverse outcome of any of these investigations could result in penalties, fines or other forms of liability and could have a material adverse effect on our business, reputation, brand, results of operations and financial condition."

Some countries, such as Russia and South Africa, have a history of erecting trade barriers to imports of food products. Also, the European Union has adopted a quota system for certain poultry 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 European producers. Other countries have also imposed trade barriers against our products. For example, in August 2017, the Chinese government initiated an antidumping investigation in connection with Brazilian exports of whole chicken and chicken parts, including our exports. The investigation ended in February 2019, and Brazilian exporters agreed to certain minimum export prices for sales to China. Additionally, in August 2018, Iraq increased the tariff on poultry products from 10% to 60%. The South African producers' representatives have repeatedly filed requests with local authorities for the opening of an anti-dumping investigation against Brazilian poultry exporters.

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.

Trade disputes between other countries also creates uncertainties that may adversely affect Brazilian exports and our operations. For instance, the United States and China engaged in a trade dispute for almost 18 months, which has affected the global economy. On January 1, 2020, the United States and China signed the first phase of a trade agreement expected to alleviate the tensions between the two countries. A second phase of the agreement is expected to be even more difficult to achieve. There can be no assurances that the trade dispute will be fully resolved and that the global economy will not be further affected by it. The United States is expected to maintain the 25% tariffs on a wide range of U.S.\$250 billion of Chinese industrial goods and components used by the U.S. manufacturing sector. Both improvements in the countries' commercial relations and new mutually beneficial trade agreements at the expense of other countries may have a material adverse effect on our results of operations.

However, the current trade deal may not be maintained by the United States under the new Biden administration, especially since it has generally been regarded unfavorably, particularly for U.S. industry. The U.S. agribusiness sector, on the other hand, has largely benefited from the agreement, with a significant increase in poultry and pork exports, the reopening of the Chinese market to U.S. poultry exports, which had been halted since 2015 due to an avian influenza outbreak, and the accreditation of over 120 U.S. plants. These factors have positively affected the United States' market share of Chinese agricultural imports, which in turn has negatively affected Brazil's market share. We cannot control whether commercial tensions between China and the United States will increase again, or whether our business will be adversely affected as a result.

In addition, in April 2018, Saudi Arabia instituted a no-stunning requirement for the animal slaughtering process. Saudi Arabia claimed that Brazilian companies' chicken slaughtering practices violated Halal principles due to the use of an electric shock to stun the birds. We, along with other Brazilian companies, were therefore required to migrate our production processes to non-stunning slaughters in order to supply the Saudi Arabian market. We have incurred, and expect to incur, additional costs in connection with these requirements for exporting to Saudi Arabia. In January 2019, the Saudi Arabian Food and Drug Authority published a report authorizing 25 Brazilian facilities to produce chicken meat for the Saudi Arabian market, which included eight of our plants. One of our plants (Lajeado, Rio Grande do Sul), which had previously produced chicken meat for the Saudi Arabian market, was not included as an authorized plant. The continuous shifting of our production of chicken meat for Saudi Arabia to the authorized plants may result in decreased revenues and additional expenses.

In August 2019, Saudi Arabia imposed an embargo on seasoned chicken meat produced in our Kizad facility, in Abu Dhabi, which was restricted from exporting to Saudi Arabia. The embargo was a result of Saudi Arabia's Vision 2030 plan, announced in April 2016 as a national development plan, which included instruments to reduce the country's dependence on oil, diversify its economy and substitute imports with local production. Saudi Arabia then expanded the embargo to the other products from our Kizad facility. In October 2019, we announced that we had executed a non-binding Memorandum of Understanding with the Saudi Arabian General Investment Authority – SAGIA regarding our construction and operation of a poultry processing plant in Saudi Arabia. We estimate that the investment amount will be around R\$634 million (U.S.\$120 million, translated to reais at the exchange rate of R\$5.1967 as of December 31, 2020). The development of this project is currently in the technical specification and financial modelling phase. There can be no assurance that the Saudi Arabian government will not further restrict our ability to export our products to Saudi Arabia, which may result in a material adverse impact on our business, financial condition and results of operations. In February 2020, we received notification from the SFDA, the Saudi Arabian sanitary authority, regarding a report temporarily suspending two of our facilities, the Dois Vizinhos and the Francisco Beltrão plant, both located in the State of Paraná, from exporting chicken meat to Saudi Arabia. The SFDA informed us that the measure is temporary and, among other measures, requested that the Brazilian authorities provide more details about investigations carried out between 2014 and 2018 regarding alleged violations committed by us in the production of animal feed and PREMIX compound. For more information about these investigations, see “—We have been subject to significant investigations relating to, among other things, food safety and quality control, and an adverse outcome of any of these investigations could result in penalties, fines or other forms of liability and could have a material adverse effect on our business, reputation, brand, results of operations and financial condition.” Additionally, the Saudi government has been implementing, since January 2020, a previous import licenses system. In the future, this system may adversely affect our exports to the country, since it might be used by local authorities as a means to control the entry of products and thus, artificially affect demand and offer and, consequently, prices, which run counter to basic principles of international trade rules and regulations.

Trade barriers may also be imposed in our key export markets as a result of the COVID-19 pandemic, for example due to outbreaks of COVID-19 in our plants and restrictions that may be imposed on our products because of these outbreaks. For more information, see “–Pandemics or human disease outbreaks, such as the novel coronavirus (COVID-19), may disrupt consumption and trade patterns, supply chains and production processes, which could materially affect our operations and results of operations.”

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

Our manufacturing facilities and products are subject to governmental inspections and extensive regulation in the food safety area, including governmental food processing controls in all countries in which we operate. We incur significant costs in connection with our efforts to comply with applicable food safety and processing rules. Changes in government regulations relating to food safety, including as a result of the COVID-19 pandemic, or animal welfare could require us to make additional investments or incur additional costs to meet the necessary specifications for our products. Our products are often inspected outside of Brazil by foreign food safety officials, and any failure to pass those inspections could result in us being required to return all or part of a shipment to Brazil, recall certain products, dispose of all or part of a shipment or incur costs because of delays in delivering products to our customers. Although Brazil currently has limited regulations regarding animal welfare, we have adopted various international animal welfare standards to address our customers’ expectations. Any tightening of food safety or animal welfare regulations could result in increased costs and could have a material adverse effect on our business, results of operations, financial condition and prospects.

Environmental laws and regulations require increased 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 interference with protected areas, such as conservation units, archeological sites and permanent preservation areas, handling and disposing of waste, discharging pollutants into the air, water and soil, atmospheric emissions, noise and clean-up of contamination, all of which affect our business. Water management is especially crucial and poses many challenges to our operations. In Brazil, water use regulations impact farming operations, industrial production and hydroelectric power. Any failure to comply with any of these laws or 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 compensation for environmental damage. Civil penalties may include fines, the suspension of public subsidies and the temporary or permanent shutdown of commercial activities. Criminal penalties include fines, temporary loss of rights and prison (for individual offenders) and liquidation, temporary loss of rights, fines and community service (for legal entities). Additionally, pursuant to Brazilian environmental laws, the corporate defendant may be held liable (such that the stockholders of a company will be held liable for its debts) if necessary to guarantee the payment of costs related to the recovery of environmental damage whenever the corporate form is deemed by a court to be an obstacle to obtaining compensation for environmental damage.

We have incurred, and will continue to incur, operating expenses and capital expenditure requirements 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 may increase from current levels and may adversely affect the availability of funds for capital expenditures and other priorities. Compliance with existing or new environmental laws and regulations, as well as obligations in agreements with public entities, may result in increased costs and expenses.

Our plants are subject to environmental and operational licensing based on their pollution potential and use of natural resources. If one of our plants is built or expanded without an environmental license, or if our environmental licenses expire, are not timely renewed or have their request for renewal rejected by the competent environmental authority, we may incur fines and other administrative penalties, such as suspension of operations or closing of the facilities in question. Those same penalties may also be applicable in the case of a failure to fulfill the conditions of validity in the environmental licenses already held by us. Furthermore, we cannot operate a plant if the required environmental permit is not valid or updated. Currently, some of our environmental licenses are in the renewal process, and we cannot guarantee that environmental agencies will approve our requests for renewal. Brazilian CONAMA (“Conselho Nacional do Meio Ambiente”) Resolution 237 establishes that renewal of environmental licenses must be requested at least 120 days in advance of their expiration, so that the licenses may be automatically extended until a final decision from the environmental authority is reached. In addition, the environmental agency may condition the renewal on expensive facility upgrades if there have been regulatory changes in the environmental standards that the plant is required to meet, which may result in delays, disruptions or in the denial of the license.

We are also subject to similar environmental laws and restrictions in all jurisdictions where we have plants and operations, which may require us to incur significant costs.

Breaches, disruptions, or failures of our information technology systems, including as a result of cybersecurity attacks, could disrupt our operations and negatively impact our business and reputation.

Information technology is an important part of our business operations and we increasingly rely on information technology systems to manage business data and improve the efficiency of our production and distribution facilities and inventory management processes. We also use information technology to process financial information and results of operations for internal reporting purposes and to comply with regulatory, legal and tax requirements. In addition, we depend on information technology for digital marketing and electronic communications between our facilities, personnel, customers and suppliers. We also process personal data of our employees and customers. We depend on cryptography technology and electronic authentication programs provided by third parties to securely process the collection, storage and transmission of confidential information, including personal data.

Our information technology systems may be vulnerable to a variety of interruptions and cybersecurity threats and incidents. There are numerous and evolving risks related to cybersecurity and privacy, including criminal hackers, hacktivists, state-sponsored intrusions, industrial espionage, employee malfeasance and human or technological error. Computer hackers and others routinely attempt to breach the security of information technology systems and to fraudulently induce employees, customers and other third parties to disclose information or unwittingly provide access to systems or data. Successful cybersecurity attacks, breaches, employee malfeasance, or human or technological error may result in, for example, unauthorized access to, disclosure, modification, misuse, loss or destruction of data or systems, including those belonging to us, our customers or third parties; theft of sensitive, regulated or confidential data including personal information; the loss of access to critical data or systems through ransomware, destructive attacks or other means; transaction errors; business delays; and service or system disruptions. We have observed an increase in cybersecurity attacks worldwide in 2020, and the remote working arrangements that we have implemented due to the COVID-19 pandemic have increased our dependence on information technology systems and infrastructure, and they may further expand our vulnerability to this risk. In the event of such actions, we, our customers and other third parties may be exposed to potential liability, litigation, and regulatory or other government action, the loss of existing or potential customers, loss of sales, damage to brand and reputation and other financial loss. In addition, if we are unable to prevent security breaches, we may suffer financial and reputational damage or penalties because of the unauthorized disclosure of confidential information belonging to us or to our partners, customers, consumers or suppliers. The cost and operational consequences of responding to cybersecurity incidents and implementing remediation measures may be significant and may not be covered by insurance. Our cybersecurity risk also depends on factors such as the actions, practices and investments of customers, contractors, business partners, vendors and other third parties.

Our efforts to monitor, identify, investigate, respond to and remediate security incidents, including those associated with cybersecurity attacks, may not be adequate or sufficient. The measures that we have implemented regarding technology security and disaster recovery plan may not be adequate or sufficient. There can be no assurance that these efforts and measures will be successful in preventing a cybersecurity attack, a general information security incident or a disruption of our information technology systems. The occurrence of any such events may materially adversely affect our operations, business and reputation. Furthermore, as our business and the cybersecurity landscape evolve, we may find it necessary to make significant further investments to protect our data and information technology infrastructure, which may adversely impact our financial condition and results of operations.

The regulatory environment with regard to cybersecurity, privacy and data protection issues is increasingly complex and may have impacts on our business, including increased risk, costs and expanded compliance obligations. For example, on May 25, 2018, the Regulation (EU) 2016/679 of the European Parliament and of the Council of April 27, 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the “General Data Protection Regulation” or “GDPR”) became directly applicable in all member states of the European Union. Violations of the GDPR carry financial risks due to penalties for data breach or improper processing of personal data (including a possible fine of up to 4% of total worldwide annual turnover for the preceding financial year for the most serious infringements) and may also adversely affect our reputation and our activities relying on personal data processing. The Brazil General Data Protection Law (*Lei Geral de Proteção de Dados Pessoais*), or LGPD, was signed into law in August 2018 and came into effect on September 18, 2020, with the exception of the administrative sanctions, which are expected to come into effect in August 2021. An increased number of data protection laws around the globe may continue to result in increased compliance costs and risks. See “—We are subject to risks associated with failure to comply with the data protection laws, and we may be negatively affected by the imposition of fines and other types of sanctions.” The potential costs of compliance with or imposed by new or existing regulations and policies that are applicable to us may affect our business and could have a material adverse effect on our results of operations.

We are subject to risks associated with failure to comply with the applicable data protection laws, and we may be negatively affected by the imposition of fines and other types of sanctions.

The LGPD came into effect on September 18, 2020, with the exception of the administrative sanctions, which are expected to come into effect in August 2021. The LGPD changed the way the protection of personal data is regulated in Brazil. It establishes a new legal framework to be observed in personal data processing operations and provides, among other things, for the rights of the owners of personal data, the legal bases applicable to the protection of personal data, the requirements for obtaining consent, obligations, requirements regarding security incidents, leaks and data transfers, as well as authorization for the creation of the Brazilian National Data Protection Authority (“ANPD”).

On August 26, 2020, the Brazilian government issued Decree No. 10,474/2020 approving the regulatory framework and list of commissioned positions for the ANPD, as well as drafting guidelines and setting forth administrative sanctions for violations of the LGPD. The decree came into effect on October 10, 2020, when the ANPD’s president Waldemar Gonçalves Ortunho Junior was officially appointed.

If we do not comply with the LGPD, both we and our subsidiaries may be subject to sanctions, either individually or cumulatively, including warnings, obligations to disclose incidents, temporary blocking or deletion of personal data, and penalties of up to 2% of our revenue or the revenue of our group or our conglomerate in Brazil in the last year, excluding taxes, up to a total amount of R\$50 million per infraction. In addition, we may be held liable for material, moral, individual or collective damages caused by us, and may be held jointly and severally liable for material, moral, individual or collective damages caused by our subsidiaries, on account of failure to comply with the obligations set forth by the Brazilian General Data Protection Law.

Therefore, the failure to protect personal data processed by us and our subsidiaries, as well as the failure to adjust to the applicable legislation, may result in significant fines for us and our subsidiaries, disclosure of any incidents in the media, the deletion of personal data from our database, and the suspension of our activities, which could adversely affect our reputation, business, results of operations and financial condition.

We are subject to third party transportation and logistics risks, and we rely on a limited number of available third-party suppliers to deliver certain specialized materials that we require for our production activities.

We depend on fast and efficient transportation and logistics services to, among other things, deliver raw materials to our production facilities, deliver animal feed to our poultry and pork growers and distribute our products. Any prolonged disruption of these services may have a material adverse impact on our business, financial condition and results of operations. For example, on May 21, 2018, a national truckers’ strike commenced in Brazil regarding increases in fuel prices. The strike materially disrupted the supply chain of various industries across the country, including the supply chain of raw materials to our production facilities and the delivery of animal feed to our poultry and pork growers, and, at its peak, led to the suspension of the operation of all of our production facilities located in Brazil. Furthermore, this strike also materially affected the regular functioning of the ports from where our products are exported. We incurred increased costs in connection with the truckers’ strike and also were required to dispose of certain animals as a result of the strike. There can be no assurance that the truckers will not seek to engage in any further strikes, that the Brazilian federal government or any other relevant party will be able to meet the demands of the truckers in a satisfactory manner or that any such strike will not adversely affect our supply chain or the operation of our production facilities. In addition, any other reduction in the reliability or availability of transportation or logistics services or a significant increase in transportation service rates, including as a result of, among other things, flooding in ports, warehouse fires, global shipping container shortages, or labor strikes, could adversely affect our ability to satisfy our supply chain requirements and deliver our products economically to our customers. Any such disruption to the transportation or logistics services that we depend on could have a material adverse impact on our results of operations and financial condition.

In addition, some of our production activities require specialized materials that we acquire from a limited number of available third-party suppliers. For example, we rely on purchases of genetic material used in our livestock breeding programs from a very small number of livestock genetics companies. If any of these suppliers is not able to supply the materials in the quantity and at the frequency that we normally acquire them, and we are not able to replace the supplier on acceptable terms or at all, we may be unable to maintain our usual level of production and sales in the affected category of product, which may have a material adverse effect on our business and operations and, consequently, on our results of operations.

We may divest or acquire businesses or enter into joint ventures, which may divert management resources or prove to be disruptive to our company.

We regularly assess and pursue opportunities to focus or generate synergies in our business through divestitures or expansions through acquisitions, joint ventures and other initiatives. We have completed several divestitures and acquisitions in recent years. For additional details on certain of these transactions, see “Item 4. Information on the Company—A. History and Development of the Company.” Divestments, acquisitions, new businesses and joint ventures, particularly those involving sizeable businesses, may present financial, managerial, operational, legal, compliance and reputational risks and uncertainties, including:

- challenges in realizing the anticipated benefits of the transaction;
- difficulties with managing various macroeconomic variables and their impact on the business;
- difficulties with managing commercial relationships in various countries;
- diversion of management attention from existing businesses;
- difficulties with integrating/carving-out personnel, especially to different managerial practices;
- disruptions when integrating or carving out financial, technological and other systems;
- difficulties identifying suitable candidate businesses or consummating a transaction on terms that are favorable to us;
- challenges in retaining an acquired company’s customers and key employees;
- challenges related to the loss of key employees in connection with a divestment;
- increased compensation expenses for newly hired employees;
- exposure to unforeseen liabilities or problems of the acquired companies or joint ventures;
- warranty claims and claims for damages which may be limited in content, timeframe and amount;

- legal challenges, including claims for indemnification;
- challenges arising from a lack of familiarity with new markets with differing commercial and social norms and customs, which may adversely impact our strategic goals or require us to adapt our marketing and sales model for specific countries;
- compliance with foreign legal and regulatory systems;
- difficulties in transferring capital to new jurisdictions;
- challenges in receiving the necessary approvals from governments and international antitrust authorities; and
- restrictions imposed by local regulators, which were not identified before completion of the transaction.

The strategic benefits from our divestitures or acquisitions may not materialize in the timeframe we anticipate, or at all. In addition, we may be unable to identify, negotiate or finance future divestitures, acquisitions or other strategic initiatives successfully or on favorable terms. Any future joint ventures or 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 divestitures, acquisitions and joint ventures may also result in unforeseen operating difficulties and expenditures, as well as strain our organizational culture.

Deterioration of general economic and political conditions could negatively impact our business.

Our business may be adversely affected by changes in Brazilian and global economic and political conditions, which may result in increased volatility in our markets and contribute to net losses.

Global economic downturns and related instability in the international financial system have had, and may continue to have, a negative effect on economic growth in Brazil. Global economic downturns reduce the availability of liquidity and credit to fund the continuation and expansion of our business operations worldwide. While Brazil exports a diversified bundle of products to a variety of countries, a significant decline in the economic growth or demand for imports of any of Brazil's major trading partners, such as the European Union, China or the United States, could have a material adverse impact on Brazil's exports and balance of trade and adversely affect Brazil's economic growth.

Furthermore, because international investors' reactions to the events occurring in one emerging market country sometimes produce a "contagion" effect, in which an entire region or class of investment is disfavored by international investors, Brazil could be adversely affected by negative economic or financial developments in other countries. Such developments may affect the Brazilian economy in the future and, consequently, our results of operations. For example, the world has recently been affected by the COVID-19 pandemic, which has triggered negative global economic developments, the severity of which we cannot quantify. Accordingly, the purchasing power of the Brazilian population is expected to decrease, which may reduce consumption and investments and adversely affect our business and results of operations.

Uncertainty as to whether the Brazilian government will implement significant changes in public policy in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and the securities issued by Brazilian companies. As a result, there may be high volatility in the domestic financial markets in the short term, and economic recovery in the long term may be hindered. Accordingly, improvements in the labor market and income growth may be limited, which could have an adverse effect on our operations and financial results.

Furthermore, on June 23, 2016, the United Kingdom held a referendum on the United Kingdom’s membership within the European Union, the result of which, known as “Brexit,” favored the exit of the United Kingdom from the European Union. The United Kingdom was initially expected to depart the European Union on March 29, 2019, but on March 21, 2019, the European Union and the United Kingdom agreed to extend the deadline for Brexit. The European Union and the United Kingdom agreed to a further extension on April 18, 2019. On January 31, 2020, the United Kingdom announced it had officially exited the European Union and entered a transition period. Brexit has caused and may continue to cause political and economic uncertainty, including significant volatility in global stock markets and currency exchange rate fluctuations. The effects of Brexit will depend on many factors, including any trade deals that the United Kingdom makes to retain access to European Union markets. Brexit could lead to legal uncertainty and give rise to potentially conflicting national laws and regulations as the United Kingdom determines which laws of the European Union will be replaced or replicated. There could be increased costs from re-imposition of tariffs on trade between the United Kingdom and the European Union, shipping delays because of the need for customs inspections and procedures, and temporary shortages of certain goods. In addition, trade and investment between the United Kingdom, the European Union, Brazil and other countries will be impacted by the fact that the United Kingdom operated under the European Union’s tax treaties. The United Kingdom will need to negotiate its own tax and trade treaties with countries all over the world, which could take years to complete. The potential impact of Brexit on our market share, sales, profitability and results of operations is unclear. The economic conditions in the United Kingdom, the European Union and global markets may be adversely affected by reduced growth and volatility. We have undertaken, in the share purchase agreement entered into with Tyson International Holding Co., not to do business or otherwise compete in the sale of poultry products for human consumption in certain jurisdictions in Europe, including the European Economic Area (EEA) and the United Kingdom. The non-compete provision has partially lapsed for certain products and channels, and in October 2020, we reached a commercial agreement with Tyson International Holding Co. to accelerate our return to the European continent and regain access to other markets through a phased removal of the non-compete restrictions between 2021 and 2024. While we aim to expand our sales to Europe and other international markets as part of our strategy and Vision 2030 Plan, continued uncertainty and market volatility could undermine those expansion plans and have a corresponding adverse effect on our operations and financial results.

We have been subject to significant investigations relating to, among other things, food safety and quality control, and an adverse outcome of any of these investigations could result in penalties, fines or other forms of liability and could have a material adverse effect on our business, reputation, brand, results of operations and financial condition.

Brazilian authorities are investigating Brazil’s meat processing industry in the so-called “Carne Fraca Operation.” The investigation involves a number of companies in the Brazilian industry and, among other things, includes allegations relating to food safety and quality control. On January 22, 2018, the Attorney General’s Office of the Third District of the State of Goiás filed a complaint against the industrial manager of our Mineiros plant at the time of the events subject to investigation in the *Carne Fraca* Operation, and against the former head of quality control at our Mineiros plant, neither of whom works for us any longer. Both of them were charged for allegedly committing crimes against consumers, as provided in article 7, item II of Law 8,137/90. According to the complaint, laboratory tests (dripping tests) detected excessive levels of water absorbed by the chicken products collected by authorities at our Mineiros plant. The Attorney General’s Office of the Third District of the State of Goiás alleges we produced chicken products with higher quantities of water than the limits permitted by the Brazilian Ministry of Agriculture, Livestock and Food Supply (*Ministério da Agricultura, Pecuária e Abastecimento*, or “MAPA”), with potential damages to customers, considering they would potentially be acquiring chicken meat products with a weight lower than that indicated on the packaging, since part of the weight of the frozen chicken would consist merely of water contained therein.

On April 20, 2017, based on an investigation by the Brazilian Federal Police, Brazilian federal prosecutors filed several charges against two of our former employees (one of our regional manufacturing officers and one of our corporate affairs managers). One such employee was acquitted by lower courts of all charges on September 28, 2018, while the other employee was convicted on one charge. The Brazilian federal prosecutors and one of our former employees filed an appeal, which is pending judgment by the court. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings” for additional information.

On March 5, 2018, we learned of a decision issued by a federal judge of the First Federal Court of Ponta Grossa in the State of Paraná, which authorized the search and seizure of information and documents pertaining to us and certain current and former employees, as well as the temporary detention of certain individuals. In what media reports have identified as the “*Trapaga* Operation,” eleven of our current and former employees were temporarily detained for questioning, including former Chief Executive Officer Pedro Faria and former Vice President for Global Operations Helio Rubens. All such current and former employees were released from custody and those who are still our employees are on leave of absence. A number of our current and former employees were identified for questioning. The primary allegations in the *Trapaga* Operation involve alleged misconduct relating to quality violations, improper use of feed components and falsification of tests at certain BRF manufacturing plants and accredited labs.

On October 15, 2018, the Brazilian Federal Police issued the final report on the investigation of the *Trapaça* Operation, which contained accusations against 43 people, 23 of whom are current or former BRF employees, including former Chief Executive Officer Pedro Faria, former chairman of our board of directors Abílio Diniz, and three former vice presidents. Those who are still our employees are on leave of absence. Allegations against these senior employees generally focused on communications relating to alleged dioxin contamination. Since then, the police investigation has been under review by the Brazilian Federal Prosecutor responsible for the case to determine whether to bring criminal charges. See “Item 8. Financial Information–A. Consolidated Statements and Other Financial Information–Legal Proceedings” for additional information.

As a result of the *Trapaça* Operation, on March 5, 2018, we were notified by MAPA that it immediately suspended exports from our Rio Verde/Goiás, Carambei/Paraná and Mineiros/Goiás plants to 13 countries with specific sanitary requirements related to Salmonella spp. As a precautionary measure, MAPA also suspended exports from 10 other of our plants to the European Union on March 15, 2018. On May 14, 2018, the European Union announced the decision to suspend 12 of our production facilities in Brazil by revoking the export approval of meat products from such facilities to the European Union’s countries due to increasing pressure from domestic producers’ organizations, supposedly demanding the measure for local market protection. The European Union generally has stricter requirements related to salmonella levels and other food safety standards compared to Brazil and the international markets in which we operate. Given the import ban applied to our production facilities, we are unable to export meat from such facilities to the European Union. Our results of operations may be further adversely affected due to the need to redirect the production capacity of such facilities, originally destined for the European Union, to other markets at similar prices or margins.

On December 4, 2019, in the context of the *Trapaça* Operation, criminal charges were brought against former BRF employees for allegedly committing, with respect to the manufacture of animal feed and PREMIX compound (supplement added to animal feed), aggravated larceny by fraud, false representation, wrapper or container with false labelling, forgery of substance or food product, forgery of product intended for therapeutic or medicinal purposes and criminal association, at least during the period between 2012 and 2018. The complaint was received by the lower court on January 21, 2020. There was no negative decision against any of the defendants during 2020. As of the date of this annual report, some of the defendants have presented their response. On November 4, 2020, also in the context of the *Trapaça* Operation, a second complaint was filed by the Federal Public Prosecutor’s Office against former and inactive employees of ours for allegedly committing aggravated larceny by fraud, false representation, selling products harmful to health and criminal association, between the years 2012 and 2017, related to the presence of Salmonella on food products. The complaint was received by the lower court on November 20, 2020. As of the date of this annual report, some of the defendants have presented their response. These proceedings are still pending. For additional information, see “Item 8. Financial Information–A. Consolidated Statements and Other Financial Information–Legal Proceedings.”

On February 11, 2020, the Saudi Food & Drug Authority (“SFDA”) temporarily suspended the export authorization of two of our plants (Dois Vizinhos, SIF 2518, and Francisco Beltrão, SIF 1985) due to the *Trapaça* Operation. The Saudi Arabian government agency based its decision on news reports relating to the investigations. The case has been brought by Brazil as a Specific Trade Concern (STC) in the 4th meeting of the Sanitary and Phytosanitary Measures (SPS) Committee at the World Trade Organization (“WTO”), held in November 2020. For additional information, see “–More stringent trade barriers in key export markets may negatively affect our results of operations.”

In June 2018 and in May 2019, we learned of administrative proceedings commenced against BRF by the Brazilian Comptroller General of the Union (*Controladoria-Geral da União*, or “CGU”), which is primarily related to alleged irregularities in connection with conduct that could represent harmful acts to the public administration under the Brazilian Anti-Corruption Law and other applicable laws, as described in *Carne Fraca* Operation and *Trapaça* Operation. The CGU is an internal control body of the Brazilian federal government responsible for carrying out activities related to the defense of public property and the increase of management transparency, through actions of public audit, correction, prevention and combat of corruption, among others. These CGU administrative proceedings against BRF remain pending without any adverse decision against BRF as of the date of this annual report. See “Item 8. Financial Information–A. Consolidated Statements and Other Financial Information–Legal Proceedings” for additional information.

Any of these existing investigations and proceedings, as described in “Item 8. Financial Information–A. Consolidated Statements and Other Financial Information–Legal Proceedings,” or any other future investigation or proceeding could result in penalties, fines or other forms of liability and could have a material adverse effect on our business, reputation, brand, results of operations and financial condition.

We may fail to ensure compliance with relevant anti-fraud, anti-corruption, anti-money laundering and other international laws and regulations.

We are subject to anti-fraud, anti-corruption, anti-money laundering and other international laws and regulations. We are required to comply with the laws and regulations of Brazil and various jurisdictions where we conduct operations. In particular, we are subject to the Brazilian Anti-Corruption Law nº 12,846, the U.S. Foreign Corrupt Practices Act of 1977 (“FCPA”) and the United Kingdom Bribery Act of 2010. The FCPA prohibits providing anything of value to foreign officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of our business, we may deal with entities and employees that are considered foreign officials for purposes of the FCPA. In addition, we participate in certain public tenders and competitive bidding rounds for contracts involving public authorities in Brazil and potentially in other markets where we operate, which activities are typically subjected to heightened regulatory scrutiny and often require compliance with specific anti-fraud, anti-corruption, anti-money laundering and other international laws and regulations.

Although we have internal policies and procedures designed to ensure compliance with applicable anti-fraud, anti-corruption, anti-money laundering and other international laws and regulations, potential violations of law have been identified on occasion as part of our compliance and internal control processes. In addition, we were notified of allegations involving potential misconduct by some of our employees in the context of the *Carne Fraca* Operation, *Trapaça* Operation and other investigations. For more details, see “Item 3.–D. Risk Factors– Risks Relating to Our Business and Industry–We have been subject to significant investigations relating to, among other things, food safety and quality control, and an adverse outcome of any of these investigations could result in penalties, fines or other forms of liability and could have a material adverse effect on our business, reputation, brand, results of operations and financial condition” and “Item 8. Financial Information–A. Consolidated Statements and Other Financial Information–Legal Proceedings.” As a result of the *Carne Fraca* Operation and *Trapaça* Operation and related matters, we incurred expenses in the total amount of R\$28,004 thousand in 2020 and R\$79,207 thousand in 2019, which negatively impacted our results of operations. Additionally, these or other proceedings may result in penalties, fines, sanctions or other forms of liability. Furthermore, any negative reflection on our image or our brand from these or other activities could have a negative impact on our results of operations, as well as our ability to achieve our growth strategy.

Given the size of our operations and the complexity of our production chain, there can be no assurance that our internal policies and procedures will be sufficient to prevent or detect all inappropriate or unlawful practices, including fraud or violations of law or violations of our internal policies and procedures by our employees, directors, officers, partners or any third-party agents or service providers. Furthermore, there can be no assurance that such persons will not take actions in violation of our policies and procedures (or otherwise in violation of applicable laws and regulations) for which we or they may ultimately be held responsible. Violations of anti-fraud, anti-corruption, anti-money laundering or other international laws and regulations could have a material adverse effect on our business, reputation, brand, selling prices, results of operations and financial condition, including as a result of the closure of international markets. We may be subject to one or more enforcement actions, investigations or proceedings by authorities for alleged infringement of these laws. These proceedings may result in penalties, fines, sanctions or other forms of liability. Potential negative developments in the *Carne Fraca* Operation, *Trapaça* Operation and other investigations may also negatively affect the market price of our common shares and American Depositary Receipts (“ADRs”).

We are subject to antitrust and competition laws and regulations and we may fail to ensure compliance with such laws and regulations.

We are subject to antitrust and competition laws and regulations in the jurisdictions in which we operate. Consequently, we may be subject to regulatory scrutiny in certain of these jurisdictions. For instance, on March 14, 2019, the Turkish Competition Authority (“TCA”) announced a decision regarding its investigation into our Turkish subsidiary Banvit and other producers for alleged anticompetitive practices in connection with chicken meat production in Turkey. The TCA imposed an administrative fine equivalent to R\$22,507 thousand (TRY30,518 thousand, translated to *reals* at the exchange rate of R\$0.7375 as of September 30, 2019), against Banvit. The decision was confirmed on September 17, 2019, and Banvit anticipated the payment of the fine to benefit from a 25% discount available under Turkish law. For additional information, see “Item 8. Financial Information–A. Consolidated Statements and Other Financial Information–Legal Proceedings–Civil, Commercial and Other Proceedings.”

There can be no assurance that our internal policies and procedures designed to ensure compliance with applicable antitrust and competition laws and regulations will be sufficient to prevent or detect all inappropriate or unlawful practices. As a result, we may be subject to one or more enforcement actions, investigations or proceedings by authorities for alleged infringement of these laws. These proceedings may result in penalties, fines, sanctions or other forms of liability and could have a material adverse effect on our business, reputation, brand, selling prices, results of operations and financial condition, including as a result of the closure of international markets. Furthermore, there can be no assurance that the introduction of new competition laws in the jurisdictions in which we operate, the interpretation of existing antitrust or competition laws, the enforcement of existing antitrust or competition laws by authorities or civil antitrust litigation by private parties, or any agreements with antitrust or competition authorities, against us or our subsidiaries will not have a material adverse impact on our business, results of operations or financial condition.

A failure to comply with export control or economic sanctions laws and regulations could have a material adverse impact on our results of operations, financial condition and reputation.

We operate on a global basis and face risks related to compliance with export control and economic sanctions laws and regulations, including those administered by the United Nations, the European Union and the United States, including the U.S. Treasury Department’s Office of Foreign Assets Control. Economic sanctions programs restrict our dealings with certain sanctioned countries, individuals and entities. However, we have conducted, and may in the future seek to conduct, business in certain countries that are subject to sanctions under the laws of the United States or other countries. Although we have pursued these transactions, and intend to pursue any future transactions, in full compliance with applicable laws and regulations, we may not be successful in ensuring compliance with limitations or restrictions on business with companies in any such countries. If we are found to be in violation of applicable sanctions laws or regulations, we may face criminal or civil fines or other penalties, we may suffer reputational harm and our results of operations and financial condition may be adversely affected. Additionally, there can be no assurance that our employees, directors, officers, partners or any third parties that we do business with, including, among others, any distributors or suppliers, will not violate sanctions laws and regulations. We may ultimately be held responsible for any such violation of sanctions laws and regulations by these persons, which could result in criminal or civil fines or other penalties, have a material adverse impact on our results of operations and financial condition and damage our reputation.

Our failure to continuously innovate and successfully launch new products that address our clients’ needs and requirements, as well as maintain our brand image, could adversely impact our operating results.

Our financial success depends on our ability to anticipate changes in consumer preferences and dietary habits and our ability to successfully develop and launch new products and product variations that are desirable to consumers. The resources that we devote to new product development and product extensions may be insufficient and we may not be successful in developing innovative new products or our new products may not be commercially successful. For example, trends towards prioritizing health and wellness present a challenge for developing and marketing successful new lines of products to address these consumer preferences. Furthermore, a reduction in our investment in product development may negatively affect not only our ability to generate innovative solutions, but also the in-market success of any such products. Additionally, our employees working on innovation and research and development may move to one of our competitors, which would compromise our ability to deliver new and innovative products and may also result in our competitors gaining information we view as proprietary. To the extent that we are not able to effectively gauge the direction of our key markets and successfully identify, develop, manufacture and market new or improved products in these changing markets in a timely or cost-effective manner, our products, brands, financial results and competitive position may suffer, which may have a material adverse effect on our business, results of operations, financial condition and prospects.

We also seek to maintain and extend the image of our brands through marketing, including advertising and consumer promotions. Due to inherent risks in the marketplace associated with advertising, promotions and new product introductions, including uncertainties about trade and consumer acceptance, our marketing investments may not prove successful in maintaining or increasing our market share. A continued global focus on health and wellness, including weight management, increasing media attention on the role of food marketing and negative press coverage about our quality controls and products, including in connection with the *Carne Fraca* Operation and *Trapaça* Operation, may adversely affect our brand image or lead to stricter regulations and greater scrutiny of food marketing practices.

Our success in maintaining, extending and expanding our brand image also depends on our ability to adapt to a rapidly changing media environment, including increasing reliance on social media and online dissemination of advertising campaigns. The growing use of social and digital media increases the speed and extent that information or misinformation and opinions can be shared. Negative posts or comments about us, our brands or our products on social or digital media could seriously damage our reputation and brand image. If we do not maintain or improve our brand image, then our sales, financial condition and results of operations could be materially and adversely affected.

Political and economic risks in regions and countries where we have exposure could limit the profitability of our operations and our ability to execute our strategy in these regions.

Since we have business operations around the world, we are subject to a variety of risks that may adversely affect our financial results. In the regions where we have production and distribution activities, we are subject to the following risks, among others:

- political instability;
- geopolitical risks and conflicts, such as war, terrorism and civil unrest;
- the imposition of exchange or price controls;
- the imposition of restrictions on exports of our products or imports of raw materials necessary for our production processes, including embargoes from countries where we undergo production or distribution activities;
- the fluctuation of global currencies against the *real*;
- the nationalization of our property;
- political influence by local governments in communities where we operate requiring investments or other expenditures;
- increases in export tax and income tax rates for our products; and
- institutional and contractual changes unilaterally imposed by governments, including controls on investments and limitations on new projects.

As a result of these factors, our results of operations and financial condition in the regions where we have production and distribution activities may be adversely affected, and we may experience significant variability in our revenue from those operations. This risk may be heightened as a result of the COVID-19 pandemic, for example due to outbreaks of COVID-19 in our plants and restrictions that may be imposed on our products because of these outbreaks. For more information, see “–Pandemics or human disease outbreaks, such as the novel coronavirus (COVID-19), may disrupt consumption and trade patterns, supply chains and production processes, which could materially affect our operations and results of operations.” In another trade-related development in 2020, certain member states of the European Union negotiating a trade agreement with the Mercosul trade bloc, of which Brazil is the largest member, indicated that progress would slow in light of concerns over Brazilian environmental protection policies and enforcement in connection with fires in the Amazon rainforest. Such delays could undermine efforts to expand our access to European markets. Additionally, several countries in Asia currently do not tax the importation of poultry and pork meat, which increases our products’ competitiveness in these countries. However, we understand that this import tax regulation may be changing in the near future. We are unable to control any such change in import tax regulation, which may have a material adverse effect on our products’ competitiveness. 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 adversely affect our operations and financial results.

Our external market sales are subject to a broad range of risks associated with cross-border operations.

External market sales account for a significant portion of our global net sales, and represented 43.7% of our net sales in 2020, 44.5% of our net sales in 2019 and 43.3% of our net sales in 2018. Our external market is reported within our International business segment, which comprises Islamic markets (including Turkey, North of Africa, Gulf Cooperation Council (GCC) and Malaysia), Asia, Europe, Eurasia, Africa and Americas, where we are subject to many of the same risks described herein in relation to Brazil. Furthermore, we may seek to expand sales of our products to additional international markets. Our future financial performance depends, to a significant extent, on the economic, political and social conditions in those regions as well as on our supply conditions.

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

- exchange rate and interest rate fluctuations and the impact of hyperinflation;
- commodities price volatility;
- deterioration in global economic conditions;
- political risks, such as turmoil and instability, foreign exchange controls and uncertainty regarding government policies;
- decreases in demand, particularly from large markets such as China and Saudi Arabia;
- imposition of increased tariffs, anti-dumping duties or other non-tariff trade barriers;
- restrictions on international trade and financial flows imposed due to balance of payments deficits;
- strikes or other events affecting ports and other transport facilities;
- unpredictable international border closings that restrict products, materials and people;
- compliance with differing foreign legal and regulatory regimes;
- strikes, not only of our employees, but also of port employees, truck drivers, customs agents, sanitary inspection agents and other government agents at the Brazilian ports from which we export several of our products;
- access to adequate infrastructure, which could be affected by flooding or similar events;
- damage to our products;

- negative media exposure related to the Brazilian agriculture or meat processing industries, particularly in connection with the *Carne Fraca* Operation, *Trapaça* Operation or other investigations; and
- negative preconceptions influenced by the worsening international reputation of Brazil due to deforestation and other environmental and sustainability issues.

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 both the domestic and external markets. In addition, we compete with foreign producers in our external markets. The Brazilian market for whole poultry, poultry and pork cuts is highly fragmented. Small producers, some of which operate in the informal economy, are able to offer lower prices by meeting lower quality standards. With respect to exports, we compete with other large, vertically integrated producers that have the ability to produce quality products at similarly low costs.

In addition, the size and growth potential of the Brazilian market for processed food, poultry, pork and beef, combined with Brazil's low production costs are attractive to international competitors. The main barrier impeding these companies from entering the Brazilian market has been the need to build a comprehensive distribution network, including a network of outsourced farmers, known as outgrowers. Nevertheless, foreign competitors with significant resources could undertake to build or acquire such capabilities.

The Brazilian poultry and pork cuts markets, in particular, are highly price-competitive and sensitive to product substitution. Even if we remain a low-cost producer, with strong brands, consumers may choose to purchase other products or brands. We expect to 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 delay or failure by us in responding to product, pricing and other strategies by competitors may negatively affect our financial performance.

Our performance depends on favorable labor relations with our employees, our compliance with labor laws and the safety of our facilities. Any deterioration of those relations increases in labor costs or injuries at our facilities could adversely affect our business.

As of December 31, 2020, we have approximately 100,000 employees worldwide. Our production employees in Brazil and in countries where organized labor is prevalent are generally represented by labor unions. Upon the expiration of existing collective bargaining agreements or other collective labor agreements, we may be unable to reach new agreements with the labor unions and any such agreements may not be on terms satisfactory to us, which could result in higher payments of wages or benefits to union workers. Additionally, if we are unable to negotiate acceptable union agreements, we may become subject to work stoppages or strikes.

Labor costs are among our most significant expenditures. Such costs represented approximately 13.5% of our cost of sales in 2020. In the event of a review of our employee contract structure, additional operational expenses could be incurred. Additionally, in the ordinary course of business, we outsource some of our labor force, which subjects us to claims that may arise from these relationships, including claims directly against us as if we were the direct employer of the outsourced workers. In the event that a significant amount of these claims results in an unfavorable outcome against us, we may be held liable for amounts higher than our provisions, which may have a material adverse effect on our business, financial and operational condition and results of operations. In addition, if the outsourced activities are deemed by the authorities to be core activities, outsourcing may be considered illegal and the outsourced workers may be considered our employees, which would result in a significant increase in our costs and could subject us to administrative and judicial procedures by the relevant authorities and fines. We are also subject to increases in our labor costs due to Brazilian inflation and increases in health insurance costs. Material increases in our labor costs could have a material adverse effect on our business, results of operations and financial condition and prospects.

In addition, we face risks related to the safety of our facilities. If we fail to implement safety procedures or if the procedures, we implement are ineffective or are not followed by our employees or others, our employees and others may be injured, which could result in costs for the injuries and lost productivity. Any of the foregoing could have an adverse impact on our business, results of operations and reputation.

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

We are defendants in civil, administrative, regulatory, environmental, labor and tax proceedings and are also subject to consent agreements (*Termo de Ajustamento de Conduta*, or “TAC”). Unfavorable decisions in our legal proceedings may reduce our liquidity and have a material adverse impact on our business, results of operations, financial condition and prospects.

With regard to tax contingencies, we are currently defendants in a number of cases, which include, for example, disputes regarding the offset of tax credits and the use of tax incentives in several states that have not yet reached a final ruling in the Brazilian courts. In addition, we may face risks arising from potential impairment of input state value-added tax (“VAT”) that we accumulate on exports.

As of December 31, 2020, we have R\$1,702,720 thousand in provisions for contingencies, of which R\$343,530 thousand are for civil and other contingencies (including administrative, regulatory and environmental), R\$427,302 thousand are for tax contingencies, R\$634,706 thousand are for labor contingencies and R\$297,182 thousand are for contingent liabilities arising from business combinations.

We are also currently being investigated in the *Carne Fraca* Operation and *Trapaça* Operation, which may result in penalties, fines and sanctions from governmental authorities or other forms of liability. For more information about the “*Carne Fraca* Operation” and “*Trapaça* Operation” see “Item 8. Financial Information–A. Consolidated Statements and Other Financial Information–Legal Proceedings–*Carne Fraca* Operation” and “Item 8. Financial Information–A. Consolidated Statements and Other Financial Information–Legal Proceedings–*Trapaça* Operation.” Any investigation from governmental authorities currently unknown to us with respect to any potentially unlawful business practice may also result in penalties, fines and sanctions or other forms of liability.

On March 12, 2018, a shareholder class action lawsuit was filed against us, some of our former managers and a current officer of ours in the U.S. Federal District Court in the Southern District of New York. On July 2, 2018, the Court appointed the City of Birmingham Retirement and Relief System lead plaintiff in the action (the “Lead Plaintiff”). On December 5, 2018, the Lead Plaintiff filed an amended complaint that sought to represent all persons and entities who purchased or otherwise acquired our ADRs during the period from April 4, 2013, through and including March 2, 2018. The class action alleges, among other things, that we and certain officers or directors of ours engaged in securities fraud or other unlawful business practices related to the regulatory issues in connection with the *Carne Fraca* Operation and *Trapaça* Operation. On December 13, 2019, we and the other defendants filed a motion to dismiss. On January 21, 2020, the Lead Plaintiff filed an opposition motion, and, on February 11, 2020, we and the other defendants filed our response. While the court’s decision on the motion to dismiss was still pending, the parties reached an agreement on March 27, 2020 to settle this class action for an amount equivalent to R\$204,436 thousand (U.S.\$40,000 thousand, translated to *reais* at the exchange rate of R\$5.1109 as of March 27, 2020). The court approved this settlement on October 23, 2020.

In addition, in 2020 we received a final and unappealable judicial decision regarding the exclusion of ICMS from the tax basis of the social contributions of PIS and COFINS, which permitted us to recognize a significant amount of recoverable taxes, which are described in Note 9.2 to our consolidated financial statements. For a number of procedural reasons involved in finalizing the settlements for these judgments, it could take an extended period of time for us to receive these amounts, either as compensation or through obtaining a court ordered financial obligation (*precatório*).

In March 2020, three confidential arbitration proceedings were brought against us in the Market Arbitration Chamber (*Câmara de Arbitragem do Mercado*) of the B3 S.A. – Brasil, Bolsa, Balcão (the “B3” or the “São Paulo Stock Exchange”) in Brazil by investors that had purchased our shares traded on the B3, seeking recovery from alleged losses incurred by them, due to the price fall of our shares, during the period starting from April 4, 2013 and afterwards. In September 2020, the Chairman of the Market Arbitration Chamber of B3 decided to consolidate these three arbitrations into a single arbitration proceeding. Because this arbitration proceeding is in its initial stage, we believe the possible loss or range of losses, if any, cannot be estimated. In the event that this litigation or arbitration proceeding is decided against us, or we enter into an agreement to settle, there can be no assurance that an unfavorable outcome or settlement would not have a material adverse impact on us.

Our inability or failure to protect our intellectual property and any intellectual property infringement against us could have a negative impact on our operating results.

Our principal intellectual property consists of our domestic and international brands. Our ability to compete effectively depends in part on our rights to trademarks, logos and other intellectual property rights we own or license. We have not sought to register or protect every one of our trademarks in every country in which they are or may be used, which means that third parties may be able to limit or challenge our trademark rights there. Furthermore, because of the differences in foreign intellectual property or proprietary rights laws, we may not receive the same level of legal protection in every country in which we operate.

Litigation may be necessary to enforce our intellectual property rights, and if we do not prevail, we could suffer a material adverse impact on our business, goodwill, financial position, results of operations and cash flows. Further, third parties may allege that our intellectual property or business activities infringe their own intellectual property or proprietary rights, and any litigation in this regard would be costly, regardless of the merits. If we are unsuccessful in defending any such third-party claims, or settling such claims, we could be required to pay damages or enter into license agreements, which might not be available under favorable terms. We may also be forced to rebrand or redesign our products to avoid the infringement, which could result in significant costs in certain markets. If we are found to infringe on any third party's intellectual property rights, we could suffer a material adverse impact on our reputation, business, financial position, results of operations and cash flows.

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

Certain kinds of losses cannot be insured against via third-party insurance, and our insurance policies are subject to liability limits and exclusions. For example, political risks, environmental and climate events, fraud, strike, product recalls, fines and penalties, terrorism, the livestock itself, ammonia leakage, financial risks such decrease in stock prices, cybersecurity risks, sabotage, industrial espionage, natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a material adverse effect on us. Additionally, we are exposed to certain product quality risks, such as criminal contamination, avian influenza, swine fever, salmonella and other livestock diseases that can impact our operations and which are not covered under insurance. 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 indemnify parties affected by such an event. Furthermore, 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 different facilities. These costs may not be fully covered by our insurance.

On occasion, our facilities may be affected by fires, such as the fires in our facilities in Arroio do Meio, State of Rio Grande do Sul in 2019, and by flooding, such as the flooding in our facility in Bandirma, Turkey in 2018, as well as by electrical damages or explosion in substations, or widespread truck driver strikes. In addition, our operations were adversely affected by the COVID-19 pandemic, and we may not be able to recover compensation for the resulting losses under our insurance policies. For more information on the effects of COVID-19 on our business, see “-Pandemics or human disease outbreaks, such as the novel coronavirus (COVID-19), may disrupt consumption and trade patterns, supply chains and production processes, which could materially affect our operations and results of operations.” Our business interruption insurance may not cover all of our direct and indirect costs and intangible costs in connection with disruptions to our operations. For example, the negative impacts on our business from the 2018 Brazilian truckers' strike, including the suspension of operations at our production facilities and increased transportation and logistics costs, were not covered by any of our insurance policies. Any similar events in the future could have a material adverse effect on our business, results of operations, financial condition and prospects.

Moreover, our insurance policies may not cover legal costs in general incurred to defend ourselves against legal and administrative proceedings. We have incurred, and expect to continue to incur, significant costs in connection with the *Carne Fraca* Operation and the *Trapaça* Operation. The costs associated with these investigations and the costs of defending ourselves against legal and administrative proceedings may not be covered by our insurance policies. Furthermore, there can be no assurance that we will be able to obtain insurance coverage in the future, related to the foregoing or any other matters, on terms acceptable to us. As a result, we may incur significant additional expenses which may adversely impact our financial condition and results of operations.

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

We depend on members of our senior management and other qualified professionals to implement our business strategies. Efforts to recruit and retain professionals may result in significant additional expenses, which could adversely affect our results. In addition, loss of key professionals may adversely affect our ability to implement our strategy, as well as expenses associated to these losses can impact our results. In 2017 and 2018, we experienced a significant number of departures of senior management, including two of our previous CEOs, our CFO, our Chief Human Resources Officer ("CHRO"), our Brazil General Manager and our Vice President of Operations. However, since 2019 the stability of our Senior Staff improved significantly, with one departure in 2019 – Mr. Ivan de Souza Monteiro, Chief Financial Officer, who took office on March 11, 2019 and remained in the position until April 25, 2019, and one departure on October 9, 2020 – Mr. Rubens Pereira, who resigned the position of Strategy, Management and Innovation Vice President. These changes, and other potential changes, in the composition of our senior management team and our board of directors may result in modifications to our business strategy and have a material adverse effect on us.

Our business depends on the supply of raw materials produced by farmers and integrated producers, and our performance depends on our ability to attract and retain a network of qualified farmers and integrated producers.

We are a vertically integrated producer of food products, and we depend on a large number of raw materials of animal origin, or animal byproducts, to conduct our business. A substantial portion of the animal byproducts we use to conduct our business is produced by a network of integrated farmers and producers with whom we have entered into integrated production contracts. Such integrated producers are responsible for managing and raising the poultry and pork that we, as integrators, supervise. For the year ended December 31, 2020, we acquired 4,709,640 tons of animal byproducts from our integrated producers, corresponding to 97.2% of the raw materials we used during the course of our business.

The selection and retention of farmers and producers is highly competitive, and such competition between integrators has intensified in recent years. Our integrated producers are primarily located near our industrial units, where competing integrators conduct activities similar to the activities we conduct. We may be unable to select and retain such farmers and producers, particularly as a result of greater competition, or we may be obligated to pay higher prices for such byproducts or offer greater benefits to retain such farmers and producers. Our inability to retain an adequate number of such farmers and producers may negatively impact our strategic plans and operational performance.

In addition, our integrated producers are mostly financed through rural credit financing that they contract directly with financial institutions. Such rural credit financing are offered in the context of financial collaboration agreements that we enter into with the respective financial institutions, which establish obligations related to: (i) selecting integrated producers suitable for obtaining financing; (ii) maintaining a sufficient payment stream to such integrated producers to amortize and settle the financial installments granted within the scope of such financial collaboration agreements; and (iii) supervising the application of the financial resources granted to such integrated producers. In exceptional cases, such as the operational suspension, sale or lease of one of the industrial units that we use to purchase the production of our integrated producers financed through such financial collaboration agreements, we may be obligated to prepay the financing obtained by our integrated producers, or we may be required to maintain a sufficient payment stream to such integrated producers to amortize and settle the financial installments until a new integrator succeeds the affected industrial unit with respect to the integrated production contracts, which may adversely affect our results.

Failure to maintain adequate internal controls could adversely affect our reputation and business.

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting that provide reasonable assurance of the reliability of the preparation and reporting of our financial statements for external use. Inadequate internal controls may result in our failure to meet public reporting requirements accurately and on a timely basis and harm our reputation. The internal controls over financial reporting may not prevent or detect all misstatements or fraud, regardless of the adequacy of those controls, and, therefore, we cannot assure that material weaknesses will not be identified in the future.

Risks Relating to Our Indebtedness

We have substantial indebtedness, and our leverage could negatively affect our ability to refinance our indebtedness and grow our business.

As of December 31, 2020, our total consolidated debt (comprised of loans and borrowings) was R\$22,404,426 thousand, and while we have not incurred significant increases in indebtedness resulting from the COVID-19 pandemic since it was declared, an increase in our leverage could result in adverse 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, capital expenditures 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;
- increasing our expenditures due to depreciations of the Brazilian real, which can lead to an increased amount of capital needed to service indebtedness that are denominated in U.S. dollars; and
- 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.

If one or more of these consequences or limitations were to materialize, they could adversely affect our results of operations and financial position.

Our cost of funding is affected by our credit ratings and any risks may have an adverse effect on our credit ratings and our cost of funds. Any downgrade in our credit rating, would likely increase our cost of funding and adversely affect our results of operations.

Credit ratings affect the cost and other terms upon which we are able to obtain funding. Rating agencies regularly evaluate us, and their ratings of our long-term debt are based on a number of factors, including our financial strength, conditions that generally affect the meat processing industry and the economic environment in which we operate.

In view of our current credit metrics and according to the policies and guidelines set by rating agencies in order to evaluate a company's creditworthiness, as well as other factors, our credit rating is currently rated below "investment grade" by all of the rating agencies that rate us.

We cannot assure you that those rating agencies that have a negative outlook with respect to us will revise such outlooks upward. Our failure to maintain favorable ratings and outlooks would likely increase our cost of funding and adversely affect our results of operations.

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

As of December 31, 2020, we have R\$1,059,984 thousand of loans and borrowings that matures in 2021, R\$2,114,622 thousand of loans and borrowings that matures in 2022, R\$2,569,063 thousand of loans and borrowings that matures in 2023, R\$1,782,687 thousand of loans and borrowings that matures in 2024, R\$599,266 thousand of loans and borrowings that matures in 2025 and R\$14,278,804 thousand of loans and borrowings that matures in 2026 and thereafter.

A substantial portion of our outstanding loans and borrowings is denominated in foreign currencies, primarily U.S. dollars. As of December 31, 2020, we have R\$15,739,134 thousand of foreign currency loans and borrowings, including R\$575,147 thousand of short-term foreign currency debt. Our U.S. dollar-denominated loans and borrowings 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. In 2020, the real depreciated against the U.S. dollar by 22.4%. Depreciation in the value of the real or any of the other currencies of the countries in which we operate, compared to the U.S. dollar, could adversely affect our ability to service our debt. Foreign currency hedge agreements may not be effective in covering these currency-related risks.

Any future uncertainty in the stock and credit markets could 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 coming 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 existing indebtedness impose significant restrictions on us, and the instruments governing any indebtedness we may incur in the future may also impose the same or additional restrictions on us. The existing restrictions limit, and any future 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 currently subject have exceptions and qualifications, the breach of any of these covenants could result in a payment 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, results of operations and the market prices of our common shares and ADRs.

The Brazilian economy has historically been characterized by interventions by the Brazilian government and unstable economic cycles. The Brazilian government has often changed monetary, price controls, taxation, credit, tariff and other policies to influence the course of Brazil's economy. Our business, results of operations, financial condition and prospects as well as the market prices of our common shares and ADRs may be adversely affected by, among others, the following factors:

- exchange rate fluctuations;
- expansion or contraction of the Brazilian economy;
- inflation rate fluctuations;
- changes in fiscal or monetary policies;
- commodities price volatility;
- increases in interest rates;
- exchange controls and restrictions on remittances abroad;
- volatility and liquidity of domestic capital and credit markets;
- natural disasters and changes in climate or weather patterns;
- energy or water shortages or rationing;
- changes in environmental regulation;
- social and political instability, particularly in light of recent protests against the government;
- strikes, not only of our employees, but also of port employees, truck drivers, other transport facilities, customs agents, sanitary inspection agents and other government agents; and
- other economic, political, diplomatic and social developments in or affecting Brazil, including with respect to alleged unethical or illegal conduct of certain figures in the Brazilian government and legislators, which are currently under investigation.

Following a two-year contraction of 3.5% in GDP both in 2015 and 2016, the Brazilian economy posted moderate increases of 1.0% and 1.1% in 2017 and 2018, respectively, and again of 1.1% in 2019. Due to the global economic downturn triggered by the COVID-19 pandemic, the Brazilian economy in 2020 contracted by 4.1% of GDP. Inflation, measured by the Extended National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*, or “IPCA”) published by the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística, or “IBGE”), increased to 4.52% in 2020, from 4.31% in 2019 and 3.75% in 2018. Interest rates decreased to 2.0% in 2020, from 4.5% in 2019 and 6.50% in 2018. Unemployment had a slight improvement from 12.3% in 2018 to 11.9% in 2019, but increased to 13.9% in 2020, according to the National Household Sample Survey (*Pesquisa Nacional por Amostra de Domicílio*) published by the IBGE.

In addition, various investigations into allegations of money laundering and corruption being conducted by the Office of the Brazilian Federal Prosecutor, including the largest such investigation, known as the “Lava Jato Operation,” have indirectly negatively impacted the Brazilian economy and political environment and are still ongoing.

A number of senior politicians, including current and former members of Congress and the Executive Branch, and high-ranking executive officers of major corporations and state-owned companies in Brazil were arrested, convicted of various charges relating to corruption, entered into plea agreements with federal prosecutors or have resigned or been removed from their positions as a result of these Lava Jato investigations. These individuals are alleged to have accepted bribes by means of kickbacks on contracts granted by the government to several infrastructure, oil and gas and construction companies. The profits of these kickbacks, which were not publicly disclosed, allegedly financed the political campaigns of political parties forming the previous government’s coalition that was led by former President Dilma Rousseff. These funds were also allegedly used for the personal enrichment of certain individuals. The effects of Lava Jato as well as other ongoing corruption-related investigations resulted in an adverse impact on the image and reputation of those companies that have been implicated as well as on the general market perception of the Brazilian economy, political environment and the Brazilian capital markets. We have no control over, and cannot predict, whether such investigations or allegations will lead to further political and economic instability or whether new allegations against government officials will arise in the future.

Amidst this background of political uncertainty, in August 2016, the Brazilian Senate approved the removal from office of Brazil’s then-president, Ms. Dilma Rousseff, following a legal and administrative impeachment process for infringement of budgetary laws. Mr. Michel Temer, the former vice president, who assumed the presidency of Brazil following Rousseff’s ouster, was first arrested on March 2019, having been convicted of the crimes of cartel involvement, active and passive corruption, money laundering and public auction fraud. He was released and arrested again four days later, in May 2019, and then released once again six days later. He continues to be under investigation on corruption allegations. In addition, the former president, Mr. Luiz Inácio Lula da Silva, began serving a 12-year prison sentence on corruption and money laundering charges in April 2018, but he was released from prison in November 2019 following a Federal Supreme Court ruling. Mr. da Silva still faces pending charges and could return to prison if found guilty once all appeals are exhausted. A strong opposition figure, Mr. da Silva’s release from prison could further deepen political tensions in Brazil.

The current Brazilian president, Mr. Jair Bolsonaro, a former member of the military and three-decade congressman, was elected on October 28, 2018 and took office on January 1, 2019. During his presidential campaign, the new Brazilian president was reported to favor the privatization of state-owned companies, economic liberalization and social security and tax reforms. However, there is no guarantee that certain reforms will be approved or even presented to Congress for review, which may further deteriorate the fiscal condition of Brazil and worsen the uncertainty regarding the Brazilian economic. Additionally, statements made by Mr. Bolsonaro during 2020 and 2021, such as the announcement to replace the Chief Executive Officer of Petrobras following disagreements over fuel price policies, contributed to significant market volatility in Brazil and also indicate possible deviations from his campaign promises in favor of liberal economic policies. In addition, the current minister of the economy proposed during the presidential campaign the revocation of the income tax exemption for the payment of dividends, which, if enacted, would increase the tax expenses associated with any dividend or distribution by Brazilian companies. This could impact our ability to receive, from our subsidiaries, future cash dividends or distributions net of taxes and also our ability to make distributions to our shareholders net of taxes, which could have a material adverse effect on our results of operations.

Moreover, Mr. Bolsonaro was generally a polarizing figure during his campaign for presidency, particularly in relation to certain of his social views, and we cannot predict the ways in which a divided electorate may continue to impact his presidency and the implementation of policies and reforms, all of which could have a negative impact on our business and the price of our common shares and ADRs.

In addition, Mr. Bolsonaro is under criminal investigation due to allegations by former minister of justice Sergio Moro that he had unduly interfered in the activities of the Brazilian Federal Police. According to the former minister, the president asked him to appoint certain officials to positions in the Brazilian Federal Police force. Should it be determined that Mr. Bolsonaro had committed such crimes or impeachable offenses, any resulting consequences, including a potential impeachment, could have significant adverse effects on Brazil's political and economic environment, as well as on businesses operating in Brazil, including our company. Mr. Bolsonaro has also been criticized in Brazil and internationally in relation to the destabilizing effects of the COVID-19 pandemic and high levels of political uncertainty and instability in Brazil, particularly after the resignation of highly ranked federal ministers, the emergence of corruption allegations against Mr. Bolsonaro and the critical state of the pandemic in Brazil and ensuing aggravated health crisis.

In November 2019, the Brazilian government passed a pension reform after almost nine months of negotiations with Congress. In addition, the Brazilian federal government is expected to propose the general terms of a fiscal reform to stimulate the economy and reduce the forecasted budget deficit for 2021, but it is uncertain whether any such reform would suffice to reduce this budget deficit and improve the Brazilian fiscal condition. Brazil is also expected to continue to run a budget deficit for 2021 and the years going forward. The 2021 budget bill, which was introduced in July 2020, is pending congressional approval. We cannot predict the impact of this budget deficit on the Brazilian economy. The political and economic instability in 2020 has negatively affected consumer confidence in Brazil. The Fundação Getúlio Vargas ("FGV") Consumer Index presented a decrease of 13.1 points, from 91.6 points in 2019 to 78.5 points in 2020.

We cannot predict which policies the Brazilian federal government may adopt or change or the effect that any such policies might have on our business or on the Brazilian economy. Any such new policies or changes to current policies may have a material adverse impact on our business, results of operations, financial condition and prospects. Worsening political and economic conditions in Brazil may increase production and supply chain costs and adversely affect our results of operations and financial condition. Uncertainty as to whether the Brazilian government will implement changes in policies or regulations affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in our production operations.

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 and ADRs.

Brazil has experienced high rates of inflation in the past, while recent downward inflationary pressures caused the Brazilian consumer price inflation rates to reach 3.75% in 2018, 4.31% in 2019 and 4.52% in 2020, according to the IPCA, published by the IBGE. See "Item. 5. Operating and Financial Review and Prospects—A. Operating Results—Principal Factors Affecting Our Results of Operations—Brazilian and Global Economic Conditions" and "—Effects of Exchange Rate Variations and Inflation."

Although inflation levels have been relatively stable in 2018 and 2019, there can be no assurance that inflation rates will not rise in the near future. Periods of higher inflation slow the growth rate of the Brazilian economy, which may lead to lower growth in consumption of food products. High inflation also puts pressure on industry costs of production and expenses, which may force companies to search for innovative solutions in order to remain competitive. We may not be able to pass any such increase in costs onto our customers and, as a result, it may adversely impact our results of operations and financial condition. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing our debt may increase. Furthermore, 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 and may have an adverse effect on our business, results of operations, financial condition and the market prices of our common shares and ADRs.

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

The Brazilian Central Bank uses interest rates to attempt to keep inflation under control or to stimulate the economy. If interest rates decrease, there is generally greater access to credit and consumption of goods typically increases. This increase in demand can in turn result in inflation. On the other hand, if interest rates go up, the cost of borrowing increases which may inhibit consumption and additional investments. Another consequence of a rising interest rate is that a greater return is paid in respect of government securities, which may impact other investments by making them less attractive by comparison. As a result, there may be additional investment in public debt, which absorbs money that could otherwise fund the private sector.

As of December 31, 2020, 29.7% of our total loans and borrowings of R\$22,404,426 thousand was either: (i) denominated in (or swapped into) *reais* and bears interest based on Brazilian floating interest rates, such as the Interbank Deposit Certificate Rate (*Certificado de Depósito Interbancário*, or “CDI”), an interbank certificate of deposit rate that applies to our foreign currency swaps and some of our other real-denominated indebtedness, or the IPCA; or (ii) U.S. dollar-denominated and bears floating interest based on the London Interbank Offered Rate (“LIBOR”). Any increase in the CDI, IPCA or LIBOR rates may have an adverse impact on our financial expenses and our results of operations.

Exchange rate fluctuations 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. The *real* appreciated 16.5% in 2016, and depreciated 1.5%, 17.1%, and 4.0% and 22.4% in 2017, 2018, 2019 and 2020, respectively, against the U.S. dollar. Following the start of the COVID-19 pandemic, the *real* depreciated significantly against the U.S. dollar, reflecting low interest rates, a deteriorating economic environment and a political crisis. As of December 31, 2020, the real/U.S. Dollar exchange rate was R\$5.1967.

Appreciation of the 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 international sales are mostly denominated in U.S. dollars. 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 exchange rates. 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, which are important ingredients for 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 for our feedstock, is also linked to the U.S. dollar, but 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 have established policies and procedures to manage our sensitivity to such risks included in our Financial Risk Management Policy. This policy, however, may not adequately cover our revenue and cost exposure to exchange rates.

We had total foreign currency-denominated loans and borrowings in an aggregate amount of R\$15,739,134 thousand as of December 31, 2020, representing 70.3% 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.

Changes in tax laws or changes in their interpretation may increase our tax burden and, as a result, negatively affect our results of operations and financial condition.

The Brazilian government regularly implements changes to tax regimes that may increase our and our suppliers’ and customers’ tax burdens, which may in turn increase the prices we charge for the products we sell, restrict our ability to do business in our existing markets and, therefore, materially adversely affect our results of operations and financial condition.

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 Social Integration Program (*Programa de Integração Social*, or “PIS”) and Contribution for Social Security Funding (*Contribuição para o Financiamento da Seguridade Social*, or “COFINS”) taxes, ICMS and certain other taxes, such as increases in payroll taxes and in the withholding tax over dividend distributions. It is uncertain whether these proposals will be approved and passed into law and, if approved, whether they will reflect these or any other changes to tax regimes. Other tax regimes, such as the research and development tax incentive program (“*Lei do Bem*”) and the deduction of interest on shareholders’ equity, may be revoked to increase the government’s revenues in light of a possible reduction in the income tax rate, which has been and is being studied by the new Brazilian government’s financial team. The effects of these proposed tax reform measures and any other changes that could result from the enactment of additional tax reforms have not been, and cannot be, quantified yet due to the uncertainty of whether any changes will be implemented. Some of these measures, if enacted, may result in increases in our overall tax burden, which may adversely affect our overall financial performance. For more information, see “Item 8. Financial Information–A. Consolidated Statements and Other Financial Information–Social Contributions.” Moreover, certain tax laws may be subject to controversial interpretation by tax authorities. In the event that tax authorities interpret tax laws in a manner that is inconsistent with our interpretations, we may be adversely affected.

Risks Relating to Our Common Shares and 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 American Depositary Shares (“ADS”) and evidenced by ADRs 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 ADR 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 virtually (whenever the shareholders’ meeting is held under a partial or 100% digital format), by means of the distance voting form (*boletim de voto a distância*) or by 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 New York Stock Exchange rules.

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 or 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 may be unable to enforce the rights of shareholders under our bylaws and Brazilian Corporate Law.

Our corporate affairs are governed by our bylaws and Brazilian Corporate 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 Brazilian Corporate Law to protect its interests relative to actions by our board of directors or executive officers may be limited compared to 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 compared to 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 non-Brazilian holders of our common shares or 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 or 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 is located in Brazil. As a result, it may not be possible for non-Brazilian holders of ADRs or 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, non-Brazilian holders of ADRs or common shares 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 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 33.3% or more of our share capital to disclose such information immediately through a filing with the Securities and Exchange Commission of Brazil (*Comissão de Valores Mobiliários*, or “CVM”) and, within 30 days from the date of such acquisition or event, commence a public tender offer with respect to all of our shares for a price per share that may not be less than the greater of: (i) 140% of the average trading price on the stock exchange trading the greatest volume of shares of our capital stock during the last 120 trading sessions prior to the date on which the public offer became obligatory; and (ii) 140% of the average trading price on the stock exchange trading the greatest volume of shares of our capital stock during the last 30 trading days prior to the date on which the public offer became obligatory.

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 their intention 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. 4,373, 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 case of a non-Brazilian holder selling common shares on the Brazilian stock exchange, the withholding tax rate would be 0% (in the case of a non-Brazilian holder registered as such before Brazilian Central Bank (“Bacen”) under the rules of the CMN (“Registered Holder”) and not a resident of a tax haven (“Tax Haven Resident”)), 15% (in the case of a non-Brazilian holder that is not a Registered Holder and not a Tax Haven Resident), or 25% (in the case of a non-Brazilian holder that is a Tax Haven Resident).

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-Brazilian 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 not exceeding R\$5,000,000.00;

- ii.17.5% upon the portion of capital gains that exceeds R\$5,000,000.00 but not exceeding R\$10,000,000.00;
- iii.20% upon the portion of capital gains that exceeds R\$10,000,000.00 but not exceeding R\$30,000,000.00; and
- iv.22.5% upon the portion of capital gains that exceeds R\$30,000,000.00.

- are subject to income tax at a rate of 25% when realized by an individual or legal entity that is a Tax Haven Resident, whether or not such holder is a Registered Holder.

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

The Brazilian securities markets, including the B3 exchange, are substantially smaller, less liquid and more volatile than major securities markets in the United States. The Brazilian securities markets are also characterized by considerable share concentration.

The ten largest companies in terms of market capitalization represented approximately 46.5% of the aggregate market capitalization of the São Paulo Stock Exchange as of December 31, 2020. In addition, the ten most widely traded stocks in terms of trading volume accounted for approximately 39.9% of all shares traded on the São Paulo Stock Exchange in 2020. These market characteristics may substantially limit the ability of holders of 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 markets, may adversely affect the market price of our common shares and ADRs.

The market for securities issued by Brazilian companies is influenced, to varying degrees, by economic and market conditions in other emerging markets. 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 markets have at times resulted in significant outflows of funds from, and declines in, the amount of foreign currency invested in Brazil. In addition, economic and political crises in Latin America or other emerging markets may significantly affect perceptions of the risk inherent in investing in the region, including Brazil.

The Brazilian economy, as well as the market for securities issued by Brazilian companies, is also affected, to varying degree, 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.

The COVID-19 pandemic added a new source of uncertainty to global economic activity and has resulted in significantly increased volatility in both Brazilian and international financial markets and economic indicators, including exchange rates, interest rates and credit spreads. For example, as a result of heightened volatility, the B3's circuit breaker was triggered eight times in the month of March 2020. Any significant change in the global financial markets or the Brazilian economy may decrease the interest of investors in assets from Brazil and other countries in which we do business, including our common shares, which may adversely affect the trading price of our common shares and ADRs, or decrease liquidity of our common shares and ADRs generally in addition to hindering our access to the equity capital markets and to financing in the future on acceptable terms.

Additionally, governmental authorities around the world, including Brazil, have taken measures to try to contain the spread of COVID-19. Restrictions will likely remain in place, suppressing social and economic activity, if the contagion does not subside or is not addressed through vaccination efforts. It is uncertain how long it will take to vaccinate substantial portions of the world's population as well as the Brazilian population, and delays in vaccination efforts may further increase risks relating to the COVID-19 pandemic. We are unable to estimate or quantify all economic and operational consequences of the COVID-19 pandemic, or the micro and macroeconomic effects this pandemic will continue to have on our business. The materialization of these risks has significantly affected global growth. Measures taken by governmental authorities worldwide, including Brazil, to stabilize markets and support economic growth may not be sufficient to control high volatility or to prevent serious and prolonged reductions in economic activity. In addition, the social distancing measures imposed by governmental authorities to contain the COVID-19 pandemic have resulted in a sharp drop or even a halt in certain activities and economic output. At this moment, there is no way to predict how long these measures will remain in force. These policies and measures have influenced the behavior of the consumer market and the population in general, the demand for services, products and credit.