Year	Reais per U.S. Dollar High	Low	Average	Period End
2004	3.2051	2.6544	2.9257	2.6544
2005	2.7621	2.1633	2.4341	2.3407
2006	2.3711	2.0586	2.1771	2.1380
2007	2.1556	1.8389	2.2002	1.7713
2008	2.5004	1.5593	1.8375	2.3370

Month	Reais per U.S. Dollar High	Low
January 2009	2.3803	2.1889
February 2009	2.3916	2.2446
March 2009	2.4218	2.2375
April 2009	2.2899	2.1699
May 2009	2.1476	1.9730
June 2009 (through June 19, 2009)	1.9780	1.9300

Source: Central Bank / Bloomberg

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

D. Risk Factors

Risk Relating to Our Business and Industry

The global economic crisis is adversely affecting our business and financial performance.

Our business has been materially affected by the global economic crisis in 2008 and 2009, which has increased volatility in our markets and contributed to the net losses we recorded in the fourth quarter of 2008 and the first quarter of 2009. We have been affected in a number of ways, including the following:

- Increases in prices for our commodity raw materials, such as corn and soybeans, through the first three quarters of 2008, which we could not pass on through selling prices.
- Because as the global economic crisis affected demand, we were forced to decrease selling prices, particularly in our export markets.
- Negative macroeconomic trends in our domestic market starting in the fourth quarter of 2008 as the global economic crisis began to affect the Brazilian economy and domestic consumer confidence.
- We announced a 20% cut in meat production for export for the first quarter of 2009 due to weak demand in our export markets. Temporary shutdowns of production of some facilities have adversely affected our margins.
- The Brazilian *real* depreciated 22% against the U.S. dollar in the fourth quarter of 2008 compared to the third quarter of 2008, reflecting uncertainty regarding the effect of the global economic crisis on Brazil and other emerging market economies. This devaluation in the *real* caused us to incur net foreign exchange variation expenses (recorded as part of our net financial expenses) of R$416.0 million in 2008, of which R$318.0 million was attributable to the fourth quarter of 2008.
- Uncertainties engendered by the crisis and the challenges of managing inventories, accounts receivable, accounts payable and other items required us to reinforce our working capital, leading to a 66% increase in our total debt to R$5.4 billion as of March 31, 2009, compared to R$3.3 billion as of March 31, 2008, including R$1.8 billion of short-term debt.

The above and other factors described below and in “Item 5. Operating and Financial Review and Prospects” caused us to record a net loss of R$20.1 million for the fourth quarter of 2008 and a net loss of R$226.0 million for the first quarter of 2009. Although we seek to manage our selling prices and production costs, volumes, inventories and working capital through the global economic crisis, we cannot predict when demand will return to historical levels or whether the global economic crisis will have any long-term effects on consumer confidence, selling prices and production costs, demand for particular types of products, volatility of raw material prices or the equilibrium between our domestic and export markets. These factors may therefore continue to adversely affect our business, results of operations and the market price of our common shares and ADSs.

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

Our business is largely dependent on the cost and supply of corn, soy meal, soybeans, hogs, cattle, milk and other raw materials, as well as the selling prices of our poultry, pork, beef and dairy products, all of which are determined by constantly changing market forces of supply and demand, which may fluctuate significantly, even in the absence of a global economic crisis, and other factors over which we have little or no control. These other factors include, among others, fluctuations in local and global poultry, hog, cattle and milk production levels, environmental and conservation regulations, economic conditions, weather, animal and crop diseases, cost of international freight and exchange rate fluctuations. Our industry, both in Brazil and abroad, is also characterized by cyclical periods of higher prices and profitability, followed by overproduction, leading to periods of lower prices and profitability. We are not able to mitigate these risks by entering into long-term contracts with our customers and most of our suppliers because such contracts are not customary in our industry. Our financial performance is also affected by domestic and international freight costs, which are vulnerable to volatility in the price of oil. We may not be successful in addressing the effects of cyclicality and volatility on costs and expenses or the pricing of our products, and our overall financial performance may be adversely affected.

The events of the 2008, which were exacerbated by the global economic crisis, illustrate the susceptibility of our business to cyclical market forces. In 2008, the average corn price on the Chicago Board of Trade (CBOT) was 42.2% higher than the average price in 2007. Soybean prices also increased by 40.5% in 2008. Similarly, we significantly increased our selling prices of certain of our products in 2008 to reflect increased production costs but were then forced to decrease prices for many products in the fourth quarter of 2008 and the first quarter of 2009, which adversely affected our financial performance in those periods.

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

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

Our sales are dependent on consumer preferences, and any actual or perceived health risks associated with our products, including any adverse publicity concerning these risks, could cause customers to lose confidence in the safety and quality of our products, reducing the level of consumption of those products. Even if our own products are not affected by contamination, our industry may face adverse publicity if the products of other producers become contaminated, which could result in reduced consumer demand for our products in the affected category. We maintain systems designed to monitor food safety risks throughout all stages of the production process (including the production of poultry, hogs, cattle and dairy products). However, our systems for compliance with governmental regulations may not be fully effective in mitigating risks related to food safety. Any product contamination could have a material adverse impact on our business, results of operations, financial condition and prospects.

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

Our operations involve raising poultry and hogs and processing meat from poultry, hogs and cattle, as well as the purchase of milk and the sale of milk and dairy products, which require us to maintain animal health and control disease. We could be required to destroy animals or suspend the sale of some of our products to customers in Brazil and abroad in the event of an outbreak of disease affecting animals, such as (1) in the case of poultry, avian influenza (discussed below) and Newcastle disease, (2) in the case of hogs, cattle and certain other animals, foot-and-mouth disease, classic swine fever "blue ear" disease and A(H1N1) influenza (discussed below) and (3) in the case of cattle, foot-and-mouth disease and bovine spongiform encephalopathy, known as "mad cow disease." Destruction of poultry, hogs or other animals would preclude recovery of costs incurred in raising or purchasing these animals and result in additional expense for the disposal of such animals. In 2005, foot-and-mouth disease cases in the States of Mato Grosso do Sul and Paraná affected only cattle, although hogs can also be contaminated. An outbreak of foot-and-mouth disease could have an effect on livestock we own, the availability of livestock for purchase, consumer perception of certain protein products or our ability to access certain markets, which would adversely impact our results of operations and financial condition. In addition, although Brazilian cattle is generally grass-fed and at less risk of contracting mad cow disease than cattle raised in some other countries, increases in Brazilian cattle production could lead to the use of cattle feed containing animal byproducts that could heighten the risk of an outbreak of mad cow disease.

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

Our pork business in our Brazilian and export markets could be negatively affected by concerns about A(H1N1) influenza, also called "swine flu."

In 2009, A(H1N1) influenza, also called "swine flu," spread to many countries. In April 2009, the analysis of samples collected in cases of flu symptoms by the U.S. and Mexican governments identified a new subtype of the Influenza A(H1N1) virus, classified as "A/CALIFORNIA/04/2009," which had not been previously detected in humans or swine. Influenza A(H1N1) is transmitted from one person to another mainly through coughing, sneezing and contact with nasal secretions from infected individuals. According to the World Health Organization, or "WHO," there is no relation between those infected with Influenza A(H1N1) and contact with persons living near swine or the consumption of pork and pork-derived products.

More than 11,000 cases and over 100 deaths worldwide have been recorded since the outbreak of A(H1N1) influenza in Mexico, and on June 11, 2009, the WHO declared a flu alert level six, signaling a "global pandemic." Many countries, including Russia and China, have prohibited imports of pork from countries reporting a significant number of cases (Mexico, United States and Canada), but, as the WHO and other independent sources have stated that influenza A(H1N1) is not transmitted by pork consumption, those countries reopened their markets to producers from Mexico, the United States and Canada. Even so, some states in the importing countries continue to impose restrictions on pork imports from Mexico, the United States and Canada.

To date, Brazil has a number of documented cases of A(H1N1) influenza. A significant outbreak of A(H1N1) influenza in Brazil could lead to pressure to destroy our hogs, even if no link between the influenza cases and pork consumption is shown. Any such destruction of our hogs would result in decreased sales of pork, prevent recovery of costs incurred in raising or purchasing our hogs, and result in additional expense for the disposal of destroyed hogs. In addition, any outbreak of A(H1N1) influenza in Brazil could lead to restrictions on the export of some of our products to key export markets.

Whether or not an outbreak of A(H1N1) influenza occurs in Brazil, further outbreaks of the disease anywhere in the world could have a negative impact on the consumption of pork in key export markets or in Brazil, and a significant outbreak would negatively affect our net sales and overall financial performance. Any further outbreak of A(H1N1) influenza could lead to the imposition of costly preventive controls on pork imports in our export markets. Accordingly, any spread of A(H1N1) influenza, or increasing concerns about this disease, may have a material and adverse effect on our company.

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

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

From January 1, 2003 to December 31, 2008, there have been over 424 confirmed human cases of avian influenza and over 261 deaths, according to the WHO, with an increased number of deaths each year since 2003. Various countries in Asia, the Middle East and Africa reported human cases in 2006, 2007 and 2008, and several countries in Europe reported cases of avian influenza in birds. For example, Indonesia became the focus of international attention when the largest cluster of human H5N1 virus cases so far was identified. The H5N1 virus is considered firmly entrenched in poultry throughout much of Indonesia, and this widespread presence has resulted in a significant number of human cases. In 2008, 44 cases were reported worldwide, with 33 deaths, according to the WHO.

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

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

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

Because of the growing market share of Brazilian poultry, pork and beef products in the international markets, Brazilian exporters are increasingly being affected by measures taken by importing countries to protect local producers. The competitiveness of Brazilian companies has led certain countries to establish trade barriers to limit the access of Brazilian companies to their markets. Some countries, such as Russia, impose quotas on Brazilian pork and poultry products, and delays in allocating these quotas or changes in laws or policies regarding these quotas can adversely affect our exports. For example, a delay in allocating quotas for poultry products in Russia in the first half of 2006 resulted in a significant decline in our sales volumes of poultry products to Russia during that period. The Ukraine also restricted pork imports for the retail market, on which higher taxes were levied for a period through December 2008. More recently, in March 2009, the Ukraine initiated an anti-dumping investigation regarding imports of halves and quarters of poultry, as well as legs and cuts of poultry, in each case originating in the United States and Brazil. We were asked to answer a questionnaire from the Ministry of Economy of the Ukraine in connection with the investigation. If the Ukrainian authorities decide to apply anti-dumping measures, these actions could affect our exports to this country.

The European Union charges protective tariffs designed to mitigate the effects of Brazil’s lower production costs on local European producers. In addition, the European Union has a ban on certain types of Brazilian beef that affects sales of fresh premium cuts and some frozen hindquarter cuts. Developed countries also sometimes use direct and indirect subsidies to enhance the competitiveness of their producers in other markets. For example, French producers receive subsidies for their sales of poultry to countries such as Saudi Arabia, a major importer of poultry products. Trade barriers are sometimes applied indirectly to other parties that are crucial to the export of our products. In addition, local producers in a specific market sometimes exert political pressure on their governments to prevent foreign producers from exporting to their market.

Any of the above restrictions could substantially affect our export volumes and, consequently, our export sales and financial performance. If new trade barriers arise in our key export markets, we may face difficulties in reallocating our products to other markets on favorable terms, and our business, financial condition and results of operations might be adversely affected.

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

We face strong competition from other Brazilian producers in our domestic markets and from Brazilian and foreign producers in the export markets in which we sell our products. The Brazilian market for whole poultry and poultry and pork cuts is highly fragmented, and we face competition from small producers, some of which operate in the informal economy and are able to offer lower prices by meeting lower quality standards. Competition from small producers is a primary reason why we sell a majority of our whole chickens and poultry and pork cuts in the export markets and is a barrier to expanding our sales of those products in the domestic market. In our export markets, we compete with other major vertically integrated Brazilian producers, such as Sadia, that have the ability to produce quality products at low cost, as well as with foreign producers. In the Brazilian milk and dairy products markets, our main competitors are Nestlé Brasil Ltda., Danone Ltda. — Indústria de Alimentos and Itambé Ltda. To varying degrees, our competitors may have strengths in specific product lines and regions as well as greater financial resources. In addition, our poultry and pork cuts, in particular, are highly price-competitive and sensitive to product substitution. Even if we remain a low-cost producer, customers may seek to diversify their sources of supply by purchasing a portion of the products they need from producers in other countries, as some of our customers in key export markets have begun to do. We expect that we will continue to face strong competition in all of our markets and anticipate that existing or new competitors may broaden their product lines and extend their geographic scope. Any failure by us to respond to product, pricing and other moves by competitors may negatively affect our financial performance.

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

Our manufacturing facilities and products are subject to regular Brazilian federal, state and local, as well as foreign, governmental inspections and extensive regulation in the food safety area, including governmental food processing controls. Changes in government regulations relating to food safety could require us to make additional investments or incur other costs to meet the necessary specifications for our products.

Our products are often inspected by foreign food safety officials, and any failure to pass those inspections can result in our being required to return all or part of a shipment to Brazil, destroy all or part of a shipment or incur costs because of delays in delivering products to our customers. Any tightening of food safety regulations could result in increased costs and could have an adverse effect on our business and results of operations.

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

Export sales account for a significant portion of our net sales, representing 42.9% of our total net sales in March 31, 2009, 43.7% of our total net sales in 2008 and 47.5% of our total net sales in 2007. Our major export markets include the European Union, the Middle East (particularly Saudi Arabia), and the Far East (particularly Japan and Russia), where we are subject to many of the same risks described below in relation to Brazil. Our future financial performance will depend, to a significant extent, on economic, political and social conditions in our main export markets.

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

- exchange rate fluctuations;
- deterioration in economic conditions;
- imposition of increased tariffs, anti-dumping duties or other trade barriers;
- strikes or other events affecting ports and other transport facilities;
- compliance with differing foreign legal and regulatory regimes; and
- sabotage affecting our products.

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

Our export sales are highly dependent on conditions at a small number of ports in southern Brazil.

We export our products primarily through ports in southern Brazil (Paraná, Santa Catarina and Rio Grande do Sul). We have been affected from time to time by strikes of port employees or customs agents, sanitary inspection agents and other government agents at the Brazilian ports from which we export our products. For example, in 2005 and in the third quarter of 2007, Brazilian federal government sanitary inspectors went on strike for approximately one month. A widespread or protracted strike in the future could adversely affect our business and our results of operations.

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

Environmental laws and regulations require increasing expenditures for compliance.

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

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

Our plants are subject to environmental licensing, based on their pollution potential and usage of natural resources. If any these environmental licenses expire and are not renewed, or have their solicitation of renewal dismissed by the competent environmental authority, we may incur in administrative penalties, such as a fine ranging between R$500 and R$10 million, suspension of operations or closing of the facilities in question. Those same penalties may also be applicable in the case of failure to fulfill the conditions of validity foreseen in the environmental licenses already held by us.

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

We regularly review and pursue opportunities for strategic growth through acquisitions and other business ventures. We have completed several acquisitions in recent years, as described under “Item 4. Information on the Company—History and Development of the Company—Recent Acquisitions and Investments.” Acquisitions, especially involving sizeable enterprises, may present financial, managerial and operational challenges, including diversion of management attention from existing businesses, difficulty with integrating personnel and financial and other systems, increased compensation expenses for newly hired employees, assumption of unknown liabilities and potential disputes with the sellers. We could also experience financial or other challenges if any of the businesses that we have acquired or may acquire in the future give rise to liabilities or problems of which we are not aware. Acquisitions outside of Brazil may present additional difficulties, such as compliance with foreign legal and regulatory systems and integration of personnel to different managerial practices and would increase our exposure to risks associated with international operations.

In recent years, the size of our acquisitions has increased significantly, which has increased the magnitude of the challenges described above. In 2008, we completed three acquisitions for an aggregate purchase price of R$1.8 billion, consisting primarily of our acquisitions of Eleva (complementing our dairy product and meat businesses), Plusfood (providing meat processing capabilities in Europe) and Cotochés (adding to the scope of our dairy products business), compared to four acquisitions for an aggregate purchase price of R$348.0 million in 2007. We recently announced a business combination with Sadia, which poses specific risks and challenges discussed under “—Risks Relating to the Proposed Sadia Transaction.”

We are influenced by a group of shareholders that control a significant percentage of our common shares.

Currently, five pension funds hold a significant percentage of our common shares and, acting together pursuant to a shareholders’ voting agreement, have the ability to significantly influence our decisions. The pension funds owned 35.01% of our total capital on May 31, 2009. They are parties to a shareholders’ voting agreement that sets forth voting arrangements with respect to, among other matters, (1) the election of officers and members of our board of directors and of the fiscal council and (2) the matters set forth in Article 136 of the Brazilian Corporation Law, including decisions relating to dividends, corporate restructurings, our corporate purpose and other matters.

As a result, these shareholders have, and will continue to have, the power to influence significantly the outcome of important corporate decisions or matters submitted to a vote of our shareholders. The interests of these shareholders may conflict with, or differ from, the interests of other holders of our common shares. Some of our major shareholders are also shareholders of Sadia. See “—Risks Relating to the Proposed Sadia Transaction.”

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

We are defendants in civil, labor and tax proceedings and are also subject to consent agreements (*termo de ajustamento de conduta*). We cannot assure you that we will obtain favorable decisions in these proceedings or that our reserves will be sufficient to cover potential liabilities resulting from unfavorable decisions. In the ordinary course of business, we outsource labor to third-parties. See “Item 4. Information on the Company—B. Business Overview—Production Process.” If it were to become necessary to revisit this contractual structure, we could incur additional operating expenses. Even in cases in which we have recorded reserves on our balance sheet to cover potential losses, any obligation to pay amounts in these proceedings would have an effect on our cash position. Unfavorable decisions in these proceedings may, therefore, reduce our liquidity and adversely affect our business, financial condition and results of operations. In addition, Eleva is subject to civil, labor and tax proceedings.

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

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

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

As is usual in our business, our plants, distribution centers, transports, among others are insured. However, certain kinds of losses cannot be insured. If an event that cannot be insured occurs, the investment made by the Company may be lost. In addition, we can be held judicially liable for any indemnification payments to potential victims in such events.

Risks Relating to the Proposed Sadia Transaction

Our proposed business combination with Sadia is subject to antitrust approvals, and any antitrust approval could be conditioned on divestment of a portion of our business.

On May 19, 2009, we signed a merger agreement with Sadia that contemplates a business combination between us and Sadia. In the business combination, our company is to be renamed BRF — Brasil Foods S.A., and Sadia is expected to become our wholly owned subsidiary. Holders of common shares and preferred shares of Sadia are expected to receive common shares of our company, and holders of ADSs representing preferred shares of Sadia are expected to receive ADSs representing common shares of our company. The transaction is described in more detail under “Item 4. Information on the Company—History and Development of the Company—Proposed Business Combination with Sadia.”

In accordance with Brazilian law, we and Sadia submitted a summary of the terms and conditions of the business combination and other information about each company to the Brazilian *Conselho Administrativo de Defesa Econômica* (the Brazilian government agency with antitrust decision making authority, or “CADE”) on June 8, 2009. After an analysis by the *Secretaria de Acompanhamento Econômico* (the Economic Policy Bureau of the Ministry of the Treasury, or “SEAE”) and the *Secretaria de Direito Econômico* (the Economic Law Office of the Ministry of Justice, or “SDE”), the CADE will determine whether the business combination negatively impacts consumer conditions in the relevant markets in which we and Sadia compete or whether they would negatively affect consumers. Brazilian antitrust law does not prevent parties from closing a transaction on a provisional basis until the Brazilian antitrust authorities render a final decision. However, the CADE may ask the parties to sign, and the parties have initiated negotiations with the CADE with respect to, an agreement (an *Acordo de Preservação da Reversibilidade da Operação*, or “Reversibility Agreement”) that requires the parties to keep parts of their businesses separate until a final decision is rendered. If the business combination is approved, it will be retroactive to the date the transaction closed; however, if the business combination is not approved, it will be unwound retroactively to the closing date. As a condition to approving the transaction, the Brazilian antitrust authorities could impose significant conditions or performance commitments on the combined company, including commitments to divest from certain businesses, risks and product lines, trademarks or production facilities. Any such conditions could materially adversely affect our financial performance and prospects.

Combined, we and Sadia export to more than 100 countries, and the business combination is subject to approval by foreign antitrust authorities. Like the Brazilian authorities, those antitrust authorities could impose significant conditions to their approvals affecting our operations in those regions, particularly in regions in which we have a significant market share. Any such conditions could materially adversely affect our export revenues and growth strategy.

Our proposed business combination with Sadia is subject to approvals (in addition to antitrust approvals) as well as other uncertainties.

Our proposed business combination with Sadia is subject to a number of conditions, in addition to the European antitrust approval described in the preceding risk factor, including the following:

- the approval by the shareholders of our company of a series of corporate actions, including (1) the change in our company's name, (2) the change in the location of our headquarters to Itajaí in the State of Santa Catarina, (3) changes in the composition of our board of directors, (4) the increase in our share capital necessary for the issuance of shares in connection with the business combination and related equity financing, and (5) the merger of shares (*incorporação de ações*) by which a holding company that will hold a controlling interest in Sadia will become a subsidiary of our company; and

- the approval by the shareholders of Sadia of a number of actions, including (1) the disposition of Concórdia Financeira, (Sadia's banking and brokerage subsidiary), which will not be included in the combined company and (2) changes to the composition of Sadia's board of directors.

If we are unable to obtain the necessary approvals, our proposed business combination with Sadia would not be consummated, and we would be unable recover any costs that we have incurred and will incur in connection with the business combination, nor would we be able to realize its expected benefits.

In addition, although it is not a condition to the consummation of the business combination, both we and Sadia have agreed to use our best efforts to obtain any necessary waivers and consents from financial institutions under any contracts that contain covenants or events of default that would be triggered by the business combination. A significant portion of our outstanding indebtedness contains provisions that may require prepayment or trigger acceleration due to the transaction. We believe that Sadia had at least R$4.9 billion in aggregate principal amount of outstanding indebtedness containing such provisions as of May 31, 2009, including certain derivative instruments. If we or Sadia are unable to obtain consents under any of this indebtedness, we may find it necessary to refinance that indebtedness, which could significantly increase the costs of the business combination.

We expect to raise equity financing before the completion of the business combination, and if the business combination does not close, we will have complete discretion as to the use of the net proceeds of that financing.

We have previously announced that we plan to raise equity financing to provide gross proceeds in the amount of approximately R$4.0 billion before the consummation of the transaction. The purpose of this equity financing is to enhance the capital base of the combined company resulting from the combination of our company and Sadia. If we undertake this equity financing, it will not be conditioned upon the consummation of the business combination, and if we do not consummate the business combination, we do not currently have any specific use for the net proceeds of the financing. We may, for example, use the net proceeds to acquire or invest in other businesses or product lines, refinance indebtedness or for other uses. We will have complete discretion as to the use of those proceeds and may use them in ways with which investors do not agree or in ways that do not improve our profitability.

The proposed equity financing would also lead to significant dilution in the ownership percentages of the current holders of our common shares or ADSs representing our common shares.

This description of a potential equity offering does not constitute an offer to sell or the solicitation of an offer to buy any securities of our company.

If we complete the business combination, we may not realize the expected benefits of the transaction, in the timeframe anticipated or at all, because of integration or other challenges.

Achieving the expected benefits of the proposed business combination with Sadia will depend on the timely and efficient integration of the operations, business cultures, marketing practices, branding and personnel of Perdigão and Sadia. This integration may not be completed as quickly as expected, and any failure to effectively integrate the two companies or any delay in that integration could increase our costs, adversely affect our margins, adversely affect our financial condition or have other negative consequences. The challenges involved in the integration include, among others, the following:

- devising a coherent marketing and branding strategy in our domestic market and our export markets that takes into account the relative strengths of Perdigão’s and Sadia’s marketing and brands in each of those markets and across their many product lines;
- integrating two of the largest customer distribution networks in Brazil, as well as distribution networks in Perdigão’s and Sadia’s export markets;
- integrating the extensive production facilities of Perdigão and Sadia in several Brazilian states;
- the potential loss of key customers of Perdigão or Sadia, or both;
- the potential loss of key officers of Perdigão or Sadia, or both;
- distraction of management from the ongoing operations of the company;
- aligning the standards, processes, procedures and controls of Perdigão and Sadia in the operations of the combined companies; and
- increasing the scope, geographic diversity and complexity of our operations.

The proposed business combination with Sadia is significantly larger than any transaction that either we or Sadia has undertaken in the past, and any combination of the challenges described above could adversely affect our results of operations and prospects and the market price of the common shares or ADSs of the combined company.

Sadia’s use of derivative financial instruments has negatively affected its results of operations, especially in a volatile and uncertain market.

Sadia has used derivative financial instruments to manage the risk profile associated with interest rates and currency exposure of its debt. For the year ended December 31, 2008, Sadia had a net loss of approximately R$2,365.8 million from financial instruments as compared to a net gain of R$191.6 million in 2007. These losses resulted from a variety of factors, including losses related to changes in the fair value of cross-currency swaps, other currency derivatives attributable to the variation of the U.S. dollar against the *real*. Companies experienced a period of greater volatility in the global financial and securities markets as part of the worsening of the crisis, which started in 2007. The financial crisis significantly and negatively affected the valuation of Sadia’s derivative instruments portfolio, primarily the valuation of foreign exchange options and currency derivatives related to debt. As a result of increased volatility and variation of the *real* against the U.S. dollar, there were significant changes in the fair value of Sadia’s derivative instruments portfolio, which triggered the need to make deposits in margin accounts with the counterparties and to incur additional indebtedness to make margin deposits or to settle some of these derivative transactions, negatively affecting Sadia’s liquidity. To the extent that any of these factors persist in 2009, Sadia may continue to incur net losses from its derivative financial instruments.

The current financial crisis, which has continued into 2009, could also negatively affect Sadia’s derivative financial instruments by weakening the creditworthiness and viability of the financial institutions which act as the counterparties to its derivative transactions. The risk of counterparty default is currently higher in light of existing capital market and economic conditions. Reduced liquidity or financial losses resulting from exposure to the risk of counterparties could have a material adverse effect on Sadia’s cash flow and financial condition. The current economic environment could cause Sadia’s counterparties to breach their obligations under Sadia’s contracts with them by failing to pay Sadia amounts that may become due under its derivative contracts or to seek bankruptcy protection. The instability and uncertainty in the financial markets has also made it difficult to assess the risk of counterparties to derivatives contracts. Any of the foregoing could adversely impact Sadia’s business, financial condition and results of operations.

Furthermore, the fair value of derivative instruments fluctuates over time as a result of the effects of future interest rates, exchange rates and financial market volatility. These values must be analyzed in relation to the fair values of the underlying transactions and as part of our overall exposure to fluctuations in interest rates and foreign exchange rates. Since valuation is imprecise and variable, it is difficult to accurately predict the magnitude of the risk posed by the use of derivative financial instruments going forward and to state with certainty that Sadia will not be negatively affected by its derivative financial positions.

Derivative financial instruments are generally subject to margin calls in case the threshold set by the counterparties is exceeded. In certain scenarios, the cash required to cover margin calls may be substantial and may reduce the funds available to Sadia for its operations or other capital needs. Some of Sadia’s derivatives contracts have clauses that reduce the threshold amounts after certain pre-defined credit downgrades by the credit agencies. The change in mark-to-market of some of Sadia’s derivative financial instruments is reflected in its income statement introducing volatility in Sadia’s interest net income and related ratios.

Sadia is subject to significant potential liabilities in connection with litigation, which would become potential liabilities of our combined company after the completion of the business combination.

Sadia’s businesses are subject to regulation under a wide variety of Brazilian, U.S. federal, state and foreign laws, regulations and policies. Sadia, in particular, is subject to a variety of legal proceedings and legal compliance risks. Sadia’s businesses and the industries in which we operate are at times reviewed or investigated by regulators, which could lead to enforcement actions, fines and penalties or the assertion of private litigation claims and damages. Sadia is a party to a wide range of agreements, contracts and joint ventures with other companies, which could potentially result in litigation if the parties cannot find a common understanding on the issues in dispute.

In the fall of 2008, the *real* suffered a strong devaluation, including in relation to the U.S. dollar. As a result of such devaluation, it had sustained significant losses on foreign exchange derivative transactions. In connection therewith, Sadia sold certain of its long-term financial investments to be able to make deposits in margin accounts related to the currency derivatives, which resulted in further losses due to the decrease in the value of such financial instruments as a result of the global economic crisis. In connection with these losses, Sadia, as well as certain individuals who were officers and/or directors of Sadia during the events at issue, were named in five lawsuits in U.S. courts alleging various violations of U.S. federal securities laws related to losses that Sadia incurred with respect to foreign exchange derivative contracts. These five actions have since been consolidated in a single class action lawsuit.

In addition, on May 15, 2009, Sadia received a letter from the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários*), or “CVM,” informing Sadia that the CVM had initiated a preliminary analysis of possible liability of certain individuals who were officers and/or directors of Sadia for losses in connection with the derivative transactions in 2008. The letter states that the proceeding is still at a preliminary stage, and the CVM has not yet specified which crimes have been committed, or whether any crimes have been committed at all.

It is not possible to predict whether additional suits will be filed in connection with such derivative losses or what the outcome of any such litigation will be. Although Sadia intends to contest the current lawsuits vigorously, it is possible that there could be unfavorable outcomes in these or other proceedings. At the current stage of the proceedings, it is not possible to determine the probability of loss and/or the amounts involved in any potential loss and the expenses that will be incurred in defending these lawsuits.

Adverse results in proceedings involving Sadia and/or the incurrence of significant litigation expenses could be material to its business, operations, financial position, profitability or cash flows. If our proposed business combination with Sadia is consummated, Sadia will become our wholly owned subsidiary and we will be subject to any adverse outcomes arising out of proceeedings involving Sadia. Any such adverse results could therefore be material to our business, operations, financial position, profitability or cash flows.

Sadia is subject to significant tax and other potential liabilities in connection with litigation in Brazil, and these would be potential liabilities of our consolidated company after the completion of the business combination.

Sadia has significant tax and other potential liabilities in connection with litigation in Brazil. As of December 31, 2008, these liabilities included (1) tax proceedings in the aggregate amount of R$1,818.5 million (of which Sadia had recorded provisions for probable losses of R$50.9 million (R$22.6 million of income and social contribution payables and R$28.3 million of other tax proceedings)), (2) civil proceedings in the aggregate amount of R$116.6 million (of which Sadia had recorded provisions for probable losses of R$10.2 million) and (3) labor claims in the aggregate amount of R$67.6 million (of which Sadia had recorded provisions for probable losses of R$28.1 million). The difference between the amounts recorded as provisions for probable losses in each of these categories and the total amounts represent liabilities that Sadia's management has judged to be possible or remote, and Sadia did not, therefore, record any provision in its financial statements for these contingencies. The losses to Sadia could, therefore, be significantly higher than the amounts for which Sadia has recorded provisions. Even for the amounts recorded as provisions for probable losses, a judgment against Sadia would have an effect on Sadia's cash flow if it is required to pay those amounts. Sadia may therefore incur significant losses and expenses defending these lawsuits, which could materially adverse its results of operations and financial condition, and these would be potential liabilities of our consolidated company after the completion of the business combination.

Sadia is more highly leveraged than our company, and if we are unable to refinance a significant portion of its indebtedness in connection with the business combination, we would be subject to the risks associated with a higher level of indebtedness.

Sadia currently has a substantial amount of debt and may incur more debt in the future. As of December 31, 2008, Sadia had total debt of R$8,844.3 million, of which approximately 42.2% (R$3,729.6 million) was denominated in Brazilian *reais* and approximately 57.8% (R$5,114.7 million) was denominated in foreign currency (primarily U.S. dollars). In addition, as of December 31, 2008, Sadia had R$913.6 million of negative working capital (defined as total current assets minus total current liabilities) and off-balance sheet obligations in the aggregate amount of R$537.7 million. If we are unable to refinance a significant portion of Sadia's indebtedness in connection with the business combination transaction, Sadia's significant level of debt could have important 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 its debt, reducing the funds available for our operations or other capital needs;
- limiting our flexibility in planning for, or reacting to, changes in its business and the industry in which we operate because our available cash flow after paying principal and interest on our debt might not be sufficient to make the capital and other expenditures necessary to address these changes;
- increasing our vulnerability to general adverse economic and industry conditions because, during periods in which we experience lower earnings and cash flows, we would be required to devote a proportionally greater amount of our cash flows to paying principal and interest on debt;
- limiting our ability to obtain additional financing in the future to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- making it difficult for us to refinance our indebtedness or to refinance such indebtedness on terms favorable to us, including with respect to existing accounts receivable securitizations;
- placing us at a competitive disadvantage compared to competitors that are relatively less leveraged and that may be better positioned to withstand economic downturns; and
- exposing our current and future borrowings made at floating interest rates to increases in interest rates.

Sadia has substantial debt that matures in each of the next several years beyond 2009, and if we are unable to refinance a significant portion of its indebtedness in connection with the business combination, we may not be able to comply with its upcoming payment obligations.

Sadia currently has a substantial amount of debt and may incur significant additional debt in the future. As of December 31, 2008, it had R$8,844.3 million of total debt, of which approximately 42.2% (R$3,729.6 million) was denominated in Brazilian *reais* and approximately 57.8% (R$5,114.7 million) was denominated in foreign currency (primarily U.S. dollars). Of its total debt as of December 31, 2008, approximately 34.4% (R$3,037.8 million) was short-term debt, and approximately 16.1% (R$1,421.8 million) was the current portion of the long-term debt and 49.6% (R$4,384.7 million) was long-term debt. Sadia has a substantial amount of debt maturing in the next several years, including debt with an aggregate principal amount of approximately R$1,125.8 million, R$938.7 million and R$663.7 million maturing in 2010, 2011 and 2012, respectively. In addition, as of December 31, 2008, Sadia had R$913.6 million of negative working capital (defined as total current assets minus total current liabilities) and off-balance sheet obligations in the aggregate amount of R$537.7 million. If we are unable to refinance a significant portion of Sadia's indebtedness in connection with the business combination, we may face difficulties in paying that debt as it matures beyond 2009.

The global stock and credit markets have recently experienced extreme disruption, including severely diminished liquidity, constrained credit availability and extreme volatility in securities prices. These factors and the continuing market disruption may have an adverse effect on our and, in particular, Sadia's ability to refinance future maturities, including a significant portion of its indebtedness in connection with the business combination. Continued uncertainty in the stock and credit markets may also negatively impact our ability to access additional short-term and long-term financing before or after completion of the business combination with Sadia on reasonable terms or at all, which could negatively impact our liquidity and financial condition.

In addition, Sadia's credit ratings have recently been downgraded by Standard & Poor's and by Moody's. The disruptions in the financial and credit markets also may continue to adversely affect Sadia's credit ratings. Any further deterioration of Sadia's credit ratings or creditworthiness might negatively impact the availability of financing to our company following consummation of the business combination and the terms on which we could refinance Sadia's debt, including the imposition of more restrictive covenants and higher interest rates.

In the years beyond 2009, if we are unable to refinance a significant portion of Sadia's indebtedness in connection with the business combination and:

- the current pressures on credit continue or worsen,
- Sadia's operating results worsen significantly,
- Sadia is unable to complete any necessary divestitures of non-core assets and its cash flow or capital resources prove inadequate, or
- Sadia is unable to refinance any debt that becomes due, we could face liquidity problems and may not be able to pay our or Sadia's outstanding debt when due, which could have a material adverse effect on our business and financial condition.

If we are unable to refinance a significant portion of Sadia's indebtedness in connection with the business combination, the terms of Sadia's indebtedness will impose significant operating and financial restrictions on us.

The instruments governing Sadia's consolidated indebtedness impose significant operating and financial restrictions. These restrictions may limit, directly or indirectly, Sadia's 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.

If we are unable to refinance a significant portion of Sadia's indebtedness in connection with the business combination, these restrictions may, among other things:

- impede our ability, and the ability of our subsidiaries, to develop and implement refinancing plans in respect of Sadia's debt;
- limit our ability to seize attractive growth opportunities for our businesses that are currently unknown, particularly if we are unable to obtain financing or make investments to take advantage of these opportunities.

Although the covenants to which Sadia is subject have exceptions and qualifications, the breach of any of these covenants could result in a default under the terms of its 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 and Sadia 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, Sadia and its subsidiaries' financial and operational flexibility may be further reduced as a result of more restrictive covenants, requirements for security and other terms.

The consummation of the business combination with Sadia might result in an event of default, a termination event or a breach of covenants under certain instruments governing a portion of Sadia's indebtedness.

Under instruments governing at least R$4.9 billion of Sadia's indebtedness as of May 31, 2009, including certain derivative financial instruments, the consummation of the business combination with Sadia may result in an event of default, a termination event or a breach of one or more covenants, as applicable. In particular, the consummation of the business combination will result in a change of control of Sadia. As a result, following the announcement of the business combination with Sadia, Sadia has engaged in discussions with its lenders and counterparties under those debt instruments with change of control provisions or other provisions triggered by the transaction in order to seek waivers or consents of those provisions. Sadia may be required to pay a premium or a penalty to its lenders or counterparties in order to receive waivers or consents, or they may be unable to obtain these waivers or consents. If they are unable to obtain such waivers or consents, Sadia may find it necessary to prepay the indebtedness outstanding under those debt instruments. We can give no assurances as to whether any of Sadia's lenders and/or counterparties under the applicable debt instruments will agree to grant its waiver or consent or that Sadia will otherwise be able to prepay the indebtedness outstanding under such debt instruments.

If Sadia is unable to obtain all necessary waivers or consents before the consummation of the business combination, we may be required to incur significant expense to obtain them or to prepay or refinance the relevant indebtedness. Our agreement with Sadia requires them to use best efforts to obtain the waivers or consents but does not condition the consummation of the business combination upon Sadia's ability to obtain them. If we find it necessary to prepay or refinance any indebtedness of Sadia containing change of control or other provisions triggered by the business combination, we may need to obtain financing to enable us to do so, and this could accelerate or exacerbate the risks relating to Sadia's indebtedness that we highlight above.

Debt service requirements under Sadia's U.S. dollar-denominated debt obligations could heighten our exposure to the risk of fluctuations in the real-U.S. dollar exchange rate.

A substantial portion of the Sadia's outstanding debt is denominated in foreign currencies, primarily U.S. dollars. As of December 31, 2008, Sadia's U.S. dollar denominated debt represented approximately 57.8% (R$5,114.7 million) of its total debt (not giving effect to its currency-related derivatives as of such date). Sadia's existing U.S. dollar-denominated debt, however, must be serviced by funds generated from sales by its subsidiaries, the majority of which is not denominated in U.S. dollars. Consequently, when it does not generate sufficient U.S. dollar revenues to cover that debt service, Sadia must use revenues generated in *reais* or other currencies to service its U.S. dollar-denominated debt. Depreciation in the value of the *real* or any of the other currencies of the countries in which Sadia operates, compared to the U.S. dollar, could adversely affect its ability to service its debt. In 2008, Sadia's U.S. dollar-denominated operations, together, generated approximately 76.2% of its total net sales in *real* terms and some of the currencies in which its revenues are denominated suffered material depreciations against the U.S. dollar. If the business combination in consummated, a devaluation in the value of the *real*, euro or any of the other currencies of the countries in which the combined business operates, compared to the U.S. dollar, could therefore adversely affect our ability to service this Sadia debt. For example, in 2008 the *real* depreciated approximately 31.9% against the U.S. dollar, the euro depreciated approximately 4% against the U.S. dollar and the British sterling pound depreciated approximately 26% against the U.S. dollar. Foreign currency hedge agreements may not be effective in covering these currency-related risks.

We may incur additional costs in relation to Sadia's internal controls and information systems.

We are subject to Section 404 of the Sarbanes-Oxley Act of 2002 as well as SEC rules relating to internal controls over financial reporting, which require that our management annually evaluate the effectiveness of our internal control over financial reporting and disclose the results of that evaluation in this Annual Report. In addition, SEC rules require that our independent auditors prepare an attestation report regarding the effectiveness of our internal control over financial reporting. Although Sadia is a publicly held company in the United States and is also subject to these rules, our management's report, and our independent auditors' attestation report, on internal controls for the year ended December 31, 2008 does not address Sadia's internal control over financial reporting. We may find it necessary to incur expenses and spend time to correct deficiencies and implement additional training. If these deficiencies are serious, and if we cannot remedy them before the filing of our Annual Report on Form 20-F for the next fiscal year, we may not be able to conclude that our internal controls are effective. If this were to occur, investors might lose confidence in our financial statements and the price of our stock could fall.

Risks Relating to Brazil

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

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

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

- exchange rate movements;
- exchange control policies;

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

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

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

Historically, Brazil has experienced high rates of inflation. According to the General Market Price Index (*Índice Geral de Preços do Mercado*) or "IGP-M," a general price inflation index, the inflation rates in Brazil were 10.4% in 2001, 25.3% in 2002, 8.7% in 2003, 12.4% in 2004, 1.2% in 2005, 3.8% in 2006, 7.7% in 2007 and 9.8% in 2008. In addition, according to the National Extended Consumer Price Index (*Índice Nacional de Preços ao Consumidor Ampliado*), or "IPCA," published by the IBGE, the Brazilian consumer price inflation rates were 7.7% in 2001, 12.5% in 2002, 9.3% in 2003, 7.6% in 2004, 5.7% in 2005 3.1% in 2006, 4.5% in 2007 and 5.8% in 2008.

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

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

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

The Brazilian currency has been devalued frequently over the past four decades. Throughout this period, the Brazilian government has implemented various economic plans and exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. 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. For example, the *real* depreciated against the U.S. dollar, on average, by 19.6% in 2002 and 4.8% in 2003. In 2004, 2005, 2006 and 2007 the *real* appreciated 8.8%, 13.4%, 9.5% and 16.3%, respectively, against the U.S. dollar. In 2008 the *real* depreciated 31.9% against the U.S. dollar. For the three months ended March 31, 2009, the real depreciated 0.6% against the U.S. dollar.

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

Devaluation of the *real* against the U.S. dollar could create additional inflationary pressures in Brazil by increasing the price of imported products and requiring deflationary government policies. In addition, the prices of soy meal and soybeans, important ingredients of our animal feedstock, are closely linked to the U.S. dollar, and many of the mineral nutrients added to our feedstock must be purchased in U.S. dollars.

The price of corn, another important ingredient of our feedstock, is also linked to the U.S. dollar to a lesser degree. In addition to feedstock ingredients, we purchase sausage casings, breeder eggs, packaging and other raw materials, as well as equipment for use in our production facilities, from suppliers located outside Brazil whom we must pay in U.S. dollars or other foreign currencies. When the *real* depreciates against the U.S. dollar, the cost in *reais* of our U.S. dollar-linked raw materials and equipment increases, and these increases could materially adversely affect our results of operations.

We had total foreign currency-denominated debt obligations in an aggregate amount of R$4,138.0 million at December 31, 2008, representing 77% of our total consolidated indebtedness at that date. A significant portion of our consolidated debt is denominated in foreign currencies because export credit facilities available in foreign currencies often have attractive financing conditions and costs compared to other financing sources. However, these foreign-currency denominated credit facilities also expose us to a greater degree of foreign exchange risk. We manage a portion of our exchange rate risk through foreign currency swaps and investments, and cash flows from export sales are in U.S. dollars and other foreign currencies, but our foreign currency debt obligations are not completely hedged. At December 31, 2008, our consolidated exchange rate exposure was U.S.$821.3 million. A significant devaluation of the real in relation to the U.S. dollar or other currencies could increase the debt service requirements of our foreign currency-denominated obligations.

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

The Central Bank establishes the basic interest rate target for the Brazilian financial system by reference to the level of economic growth of the Brazilian economy, the level of inflation and other economic indicators. From February to July 17, 2002, the Central Bank reduced the basic interest rate from 19% to 18%. From October 2002 to February 2003, the Central Bank increased the basic interest rate by 8.5 percentage points, to 26.5% on February 19, 2003. The basic interest rate continued to increase until June 2003 when the Central Bank began to decrease it, reaching 11.25% in April 2008. In 2008, the Central Bank reversed the trend, increasing the basic interest rate to 13.75%.

At December 31 2008, approximately 70% of our total liabilities from indebtedness and derivative instruments of R$3,747.0 million was either (1) denominated in (or swapped into) *reais* and bears interest based on Brazilian floating interest rates, such as the Long-Term Interest Rate (*Taxa de Juros de Longo Prazo*), or “TJLP,” the interest rate used in our financing agreements with Brazilian National Bank for Economic and Social Development (*Banco Nacional de Desenvolvimento Econômico e Social—BNDES*), or “BNDES,” and the Interbank Deposit Certificate Rate (*Certificado de Depositário Interbancário*), or “CDI” rate, an interbank certificate of deposit rate that applies to our foreign currency swaps and some of our other *real*-denominated indebtedness, or (2) U.S. dollar-denominated and bears interest based on LIBOR. Any increase in the CDI, TJLP or LIBOR rates may have an adverse impact on our financial expenses and our results of operations.

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

The Brazilian government regularly implements changes to tax regimes that may increase our and our customers’ tax burdens. These changes include modifications in the rate of assessments and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. Since 2003, the Brazilian government 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,” the federal Contribution for Social Security Financing (*Contribuição para Financiamento da Seguridade Social — COFINS*), or “COFINS,” the state Tax on the Circulation of Merchandise and Services (*Imposto Sobre a Circulação de Mercadorias e Serviços*), or “ICMS,” and some other taxes. For example, in early 2008, the Brazilian Federal Government submitted to appreciation of the legislature a new tax reform proposal to change the structure of the current corporate income tax and replace a series of existing taxes for a new value-added tax, among other things. These proposals are not assured to be approved and passed into law.

The effects of these proposed tax reform measures and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified. However, some of these measures, if enacted, may result in increases in our overall tax burden, which could negatively affect our overall financial performance.

Restrictions on the movement of capital out of Brazil may adversely affect your ability to receive dividends and distributions on, or the proceeds of any sale of, our common shares and the ADSs.

Brazilian law permits the Brazilian government to impose temporary restrictions on conversions of Brazilian currency into foreign currencies and on remittances to foreign investors of proceeds from their investments in Brazil, whenever there is a serious imbalance in Brazil’s balance of payments or there are reasons to expect a pending serious imbalance. The Brazilian government last imposed remittance restrictions for approximately six months in 1989 and early 1990. The Brazilian government may take similar measures in the future. Any imposition of restrictions on conversions and remittances could hinder or prevent holders of our common shares or the ADSs from converting into U.S. dollars or other foreign currencies and remitting abroad dividends, distributions or the proceeds from any sale in Brazil of our common shares. Exchange controls could also prevent us from making payments on our U.S. dollar-denominated debt obligations and hinder our ability to access the international capital markets. As a result, exchange controls restrictions could reduce the market prices of our common shares and the ADSs.

Risks Relating to Our Common Shares and the ADSs

Holders of ADSs may find it difficult to exercise voting rights at our shareholders’ meetings.

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

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

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

Holders of ADSs will not be direct shareholders of our company and will be unable to enforce the rights of shareholders under our by-laws and the Brazilian Corporation Law.

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

Although insider trading and price manipulation are crimes under Brazilian law, the Brazilian securities markets are subject to different levels of regulations and supervision than the U.S. securities markets or the markets in some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well-defined and enforced in Brazil than in the United States and certain other countries, which may put holders of our common shares and the ADSs 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 ADSs and common shares may face difficulties in serving process on or enforcing judgments against us and other persons.

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

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

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

Holders of ADSs 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.

Holders of ADSs 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 ADSs) 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, or if these rights cannot be sold, they will lapse and the holder will receive no value from them.

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

Our by-laws contain provisions that may discourage, delay or make more difficult a change in control of our company or removal of our directors. Subject to limited exceptions, these provisions require any shareholder that acquires shares representing 20% or more of our share capital to, within 30 days from the date of such acquisition, commence a tender offer with respect to all of our share capital for a price per share equivalent to the greatest of: (1) the economic value of our company, which shall be equivalent to the arithmetic average of the mean points of the economic value ranges obtained in two appraisal reports prepared based on the discounted cash flow method, as long as the variation between these mean points shall not exceed 10%, in which case the economic value shall be determined through arbitration; (2) 135% of the issue price of the shares issued in any capital increase through a public offering that takes place within the 24-month period before the date on which the public offering shall become mandatory, duly adjusted in accordance with the IPCA variation up to the date of payment; and (3) 135% of the unit price of our shares within the 30-day period before the public offering. These provisions of our by- laws 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 ADSs could be subject to Brazilian income tax on capital gains from sales of ADSs.

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

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

The gain realized by a non-Brazilian holder on the disposition of common shares to another non-Brazilian holder (other than a disposition of shares held pursuant to Resolution No. 2,689, as amended, of the Brazilian Monetary Councel (*Conselho Monetário Nacional*, or “CMN”)) is generally viewed as being subject to taxation in Brazil. Pursuant to Law No. 10,833/03, Brazilian tax authorities may assess income tax on capital gains earned by non-Brazilian residents in transactions involving assets that are located in Brazil. In this case, the tax rate applicable on the gain would be 15% (or 25% in the case of a non-Brazilian holder organized under the laws of or a resident of a tax haven). For additional discussion of the tax consequences of a disposition of our common shares, see “Item 10. Additional Information—Taxation.”

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

The Brazilian securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The BM&F Bovespa — Securities, Commodities & Futures Exchange, or the “São Paulo Stock Exchange,” had a total market capitalization of R$1,375.3 billion, or U.S.$588.5 billion, at December 31, 2008 and an average daily trading volume of R$5,525.5 million for 2008. By contrast, the New York Stock Exchange had a market capitalization of U.S.$10.18 trillion at December 31, 2008 (U.S. domestic listed companies) and an average daily trading volume of U.S.$268.2 billion for 2008. The Brazilian securities markets are also characterized by considerable share concentration.