



BRF GmbH

(a limited liability company organized under the laws of the Republic of Austria)

U.S.\$500,000,000

4.350% Senior Notes due 2026

Unconditionally and Irrevocably Guaranteed by

BRF S.A.

(Incorporated in the Federative Republic of Brazil)

We are offering U.S.\$500,000,000 aggregate principal amount of 4.350% senior notes due 2026. The notes will bear interest at the rate of 4.350% per year. Interest on the notes will be payable semi-annually in arrears on March 29 and September 29 of each year, beginning on March 29, 2017. The notes will mature on September 29, 2026.

The notes will be unconditionally and irrevocably guaranteed by BRF S.A.

We may redeem the notes, in whole or in part, at any time after September 29, 2017 at a redemption price based on a “make-whole” amount plus accrued and unpaid interest. We may also redeem the notes, in whole but not in part, at 100% of their principal amount plus accrued and unpaid interest in the event of specified events relating to applicable tax laws.

The notes will be our senior unsecured obligations and will rank equally with all of our existing and future senior and unsecured indebtedness. The guarantee will be senior unsecured obligations of the guarantor and will rank equally with all existing and future senior and unsecured indebtedness of the guarantor. The notes will be structurally subordinated to all existing and future liabilities of the subsidiaries of BRF S.A.

For a more detailed description of the notes, see “Description of the Notes” beginning on page 59.

See “Risk Factors” beginning on page 16 for a discussion of certain risks that you should consider in connection with an investment in the notes.

Issue Price: 97.818% plus accrued interest, if any, from September 29, 2016.

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

There is currently no market for the notes. We have applied to list the notes on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF Market. This offering memorandum will constitute a prospectus for the purposes of Luxembourg law dated July 10, 2005 on prospectuses for securities, as amended.

Delivery of the notes will be made on or about September 29, 2016 to investors in book-entry form through The Depository Trust Company and its direct and indirect participants, including and Clearstream Banking, *société anonyme*, Luxembourg, or Clearstream, and Euroclear S.A./N.V., or Euroclear, as operator of the Euroclear System.

Joint Book-Running Managers

BB Securities

Bradesco BBI

Itaú BBA

J.P. Morgan

Santander

The date of this offering memorandum is September 29, 2016.

TABLE OF CONTENTS

Incorporation by Reference	iv
Presentation of Financial and Other Information	vii
Forward-Looking Statements	ix
Service of Process and Enforcement of Judgments	x
Summary	1
Risk Factors	16
Use of Proceeds	34
Exchange Rates	35
Capitalization	36
Selected Financial Information	37
Management's Discussion and Analysis of Financial Condition and Results of Operations	40
The Issuer	55
Business and Industry Updates	56
Description of the Notes	59
Form of the Notes	84
Taxation	87
Transfer Restrictions	95
Plan of Distribution	97
Legal Matters	102
Independent Accountants	102
Listing and General Information	103
Index to Financial Statements	F-1

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

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

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

You acknowledge that:

- you have been afforded an opportunity to request from us, and to review, all additional information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained in this offering memorandum;
- you have not relied on the initial purchasers or their agents or any person affiliated with the initial purchasers or their agents in connection with your investigation of the accuracy of such information or your investment decision; and

- no person has been authorized to give any information or to make any representation concerning us or the notes other than those as set forth in this offering memorandum. If given or made, any such other information or representation should not be relied upon as having been authorized by us, the initial purchasers or their agents.

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

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

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

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

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

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

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

The offering memorandum is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (“Qualified Investors”) that are also (1) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (2) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This offering memorandum and its contents should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this offering memorandum or any of its contents.

NOTICE TO PROSPECTIVE INVESTORS WITHIN BRAZIL

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

INCORPORATION BY REFERENCE

We are incorporating by reference into this offering memorandum our annual report on Form 20-F for the year ended December 31, 2015, which we filed with the SEC on April 5, 2016 (SEC File No. 001-15148), or our “2015 Form 20-F,” including the following sections:

- the information under the caption “Introduction” of our 2015 Form 20-F;
- the information contained in “Item 3: Key Information” of our 2015 Form 20-F, with the exception of financial data from the years ended December 31, 2011 and 2012;
- the information contained in “Item 4: Information on the Company” of our 2015 Form 20-F;
- the information contained in “Item 5: Operating and Financial Review and Prospects” of our 2015 Form 20-F, with the exception of financial data from the years ended December 31, 2011 and 2012;
- the information contained in “Item 6: Directors, Senior Management and Employees” of our 2015 Form 20-F;
- the information contained in “Item 7: Major Shareholders and Related Party Transactions” of our 2015 Form 20-F;
- the information contained in “Item 8: Financial Information” of our 2015 Form 20-F, with the exception of financial data from the years ended December 31, 2011 and 2012;
- the information contained in “Item 11: Quantitative and Qualitative Disclosures About Market Risk” of our 2015 Form 20-F;
- the audited consolidated financial statements of BRF S.A. and its subsidiaries, including the report of the independent registered public accounting firm, contained in our 2015 Form 20-F; and
- We are also incorporating by reference into this offering memorandum our Report of Foreign Private Issuer on Form 6-K, pursuant to Rule 13a-16 or 15d-16 of the Securities Exchange Act of 1934, as amended, or our “2016 Form 6-K,” which was our third filing with the SEC on April 7, 2016 (SEC File No. 001-15148), including our Bylaws as Exhibit 1

The information below can be found in the indicated sections of our 2015 Form 20-F or 2016 Form 6-K:

Information	Section in our 2015 Form 20-F or 2016 Form 6-K
Our date of incorporation and length of life	Item 4. Information on the Company—A. History and Development of the Company—Corporate History, of our 2015 Form 20-F Exhibit 1.01 (Bylaws I – Name, Registered Office, Duration and Purpose), Article Four, of our 2016 Form 6-K
Legislation under which we operate and our legal form	Exhibit 1.01 (Bylaws I – Name, Registered Office, Duration and Purpose), Article One, of our 2016 Form 6-K
Description of our subsidiaries	Item 4. Information on the Company—A. History and Development of the Company—Corporate Structure, of our 2015 Form 20-F Exhibit 8.01 (Subsidiaries of the Registrant) of our 2015 Form 20-F

Incorporation by reference of our 2015 Form 20-F and our 2016 Form 6-K means that our 2015 Form 20-F and our 2016 Form 6-K are considered part of this offering memorandum.

The information in our 2015 Form 20-F and our 2016 Form 6-K is an important part of this offering memorandum. Our 2015 Form 20-F contains important information about our company and our results of operations and financial condition.

Any statement contained in our 2015 Form 20-F and our 2016 Form 6-K will be deemed to be modified or superseded for purposes of this offering memorandum to the extent that a statement contained herein modifies or supersedes that statement.

You should read “Available Information” for information on how to obtain our 2015 Form 20-F and our 2016 Form 6-K and other information relating to our company.

AVAILABLE INFORMATION

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

Our 2015 Form 20-F and our other periodic reports filed with the SEC, including any interim financial reports, are available free of charge from the SEC at its website (www.sec.gov) or from our website, www.brf-br.com. In addition, our 2015 Form 20-F is available free of charge at the office of the Luxembourg listing agent and published on the website of the Luxembourg Stock Exchange (www.bourse.lu). Other than as set forth under “Incorporation by Reference” above, information on these websites is not incorporated by reference into this offering memorandum.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to “BRF S.A.,” “BRF,” the “company,” “we,” “our,” “ours,” “us” or similar terms are to BRF S.A. (formerly known as BRF – Brasil Foods, S.A.), guarantor of the notes, and its consolidated subsidiaries and jointly controlled companies. All references to the “Issuer” are to BRF GmbH, a subsidiary of BRF, organized under the laws of the Republic of Austria as a limited liability company, and the Issuer of the notes.

All references in this offering memorandum to the “*real*,” “*reais*” or “R\$” are to the Brazilian *real*, the official currency of Brazil. All references to “U.S. dollars,” “dollars” or “U.S.\$” are to U.S. dollars. All references to “euros” or “€” are to the single currency of the participating member states of the European and Monetary Union of the Treaty Establishing the European Community, as amended from time to time. All references to “ARS” are to the Argentine peso, the official currency of Argentina.

The exchange rate for *reais* into U.S. dollars based on the selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or the “Central Bank,” was R\$3.2408 to U.S.\$1.00 at September 21, 2016, R\$3.2098 to U.S.\$1.00 at June 30, 2016, R\$3.9048 to U.S.\$1.00 at December 31, 2015, R\$2.6562 to U.S.\$1.00 at December 31, 2014 and R\$2.3426 to U.S.\$1.00 at December 31, 2013. See “Exchange Rates” for information regarding exchange rates for the Brazilian currency since January 1, 2009. The *real*/U.S. dollar exchange rate fluctuates widely, and the selling rate at September 21, 2016 or any other date may not be indicative of future exchange rates.

Solely for the convenience of the reader, we have translated certain amounts included in this offering memorandum from *reais* into U.S. dollars using the selling rate as reported by the Central Bank at June 30, 2016. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. In addition, translations should not be construed as representations that the *real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

We maintain our books and records in *reais*.

Our audited consolidated financial statements as of December 31, 2015 and 2014 and for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, included in our 2015 Form 20-F, which is incorporated by reference in this offering memorandum, have been prepared in accordance with International Financial Reporting Standards, or “IFRS,” as issued by the International Accounting Standards Board, or “IASB.” Our unaudited interim consolidated financial statements as of June 30, 2016 and for the six-month periods ended June 30, 2016 and 2015, included in this offering memorandum, have been prepared in conformity with IFRS for interim financial reporting in accordance with IAS 34—Interim Financial Reporting.

Our audited consolidated financial statements as of December 31, 2015 and 2014 and for the years ended December 31, 2015, December 31, 2014 and December 31, 2013 are included in our 2015 Form 20-F, which is incorporated by reference in this offering memorandum and have been audited by Ernst & Young Auditores Independentes S.S., or “EY,” as stated in their report included therein. Our unaudited interim consolidated financial statements as of June 30, 2016 and for the six-month periods ended June 30, 2016 and 2015 are included in this offering memorandum and have been reviewed by EY, as stated in their report included herein.

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

Non-GAAP Financial Measures

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

Market and Other Information

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

Trademarks

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

FORWARD-LOOKING STATEMENTS

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

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

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

- the implementation of the principal operating strategies of our company, including integration of current acquisitions as well as the conclusion of acquisition or joint venture transactions or other investment opportunities that may occur in the future;
- general economic, political and business conditions in the markets in which we do business, both in Brazil and abroad;
- the cyclical and volatility of raw materials and selling prices;
- health risks related to the food industry;
- the risk of outbreak of animal diseases;
- more stringent trade barriers in key export markets and increased regulation of food safety and security;
- strong international and domestic competition;
- interest rate fluctuations, inflation and exchange rate movements of the *real* in relation to the U.S. dollar and other currencies;
- the declaration or payment of dividends;
- the direction and future operation of our company;
- the implementation of our company’s financing strategy and capital expenditure plans;
- the factors or trends affecting our company’s financial condition or results of operations; and
- other factors identified or discussed under “Risk Factors” in this offering memorandum and under “Item 3. Key Information—D. Risk Factors” to our 2015 Form 20-F.

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

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

SERVICE OF PROCESS AND ENFORCEMENT OF JUDGMENTS

Austria

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

In the terms and conditions of the notes, the Issuer will (1) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, The City of New York, will have non-exclusive jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the notes and, for such purposes, irrevocably submit to the jurisdiction of such courts and (2) name an agent for service of process in the Borough of Manhattan, The City of New York.

We have been advised that Austrian companies, such as the Issuer, may enter into agreements and contracts, such as the notes or the indenture, governed by foreign law, including the laws of the State of New York. The choice of New York law to govern the notes and the indenture will be recognized and upheld by the Austrian courts, subject to:

- certain mandatory rules of Austrian conflicts law such as, e.g., the *lex rei sitae* principle with respect to rights in real property;
- Austrian public policy;
- the principle that insolvency proceedings, the prerequisites for their inception, and their legal effects are, generally (subject to a number of exceptions) governed by the law of the country where such proceedings are commenced; and
- the provisions of Regulation (EC) No. 593/2008 of 17 June 2008 (ROME I Regulation), e.g., Article 9 of the ROME I Regulation which provides that effect may be given to the overriding mandatory provisions of the law of the forum or the country where the obligations arising out of the contract have to be or have been performed, in so far as those overriding mandatory provisions render the performance of the contract unlawful.

Despite the choice of New York law by the parties, an Austrian court may apply Austrian law if it cannot ascertain the content of New York law within reasonable time. What "reasonable time" means depends on the urgency of the matter (e.g., in case of a preliminary injunction it will be relatively short).

We have further been advised that, according to § 79 paragraph 2 of the Austrian Enforcement Act (*Exekutionsordnung*), enforcement of foreign court decisions by Austrian courts requires, *inter alia* and outside applicable European regulations, reciprocity (*Gegenseitigkeit*) for such enforcement by means of multilateral or bilateral treaties, ordinances or agreements securing the mutual recognition and enforcement of foreign judgments in Austria. As of the date of this offering memorandum, no such treaty, ordinance or agreement exists between Austria and the United States. Consequently, judgments by courts of New York would not be enforceable in Austria. Also, awards of punitive damages in actions brought in the United States or elsewhere are unenforceable in Austria.

Moreover, exclusive jurisdiction agreements relating to courts the judgments of which cannot be enforced in Austria does (according to Austrian case law) not exclude bringing in an action in Austria. Therefore, jurisdiction agreements for the courts of New York will not result in Austrian courts denying their competence to try a dispute. Upon the request of a claimant, the Austrian Supreme Court (*Oberster Gerichtshof*) may designate an Austrian court as being competent to try the dispute, regardless of the New York courts' jurisdiction clause. Where a claimant is not resident in Austria and the cost decisions of an Austrian court would not be enforced in the country of residence of the claimant, the claimant can be ordered to post security to cover for the defendant's litigation costs.

Pursuant to the Austrian Notes Trustee Act (*Kuratorengesetz*), a trustee (*Kurator*) can be appointed by an Austrian court, upon the reasonable request of any interested party (e.g., a holder of notes) or upon the initiative of the competent court, for the purposes of representing the common interests of the holders of notes in matters concerning their collective rights. In particular, this may occur if insolvency proceedings are initiated against the issuer, in connection with any amendments to the terms and conditions of the notes or changes relating to the Issuer, or under other similar circumstances. If a trustee is appointed, it will exercise the collective rights and represent the interests of the holders of notes and will be entitled to make statements on their behalf which shall be binding on all holders of notes. Where a trustee represents the interests and exercises the rights of holders of notes, this may conflict with or otherwise adversely affect the interests of individual or all holders of the notes.

Brazil

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

In the terms and conditions of the notes, BRF will (1) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, The City of New York, will have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the notes and, for such purposes, irrevocably submit to the jurisdiction of such courts and (2) name an agent for service of process in the Borough of Manhattan, The City of New York.

We have been advised by Machado, Meyer, Sendacz e Opice Advogados, our Brazilian counsel, that a judgment of a United States court for the payment of money, including for civil liabilities predicated upon the federal securities laws of the United States, may be enforced in Brazil, subject to certain requirements described below. Such counsel has advised that a judgment against BRF, its directors and officers thereof, or certain advisors named herein obtained in the United States would be enforceable in Brazil without retrial or re-examination of the merits of the original action including, without limitation, any final judgment for payment of a sum certain of money rendered by any such court, provided that such judgment has been previously recognized by the Superior Court of Justice (*Superior Tribunal de Justiça*), or “STJ.” That recognition will be available only if the U.S. judgment:

- is issued by a competent court;
- was preceded by proper service of process is made on the parties, in accordance with Brazilian law;
- is effective in the country where it was issued and it complies with all formalities necessary for its recognition as an enforcement instrument under the laws of the jurisdiction where it was issued;
- does not violate a final and unappealable decision issued by a Brazilian Court;
- has been duly authenticated by a competent Brazilian consulate, or has been apostilled in accordance with the Convention Abolishing the Requirement of Legalisation for Foreign Public Documents dated as of October 5, 1961, and is accompanied by a sworn translation in Portuguese (*tradução pública juramentada*) except if such procedure was exempted by an international treaty to which Brazil is signatory;
- does not violate Brazilian public policy, national sovereignty or good morals;
- is final and therefore not subject to appeal; and
- does not violate the exclusive jurisdiction of the Brazilian Judiciary.

Furthermore, Brazilian law admits the exequatur of interlocutory decisions via letter rogatory. It is possible to confirm a final and unappealable judicial decision, as well as a non-judicial decision that would have a jurisdictional nature under the Brazilian law. The foreign decision may be partially confirmed.

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

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

In addition, a plaintiff (whether Brazilian or non-Brazilian) who resides outside Brazil or is during the course of the litigation in Brazil and who does not own real estate property in Brazil must provide a bond to guarantee the payment of the defendant's legal fees and court expenses in connection with court procedures for the collection of payments under the Notes and the Guarantee. This bond must have a value sufficient to satisfy the payment of court fees and defendant attorney's fees, as determined by the Brazilian judge, except in such instances involving (i) enforcement of foreign judgments that have been duly recognized by the STJ; (ii) collection of claims based on instruments that may be enforced in Brazil without review of merit (*título executivo extrajudicial*), which does not include the notes, (iii) counterclaims (*reconvenção*); or (iv) when this bond was exempted by an international treaty to which by Brazil is a signatory. Notwithstanding the foregoing, we cannot assure you that recognition of any judgment will be obtained, that the process described above can be conducted in a timely manner, or that Brazilian courts will enforce a judgment for violation of the federal securities laws of the United States with respect to the notes.

We have been advised by our Brazilian counsel that, if the notes or the indenture were to be declared void by a court applying the laws of the State of New York, a judgment obtained outside Brazil seeking to enforce the guarantee of BRF may not be ratified by the Superior Tribunal of Justice in Brazil.

SUMMARY

This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not contain all the information you should consider before investing in the notes. You should carefully read this entire offering memorandum before investing, including our 2015 Form 20-F incorporated by reference in this offering memorandum (copies of which may be obtained as indicated under “Available Information”), “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements.

Our Company

We are one of the largest producers of fresh and frozen protein foods in the world, with a portfolio of over four thousand stock keeping units (“SKUs”). Our processed products include marinated, frozen, whole and cut chicken, rooster and turkey meats, specialty meats, frozen processed meats, frozen prepared entrees, portioned products and sliced products. We also sell margarine, sweet specialties, sandwiches, mayonnaise, and animal feed. We are the holder of brands such as *Sadia*, *Perdigão*, *Qualy*, *Chester*, *Perdix*, *Vieníssima* and *Paty*. BRF was responsible for 15.6% of the world trade in poultry in 2015.

Our growth strategy is focused on creating new, convenient, practical and healthy products for our consumers based on their needs. We seek to achieve that goal through strong innovation to provide us with increasing value-added items that will differentiate us from our competitors and strengthen our brands.

With 35 plants in all regions of Brazil, we have among our main assets a widespread distribution network that enables our products to reach Brazilian consumers through more than 623,000 monthly deliveries in 2015 from 41 distribution centers, 20 of which are located in Brazil and serve the domestic market and 21 of which are located abroad and serve our export markets.

In the international markets, BRF has a leading brand, *Sadia*, in various categories in Middle Eastern countries. We maintain 25 sales offices outside of Brazil serving customers of more than 120 countries on five continents. We have ten industrial units in Argentina, two in Europe (England and Holland), five in Thailand and one in Abu Dhabi.

We have been a public company since 1980. Our shares have been listed on the *Novo Mercado* of the São Paulo Stock Exchange (*BM&FBOVESPA S.A.—Bolsa de Valores Mercadorias e Futuros*), or “BM&FBOVESPA,” as BRF3 since 2006 and we are also traded on the New York Stock Exchange, or “NYSE,” (ADR level III). Since 2005, we have been part of BM&FBOVESPA’s Corporate Sustainability Index, or “ISE,” portfolio in acknowledgement of our strong commitment to sustainable development. This commitment has been reinforced and internationally recognized since 2012, upon our entrance into the portfolio of Emerging Markets of Dow Jones Sustainability Index.

A breakdown of our products is as follows, all of which are sold both in Brazil and to our international customers:

- **Meat Products**, consisting of *in natura* meat, which we define as frozen whole and cut chicken, frozen pork and frozen beef cuts;
- **Processed Food Products** includes the following:
 - marinated, frozen, whole and cut chicken, roosters (sold under the *Chester*[®] brand) and turkey;
 - specialty meats, such as sausages, ham products, bologna, frankfurters, salami, bacon and other smoked products; and
 - frozen processed meats, such as hamburgers, steaks, breaded meat products, *kibes* and meatballs;
- **Other Processed Products** includes the following:
 - frozen prepared entrees, such as lasagna and pizzas, as well as other frozen foods; and

- margarine, mayonnaise, mustard and ketchup; and
- **Other**, consisting of soy meal, refined soy flour and animal feed.

We are able to reach substantially all of the Brazilian population through a nationwide network of 20 distribution centers.

In the domestic Brazilian market, we operate 35 meat processing plants, three margarine processing plants, three pasta processing plants, one dessert processing plant and three soybean crushing plants, all of them near our raw material suppliers or the main consumer centers. We have an advanced logistic system in our domestic market, with 20 distribution centers, being 9 owned by BRF and 11 leased by third parties, all of which serve the domestic market and export markets.

In our foreign (international) markets, we operate six meat processing plants, one margarine and oil processing plant, one sauce and mayonnaise processing plant and one frozen vegetables processing plant. We have 20 distribution centers located overseas, as well as commercial offices in the United Kingdom, France, Spain, Italy, Austria, Hungary, Netherlands, Russia, Singapore, South Korea, China, Japan, Saudi Arabia, the United Arab Emirates, Qatar, Oman, Kuwait, South Africa, Argentina, Uruguay, Turkey and Chile.

Our Industry

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

Brazilian Market

As a Brazilian company, with a significant portion of our operations in Brazil, we are significantly affected by local economic conditions. Because of our significant operations in Brazil, fluctuations in Brazilian demand for our products affect our production levels and revenues.

Real gross domestic product, or “GDP,” in Brazil increased at an average annual rate of 2.9% from 2003 through 2015. In 2015, Brazil’s GDP decreased by 3.9%, as compared to a growth of 0.1% in 2014 and 3.0% in 2013. From March 2013 to August 2015, the Central Bank has increased the Special System for Settlement and Custody (*Sistema Especial de Liquidação e de Custódia*), or “SELIC,” interest rate, which is the short-term benchmark interest rate. Nevertheless, despite the recent increases, the long-term trend remains downward, from 17.8% as of December 31, 2004 to 14.2% as of July 31, 2016. In July 2016, 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 by 0.52%. For the first six months of 2016, the IPCA had increased 4.42%.

The unemployment rate and consumer confidence levels also have an impact on consumption levels in Brazil. The unemployment rate for July 2016 was 11.6%, an increase of 2.6 percentage points when compared to the 9.0% in December 2015. The Consumer Confidence Index for July 2016 was 76.7, 7.6% higher than the one reported for June 2016 of 71.3 and 18.2% higher when compared to the end of 2015 (64.9).

According to the Brazilian Association of Supermarkets (*Associação Brasileira de Supermercados*), or “ABRAS,” in July 2016, supermarket sales in real terms (deflated by the IPCA), increased 7.6% compared to the previous month and increased 4.2% compared to July 2015.

Export Markets

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

Brazilian exports of chicken increased 14.1% in the six months ended June 30, 2016 compared to the corresponding period in 2015 in terms of volume, with a reduction of 1.0% in terms of sales, in U.S. dollars, primarily as a result of the 13.7% decline in the average prices of exports in the first six months of 2016. Pork exports registered increases of 55.8% in volume and 15.1% in sales, in U.S. dollars, in the six months ended June 30, 2016 compared to the corresponding period in 2015, with the average price of exports falling by 26.6% in the

first six months of 2015. Beef exports recorded a strong increase of 13.7% in volume and 3.7% in sales, in U.S. dollars, in the six months ended June 30, 2016 compared to the corresponding period in 2015.

Brazilian exports of chicken in the six months ended June 30, 2016 totaled 2.2 million tons on sales of U.S.\$3.3 billion. China remains as one of the top three leading importers of *in natura* products (12.2%), together with Saudi Arabia (18.9%) and Japan (9.6%). This result was partially explained by the Chinese announcement in 2014 of the certification of five additional Brazilian chicken processing units.

Pork shipment volume in the six months ended June 30, 2016 amounted to 349 thousand tons of sales, totaling of U.S.\$629.4 million. The leading importers, Russia, Hong Kong and China, represented 38%, 19% and 14%, respectively, of total exports from Brazil. Beef shipments in the six months ended June 30, 2016 totaled 668 thousand tons with sales of U.S.\$2.56 billion. Volumes increased 13.7% compared to the same period in 2015, despite a decline in volumes exported to Venezuela and Russia.

Competitive Strengths

We believe our major competitive strengths are as follows:

- ***Leadership in the Brazilian Food Market with Strong Brands and a Global Presence.*** We are one of the largest food companies in Brazil, the largest company in Brazilian agribusiness, with a size and scale that allows us to compete in Brazil as well as in our export markets. We are one of the largest food companies in the world in terms of market capitalization. We believe our leading position allows us to take advantage of market opportunities by expanding our business, increasing our offer of added value products and improving our initiatives in export markets. In 2015, we slaughtered approximately 1,724.4 million chickens and other poultry and 9.5 million hogs and cattle. In the first six months of 2016, we slaughtered approximately 862 million chickens and other poultry and 4.8 million hogs and cattle. In the same year, we sold approximately 4.5 million tons of poultry, hogs, beef and processed products, whereas in the first six months of 2016 we sold 2.2 million tons. Our own and licensed brands are highly recognized in Brazil, Argentina and Gulf countries and we are expanding the presence with local brands in key markets. Our *Sadia* and *Perdigão* brands were awarded “Most Valuable Brand in Brazil” in 2014 and 2012, respectively, by *Isto é Dinheiro Magazine*. Our sustainable practices have also brought BRF great recognition over the years. We are the only representative of the food sector on a list of ten leading companies in terms of transparency published by the Carbon Disclosure Project, or “CDP.” We are the only company in the food sector to have been included in BM&FBOVESPA’s Corporate Sustainability Index, or “ISE,” for the last 11 years. We became part of the Emerging Markets portfolio of the Dow Jones Sustainability Index four years ago and are also among the companies listed on the Global Compact 100 Index, a new list of the United Nations Global Pact.
- ***Extensive Distribution Network in Brazil and the Export Markets.*** We believe we are one of the few companies with an established distribution network that can deliver frozen and chilled products in practically any region of Brazil. Moreover, we export products to approximately 120 countries and are developing our own distribution network in Europe, where we sell directly to food processing companies and local distributors. We operate in the Middle East through equity interests we have acquired in distribution companies such as Al Khan Foodstuff LLC, or “AKF,” the leader in the distribution of frozen and chilled food in the Sultanate of Oman, the retail frozen foods distribution business of Alyasra Food Company W.L.L, or “Alyasra,” the leader in the distribution of frozen, chilled and dried food in Kuwait, and Federal Foods Limited, or “Federal Foods,” the leader in the distribution of food in the United Arab Emirates. Besides this, we also operate through Al Wafi in Saudi Arabia. In Argentina, we are working to optimize the number and increase the loyalty of our distributors. Our established distribution capacities and logistical experience allow us to expand our national and international business, leading to higher sales volume and a greater coverage of our line of products. Moreover, in Europe, we partnered with Invicta Food Group Limited, or “Invicta,” and acquired Universal Meats (UK) Ltd, or “Universal Meats,” to strengthen our distribution of processed food in the United Kingdom, Ireland and Scandinavia.
- ***Low Cost Producers in a Growing Global Market.*** We believe we have a competitive advantage over producers in some of our export markets due to our lower labor costs and gains of efficiency in animal production in Brazil. We have also achieved a scale of production and quality that allows us to compete

effectively with the main producers in Brazil and other countries. We set up a series of programs aimed at maintaining and improving our cost effectiveness, including programs to optimize our supply chain by integrating demand, production, inventory management and customer service. Our Shared Service Center (*CSC - Centro de Serviços Compartilhados*) centralizes our administrative and corporate activities, and our BRF Value Generation system (*GV BRF - Geração de Valor BRF*) provides our managers with a more efficient use of fixed and working capital, while our Zero-Base Budget (*OBZ - Orçamento Base Zero*) is directed at enhancing the efficiency of cost management.

- ***Strategic and Diversified Geographic Allocation.*** Our slaughterhouses are strategically located in different regions of Brazil (South, Southeast and Midwest). This allows us to offset the risks from any restrictions on exports that may occur in particular regions of the country due to sanitary concerns. The geographical diversity of our plants in 10 Brazilian states also allows us to reduce the cost of transport due to their proximity to the grain-producing regions and the country’s main export ports. In order to have a greater focus on our core business, we made a strategic partnership with Minerva S.A., or “Minerva,” through which we transferred our beef operations to them, in exchange for an equity stake in this company. This transaction was approved by Brazil’s antitrust agency (*Conselho Administrativo de Defesa Econômica*), or “CADE,” in 2014. In 2015, we also sold our dairy division to Lactalis do Brasil – Comércio, Importação e Exportação de Laticínios Ltda., or “Lactalis,” a company controlled by Parmalat S.p.A., a listed Italian company that belongs to the Groupe Lactalis, through the sale of Elebat Alimentos S.A., or “Elebat” and Nutrifont Alimentos S.A., “Nutrifont.” We also opened our first processed food plant in the Middle East in Abu Dhabi, in the United Arab Emirates in 2014, the largest processed food plant in the region. In Argentina, in 2016, we integrated Campo Austral, through the acquisition of its controller, Eclipse Holding Cooperatief UA, and Alimentos Calchaquí Productos 7 S.A., or “Calchaquí,” both with own production capabilities and local brands to strengthen our position in the cold cuts market. Additionally, also in 2016, we concluded the acquisition of Golden Foods Siam, or “GFS,” one of the leading poultry producers in Thailand, with fully integrated operations and presence in more than 15 markets globally. Those are great steps forward as part of our international expansion and aim to provide the best options to clients through local operations, which allow rapid and efficient access to strategic markets and increase the flexibility of the adaptation of products to local wishes. This approach is always carried out according to the specific requirements of each country and follows rigorous controls in all the productive processes.
- ***Emphasis on Quality, Safety and Diversified Portfolio of the Product.*** We are committed to food safety and quality in all of our operations to meet the specifications of our clients, prevent contamination and reduce the risks of epidemics of animal illnesses. We monitor the treatment of our poultry and hogs raised in all the stages of their lives and throughout the entire production process. In 2013, we launched a campaign in Brazil to publicize the Sadia Total Guarantee Program (*Programa de Garantia Total Sadia*) that ensures our chickens have no hormones or preservatives and are inspected individually. Moreover, we were the first Brazilian company approved by the European Food Safety and Inspection System, which qualified us to sell processed poultry products to European consumers. This means that our clients include some of the most demanding clients in the world and that we meet their quality controls and external audits. We have a diversified variety of products that give us the flexibility to direct our production according to the market demand and the seasonality of our products. To support this continuous innovation of our product portfolio, we have been continuously investing in our Technology Center in Jundiaí, in upstate São Paulo.
- ***Committed Management Team.*** Our management endeavors to accentuate best practices in our operations and corporate governance standards, as demonstrated by the listing of our common shares on the *Novo Mercado* segment of the São Paulo stock exchange. Companies listed on this stock market must pledge to adopt the highest standards of corporate governance. We have improved our organizational structure and have redesigned it under the following five vice presidents: (i) VP of Finance and Management; (ii) VP of Human Resources; (iii) VP of Marketing, Innovation and Quality; (iv) VP of Supply Chain; and (v) VP of Legal and Corporate Relations. See “Business and Industry Updates—Industry Update for the Six Months Ended June 30, 2016—Updates to Management Section.”

Business Strategy

Our general strategy consists of using our competitive advantage as a low-cost producer of food in large scale to increase the return on invested capital and continue to grow sustainably in the coming years. We intend to continue to strengthen our global distribution network and client base, providing a portfolio of diversified, innovative products directed at the market and supported by strong international and local brands. The main elements in our strategy are the following:

- ***Strengthening our Global Distribution Network.*** We are continuing to develop our capacity to distribute outside Brazil in order to enhance the services we provide to our current clients and expand our base of export clients. We expect to continue to carry out this long-term distribution strategy in 2016, with the aim of increasing the awareness of our brands globally and expanding to countries where we believe there is a potential for a profitable distribution of our products. We are focusing on expanding our distribution network in Europe, the Middle East, Asia and Latin America to increase our coverage and get closer to final consumers, bringing sales and marketing efforts in these key regions. We are also processing products abroad, in order to allow us to deliver these products directly to the clients located in these markets. One example of this effort was the opening of our first food processing plant in the Middle East in 2014, with an expansion already announced in 2015. We may also consider certain acquisitions as a means of achieving this goal. Among others we have completed several acquisitions in recent years, such as the acquisition of GFS in Thailand, the partnership with Invicta and the acquisition of Universal Meats in the United Kingdom, enhanced our distribution business in Qatar with the acquisition of assets from Qatar National Import and Export Co., or “QNIE,” the acquisition of Calchaquí, Campo Austral and known brands in Argentina and the acquisition the remaining stake of AKF, our distributor in Oman.
- ***Increasing our Domestic and International Client Base.*** We intend to continue strengthening our Brazilian and international client base by continuing to offer high quality products and services. We intend to focus on efficiency to increase BRF’s competitiveness on the global stage, delivering high quality services to our clients and raising distribution and logistics abroad to a central position in our business. We believe there will be considerable opportunities to increase penetration in the export markets, particularly as we are expanding our production base to other countries and actively support efforts to reduce or eliminate existing trade barriers. Our objective is to strengthen our presence in key export markets. We believe there are also opportunities to expand penetration in the Brazilian market by increasing our client base and raising the productivity of the sales team. As of June 30, 2016, sales in the Brazilian market represented 42.7% of our total net sales while sales in the export markets represented 53.0%.
- ***Refocusing our Core Business according to Consumer and Market Preferences.*** We are focused on delivering innovative products that our clients regard as having added value. We intend to refocus our most important categories of products, as well as increase our market penetration, through a more granular view (by category, channel, region, brands and consumer/consumption segments). As part of this plan, we completed a transaction on July 1, 2015 for the sale of plants and trademarks related to our dairy division to Lactalis, through the sale of Elebat and Nutrifont. We are planning to align our strategy, processes and people to the needs of our clients by creating an integrated medium-term plan for our value chain that is strong, flexible and focused on value creation. Lastly, we intend to promote a pricing model aimed at providing a more rational pricing scheme.
- ***Diversifying our Lines of Products, Particularly Focusing on Higher Value Added Food Products.*** The merger between Perdigão S.A. and Sadia S.A. in 2009 brought a great variety of processed products to our portfolio and created one of the biggest exporters of poultry products in the world. Since then, we have been expanding our portfolio in Brazil through new product launches, such as new lines of ready-to-eat meals and a new line of margarine enriched with vitamins and Omega3 (Qualy Qmix). Outside Brazil, we have been making selective acquisitions of companies and brands since 2011. In Argentina, we acquired companies such as Avex, Flora Dánica, Calchaquí and Campo Austral and well known trademarks such as *Vieníssima*. The main purpose of these acquisitions was to expand our competitive base, leveraging our export platform and access the potential of the Argentinean market. Avex produces fresh poultry products, Calchaquí produces cold cuts and Flora Dánica produces mayonnaise, sauces and margarines, amongst other items, while Campo Austral is an integrated swine business with mainstream brands and *Vieníssima*

is the leading Argentinian brand in frankfurter sausages. We intend to continue to diversify our product lines, focusing on processed foods with prices that generally fluctuate less than our cuts of fresh poultry and pork and which may be directed to specific markets. In line with this strategy, we intend to provide products that deliver to our consumers greater practicality, such as the *Fácil* and *Soltíssimo* lines, and healthiness, like *Sadia*'s new lines of cold cuts with 30% less sodium. Additionally, on November 26, 2014, we inaugurated a plant in Abu Dhabi, United Arab Emirates, to service our Middle East and North of Africa segment, and on January 26, 2016, we acquired a fully integrated operation in Thailand, expanding our portfolio of cooked value-added products outside Brazil.

- ***Pursuing Leadership in Low Costs.*** We continue to enhance our cost structure in order to maintain competitive costs and increase the efficiency of our operations. We intend to obtain greater economies of scale through the efficient use of our production capacity, as well as the elimination of redundancies. We are implementing an optimal operational footprint based on analyzing the current layout of our plants, their cost of grains and the costs of freight to ports in order to increase our capacity and enhance growth. We are also continuing to implement new technologies in order to rationalize our production and distribution activities.
- ***Creating Synergies Through Acquisitions and Other Initiatives.*** Our recent acquisitions have helped create valuable synergies. Our business strategy aims to expand our operations in Brazil and in export markets. In 2015, we moved forward in our partnership with Invicta and, by 2016, we acquired Universal Meats, a food distributor in the United Kingdom, focused on food service. Moreover, in the first semester of 2016, we made important steps towards our global expansion with the acquisition of GFS in Thailand, and Campo Austral and Calchaquí in Argentina.
- ***Maintaining a Strong and Strategic Business Structure.*** We have recently revised our strategic plan, the BRF 18, which states our vision of being a company that is committed to partner with nature aiming to nurture life and to feed the world by providing food developed and prepared with love. We intend to become a global house of brands offering the best products and solutions to our customers and end consumers putting together our global and regional capabilities. We aim to defend our leadership in our key markets as well as to pursue additional growth in new markets both in Brazil and abroad. We will keep on investing time and resources to improve even more our sustainable chain into new supply models that will enhance our competitive advantages and put BRF ahead of the competition. Likewise, we will leverage and capitalize on our other key capabilities (sales and logistics, innovation, quality and people) to support this strategy. Furthermore, we have been building a new culture that is strong and unique, aligned to the organization and the decision-making process of value creation, and establishing a performance culture in the company that is strengthened by meritocracy. This new culture will reinforce our commitment to attract, develop and retain talent, a key element for the company's sustainable development.

Recent Developments

Tender Offers

On September 7, 2016, we and our subsidiary BFF International Limited, or "BFF," launched cash tender offers for (i) any and all outstanding 7.250% Senior Notes due 2020, or the "2020 Notes," issued by BFF, or the "2020 Notes Tender Offer," and (ii) any and all outstanding 5.875% Senior Notes due 2022, or the "2022 Notes," issued by us, or the "2022 Notes Tender Offer." All references in this offering memorandum to the "Existing Notes" are to the 2020 Notes together with the 2022 Notes. All references in this offering memorandum to the "Tender Offers" are to the 2020 Notes Tender Offer together with the 2022 Notes Tender Offer. As of September 7, 2016 U.S.\$118.3 million aggregate principal amount of 2020 Notes were outstanding and U.S.\$172.9 million aggregate principal amount of 2022 Notes were outstanding.

The Tender Offers expired at 12:00 p.m., New York City time, on September 14, 2016, such date and time, the "Expiration Time." As of the Expiration Time, U.S.\$32,183,000 in aggregate principal amount of 2020 Notes outstanding and U.S.\$54,208,000 in aggregate principal amount of 2022 Notes outstanding had been validly tendered and not withdrawn pursuant to the Tender Offers. After giving effect to the settlement of the Tender Offers on September 21, 2016, U.S.\$86,100,000 in aggregate principal amount of 2020 Notes and U.S.\$118,662,000 in aggregate principal amount of 2022 Notes remained outstanding.

This offering memorandum is not an offer to purchase, or the solicitation of an offer to sell, the Existing Notes. The Tender Offers were made only by and pursuant to the terms of the Offer to Purchase of BRF, dated September 7, 2016, and the related Letter of Transmittal and Notice of Guaranteed Delivery.

Brazilian Press Reports of Alleged Tax Investigations

There were some reports in the Brazilian press at the beginning of 2015 alleging that we and certain other Brazilian companies have made improper payments to officials of the Brazilian Board of Tax Appeals (*Conselho Administrativo de Recursos Fiscais*), or “CARF,” a Brazilian tax appeals tribunal. It is alleged that the purpose of such improper payments was to induce those officials to reduce or waive certain tax-related penalties imposed by the Brazilian federal revenue service which were under appeal at the CARF. While we have not been contacted by any government authority regarding these alleged investigations, we cannot assure you that we are not currently under investigation, or that we may not face potential liability and/or damage to our reputation.

Sadia Halal

On June 30, 2016, our board of directors approved the formation of a subsidiary, the “Sadia Halal,” to hold assets related to the production, distribution and sale of food products focused to the Muslim markets, to promote greater independence and focus in our expansion in such markets. We are evaluating alternatives for the development of our project to accelerate the growth of Sadia Halal in markets that we currently serve and the expansion to new markets. As of the date hereof, no internal decision has been taken on such alternatives.

Golden Food Siam – Thailand

On December 1, 2015, we, through the Issuer, entered into a share purchase agreement for the acquisition of all common shares issued by GFS, including its assets in Thailand and Europe. GFS was valued at U.S.\$348.7 million. This transaction was completed on January 26, 2016. GFS is one of the leading poultry producers in Thailand with fully integrated operations and presence in more than 15 global markets, including the European Union, Japan and South Asian countries.

Campo Austral, Calchaquí and certain trademarks – Argentina

On December 1, 2015, we signed a binding offer with Pampa Agribusiness Fund L.P. and Pampa Agribusiness Follow-on Fund L.P. related to the acquisition of all the shares issued by Eclipse Holding Cooperatief UA, a Dutch company that controls Campo Austral, a group of companies with fully integrated business operations in the hog segment in Argentina, including the cold cuts market. Campo Austral was valued at U.S.\$85.0 million. This transaction was completed in April, 2016.

On March 22, 2016, we, through the Issuer and our other controlled subsidiary BRF Holland B.V., entered into a share purchase agreement to acquire the totality of shares issued by Calchaquí. Calchaquí is a traditional Argentine company in the cold cuts market, and owner of the *Calchaquí* and *Bocatti* brands. The transaction was completed on May 10, 2016.

On October 1, 2015, we, through our controlled entities Quickfood S.A. and Avex S.A., both headquartered in Argentina, executed, with Molinos Río de la Plata S.A. and one of its controlled entities, the documents required for the acquisition of the following sausage, hamburger and margarine trademarks, all present in the Argentinean retail market: *Vieníssima*, *GoodMark*, *Manty*, *Delicia*, *Hamond*, *Tres Cruces* and *Wilson*. The total consideration for the transaction was U.S.\$43.5 million, paid in Argentinean currency. This transaction was completed on October 16, 2015.

Other M&A transactions

In addition to the transactions above, we have entered (either directly or indirectly through our subsidiaries) into the following transactions: (i) acquired part of QNIE’s frozen distribution business in Qatar on January 6, 2016; (ii) acquired Universal Meats in the United Kingdom on February 1, 2016; and (iii) acquired the remaining economic interest in AKF on June 21, 2016.

Capital Stock

The capital stock of BRF is comprised of common shares. At our annual shareholders' meeting on April 7, 2016, our shareholders approved the decrease of our capital stock due to the cancelation of 60 million common shares, as previously approved by our board of directors held on February 25, 2016. As of June 30, 2016, our capital stock is represented by 812,473,246 common shares.

Shareholders' Distribution

At our annual shareholders' meeting on April 7, 2016, our shareholders approved the distribution to our shareholders in the amount of R\$1,088.9 million in the form of dividends and interest on shareholders' equity for the year ended December 31, 2015. Out of this total, (i) R\$425.9 million had been paid on August 14, 2015 (corresponding to R\$0.50243840 per share based on the free float of 847,584,495 shares as of June 30, 2015) in the form of interest on shareholders' equity; (ii) R\$473.4 million had been paid on February 12, 2016 (corresponding to R\$0.584462002 per share based on the free float of 809,972,245 shares as of December 31, 2015) in the form of interest on shareholders' equity; (iii) R\$91.4 million had been paid on February 12, 2016 (corresponding to R\$0.112896461 per share based on the free float of 809,972,245 shares as of December 31, 2015) in the form of dividends; and (iv) R\$98.2 million had been paid on April 1, 2016 (corresponding to R\$0.121750998 per share based on the free float of 806,643,545 shares as of March 10, 2016) in the form of dividends.

Corporate Governance Changes

On March 31, 2016, our board of directors approved our new policies on Related-Party Transactions and Disclosure of Material Acts or Facts and Trading of Securities. In addition, at our annual shareholders' meeting on April 7, 2016, our shareholders approved the amendment and the restatement of our Bylaws, including: (i) changes to our "poison pill" provision; (ii) the exclusion of the position of alternate member of the board of directors; and (iii) the revision of thresholds that would trigger direct oversight by the board of directors and/or board of officers.

Our principal executive offices are located at Rua Hungria, 1400, Jardim Europa, 01455-000, São Paulo, SP, Brazil, and our telephone number at this address is +55-11-2322-5398. Our internet address is www.brf-br.com/ir. The information on our website is not incorporated by reference into this offering memorandum.

THE OFFERING

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

Issuer	BRF GmbH
Guarantor	BRF S.A.
Notes offered.....	U.S.\$500,000,000 aggregate principal amount of 4.350% senior notes due 2026.
Issue price	97.818%, plus accrued interest, if any, from September 29, 2016.
Issue date.....	September 29, 2016.
Maturity date.....	September 29, 2026.
Interest.....	The notes will bear interest from September 29, 2016 at the rate of 4.350% per year, payable semi-annually in arrears on each interest payment date.
Interest payment dates	March 29 and September 29, beginning on March 29, 2017.
Ranking.....	The notes will: <ul style="list-style-type: none">• be senior unsecured obligations of the Issuer;• be effectively junior in right of payment to any secured indebtedness of the Issuer to the extent of the value of the assets securing such indebtedness; and• rank equally in right of payment with all of the Issuer's existing and future unsecured unsubordinated indebtedness.
Guarantee	The notes will be unconditionally and irrevocably guaranteed by BRF. The guarantee will: <ul style="list-style-type: none">• be senior unsecured obligations of BRF;• be effectively junior in right of payment to any secured indebtedness of BRF to the extent of the value of the assets securing such indebtedness;• rank equally in right of payment with all of BRF's existing and future unsecured unsubordinated indebtedness;• be senior in right of payment to any future subordinated indebtedness of BRF; and• be structurally subordinated to all of the existing and future liability (including trade payables) of each of

BRF's subsidiaries.

As of June 30, 2016,

- we had consolidated total indebtedness of R\$16,959.9 million (U.S.\$5,283.8 million), of which BRF had R\$15,449.9 million (U.S.\$4.813.4 million) of indebtedness as primary obligor (and not as guarantor);
- of our consolidated total indebtedness, BRF had (1) R\$1,157.9 million (U.S.\$360.8 million) of secured indebtedness on an unconsolidated basis to which the notes will be effectively subordinated; and (2) R\$14,292.0 million (U.S.\$4,452.6 million) of unsecured indebtedness on an unconsolidated basis, which will rank equally in right of payment with the notes; and
- our subsidiaries had R\$1,509.9 million (U.S.\$470.4 million) of total indebtedness (excluding trade payables and intercompany liabilities), all of which will be structurally senior to the notes (including liabilities guaranteed by the guarantor), except for indebtedness of the Issuer.

As of June 30, 2016, BRF unconsolidated investments in its subsidiaries amounted to R\$5,358.7 million (U.S.\$1,669.5 million), representing 13% of our consolidated total assets and 42.7% of its unconsolidated shareholders' equity.

Optional redemption

We may redeem the notes, in whole or in part, at any time after September 29, 2017 at a redemption price based on a "make-whole" amount, plus accrued and unpaid interest and additional amounts, if any, to the redemption date, provided that no less than U.S.\$150.0 million in aggregate principal amount of notes must remain outstanding immediately following any partial redemption. See "Description of the Notes—Redemption—Optional Redemption."

Tax redemption

We may redeem the notes, in whole but not in part, at 100% of their principal amount, plus accrued and unpaid interest and additional amounts, if any, to the redemption date, upon the occurrence of specified events relating to applicable tax law. See "Description of the Notes—Redemption—Redemption for Tax Reasons."

Additional amounts

The Issuer or BRF, as the case may be, will pay additional amounts in respect of any payments of interest or principal so that the amount you receive under the notes or the guarantee, after applicable withholding tax, if any, will equal the amount that you would have received if no withholding tax had been applicable, subject to certain exceptions as described under

Covenants.....	<p>“Description of the Notes—Additional Amounts.”</p> <p>The indenture governing the notes will contain covenants that limit future actions to be taken, or transactions to be entered into, by us and our subsidiaries. The indenture will limit our and our subsidiaries’ ability to, among other things:</p> <ul style="list-style-type: none"> • create certain liens; • enter into certain sale and leaseback transactions; and • merge, consolidate or sell substantially all of our assets. <p>However, these covenants are subject to significant exceptions. See “Description of the Notes—Covenants.”</p>
Events of default	<p>The indenture will set forth the events of default applicable to the notes, including an event of default triggered by cross-acceleration of other debt in an amount of U.S.\$150.0 million or more.</p>
Further issuances.....	<p>We may from time to time, without notice to or consent of the holders of the notes, create and issue an unlimited principal amount of additional notes of the same series as the notes offered hereby, provided that if the additional notes are not fungible with the notes for United States federal income tax purposes, the additional notes will have a separate CUSIP number.</p>
Use of proceeds.....	<p>We expect the net proceeds from the sale of the notes to be approximately U.S.\$486.0 million after deducting estimated fees and expenses of the offering. We intend to use the entirety of the net proceeds of this offering to refinance a portion of our foreign currency outstanding indebtedness that will settle in the short term. See “Use of Proceeds.”</p>
Form and denomination	<p>The notes will be issued in the form of global notes in fully registered form without interest coupons. The global notes will be exchangeable or transferable, as the case may be, for definitive certificated notes in fully registered form without interest coupons only in limited circumstances. The notes will be issued in registered form in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. See “Description of the Notes—Principal, Maturity and Interest” and “Form of the Notes.”</p>
Settlement	<p>The notes will be delivered in book-entry form through the facilities of The Depository Trust Company, or “DTC,” for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or “Euroclear,” and Clearstream Banking, <i>société anonyme</i>, or “Clearstream,” and will settle in DTC’s Same-Day Finds</p>

	Settlement System.
Transfer restrictions	The notes have not been, and will not be, registered under the Securities Act and are subject to limitations on transfer, as described under “Transfer Restrictions.”
Listing of the notes	We have applied to list the notes on the Luxembourg Stock Exchange for trading on the Euro MTF Market. If the listing of the notes on the Euro MTF Market would require us to publish financial information either more regularly than we otherwise would be required to, or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our published financial information, we may delist the notes and, at our option, seek an alternative admission to listing, trading and/or quotation for the notes by another listing authority, stock exchange and/or quotation system.
Governing law.....	The indenture, the notes and the guarantee will be governed by, and construed in accordance with, the laws of the State of New York.
Trustee, registrar, transfer agent and paying agent.....	The Bank of New York Mellon
Luxembourg paying agent, transfer agent and listing agent.....	The Bank of New York Mellon (Luxembourg) S.A.
Risk factors	You should carefully consider all of the information contained in this offering memorandum prior to investing in the notes. In particular, we urge you to carefully consider the information set forth under “Risk Factors.”

Summary Financial and Other Information

The following summary financial information as of December 31, 2015 and 2014 and for the three years ended December 31, 2015, 2014 and 2013 should be read in conjunction with our audited consolidated financial statements included in our 2015 Form 20-F, which is incorporated by reference in this offering memorandum. The summary financial information as of June 30, 2016 and for the six-month periods ended June 30, 2016 and 2015 should be read in conjunction with our unaudited interim consolidated financial statements included in this offering memorandum. Our audited consolidated financial statements incorporated by reference in this offering memorandum have been prepared in accordance with IFRS, as issued by IASB. Our unaudited interim consolidated financial statements included in this offering memorandum have been prepared in conformity with IFRS for interim financial reporting in accordance with IAS 34—Interim Financial Reporting. The results for the six-month period ended June 30, 2016 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2016 or any other period.

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

	Six Months Ended June 30,			Year Ended December 31,			
	2016(1)	2016	2015	2015(1)	2015	2014	2013
	(in millions of U.S.\$)	(in millions of reais) (unaudited)	(in millions of reais)	(in millions of U.S.\$)	(in millions of reais)	(in millions of reais)	(in millions of reais)
Summary Statement of Income Information:							
Net sales.....	5,182.5	16,634.9	14,960.9	10,030.7	32,196.6	29,006.8	27,787.5
Cost of sales.....	(3,952.2)	(12,685.9)	(10,272.6)	(6,887.6)	(22,107.7)	(20,497.4)	(20,877.6)
Gross profit	1,230.3	3,949.0	4,688.3	3,143.2	10,088.9	8,509.4	6,909.9
Operating income (expenses):							
Selling expenses.....	(759.5)	(2,437.7)	(2,238.0)	(1,497.3)	(4,805.9)	(4,216.5)	(4,141.0)
General and administrative expenses.....	(86.0)	(276.1)	(222.4)	(157.7)	(506.1)	(402.1)	(427.3)
Other operating expenses, net.....	(21.2)	(68.1)	(462.1)	(138.5)	(444.7)	(438.1)	(458.1)
Income (loss) from associates and joint ventures ..	5.2	16.7	(67.1)	(32.3)	(103.8)	25.6	12.9
Operating income.....	368.8	1,183.8	1,698.7	1,317.3	4,228.4	3,478.3	1,896.4
Financial expenses	(902.0)	(2,895.4)	(2,295.6)	(1,565.7)	(5,025.5)	(2,571.5)	(1,564.8)
Financial income	556.9	1,787.4	1,531.4	1,045.3	3,355.3	1,580.8	817.3
Income before taxes	23.6	75.8	934.5	797.0	2,558.2	2,487.6	1,148.8
Current	(86.5)	(277.5)	(9.7)	(5.3)	(17.1)	(117.4)	(13.1)
Deferred.....	81.1	260.2	(90.6)	126.7	406.6	(235.2)	(116.0)
Income from continuing operations	18.2	58.5	834.2	918.3	2,947.7	2,135.0	1,019.7
Income (loss) from discontinued operations.....	—	—	(7.1)	57.0	183.1	89.8	47.2
Net profit	18.2	58.5	827.1	975.4	3,130.8	2,224.8	1,066.8
Attributable to:							
Controlling shareholders.....	21.7	69.6	819.0	969.3	3,111.2	2,225.0	1,062.4
Non-controlling interest.....	(3.5)	(11.1)	8.1	6.1	19.6	(0.2)	4.4

(1) Translated for convenience only using the selling rate as reported by the Central Bank for reais into U.S. dollars at June 30, 2016 of R\$3.2098 = U.S.\$1.00.

	At June 30,		At December 31,		
	2016(1)	2016	2015(1)	2015	2014
	(in millions of U.S.\$)	(in millions of reais) (unaudited)	(in millions of U.S.\$)	(in millions of reais)	(in millions of reais)
Summary Balance Sheet Information:					
Cash and cash equivalents	1,442.7	4,630.9	1,670.8	5,362.9	6,006.9
Marketable securities	209.3	671.8	228.9	734.7	587.5
Trade accounts receivable, net and notes receivable	1,094.7	3,513.9	1,302.3	4,180.0	3,262.0
Inventories	1,472.0	4,724.9	1,256.4	4,032.9	2,941.4
Biological assets	513.0	1,646.5	414.3	1,329.9	1,130.6
Other current assets.....	881.2	2,828.4	1,092.7	3,507.3	1,601.9
Assets from discontinued operations and held for sale.....	11.5	36.8	10.1	32.4	1,958.0
Total current assets.....	5,624.4	18,053.2	5,975.5	19,180.1	17,488.3
Marketable securities and restricted cash	249.4	800.6	291.5	935.8	177.3
Trade accounts receivable, net and notes receivable	64.4	206.6	73.2	234.9	369.7

	At June 30,		At December 31,		
	2016(1)	2016	2015(1)	2015	2014
	(in millions of U.S.\$)	(in millions of reais)	(in millions of U.S.\$)	(in millions of reais)	(in millions of reais)
	<i>(unaudited)</i>				
Biological assets	262.9	844.0	237.1	761.0	683.2
Other non-current assets	1,065.8	3,421.1	985.6	3,163.6	2,558.9
Investments in associates and joint ventures	23.5	75.4	57.9	185.9	438.4
Property, plant and equipment, net	3,590.9	11,526.1	3,400.8	10,915.8	10,059.3
Intangible assets	2,064.9	6,627.9	1,561.1	5,010.9	4,328.6
Total non-current assets	7,321.9	23,501.7	6,607.2	21,207.9	18,615.4
Total assets	12,946.3	41,554.9	12,582.7	40,388.0	36,103.7
Short-term debt	1,167.8	3,748.3	818.8	2,628.2	2,738.9
Trade accounts payable and supply chain finance	1,897.4	6,090.2	1,844.2	5,919.6	3,977.3
Other current liabilities	996.0	3,196.9	957.5	3,073.4	2,344.6
Liabilities of discontinued operations	—	—	—	—	508.3
Total current liabilities	4,061.1	13,035.4	3,620.5	11,621.2	9,569.1
Long-term debt	4,116.0	13,211.6	3,910.2	12,551.1	8,850.4
Other non-current liabilities	762.3	2,446.7	741.4	2,379.7	1,994.3
Total non-current liabilities	4,878.3	15,658.3	4,651.6	14,930.8	10,844.7
Total current and non-current liabilities	8,939.4	28,693.7	8,272.2	26,552.0	20,413.8
Capital	3,882.0	12,460.5	3,882.0	12,460.5	12,460.5
Capital reserves	4.4	14.2	2.2	7.0	109.4
Income reserves	546.6	1,754.6	1,893.2	6,076.8	3,945.8
Retained earnings	5.9	19.0	—	—	—
Treasury shares	(225.5)	(723.9)	(1,230.0)	(3,947.9)	(304.9)
Other comprehensive loss	(300.9)	(965.7)	(336.3)	(1,079.5)	(620.4)
Attributable to interest of controlling shareholders	3,912.6	12,558.7	4,211.1	13,516.9	15,590.4
Attributable to non-controlling interest	94.2	302.5	99.4	319.1	99.5
Total shareholders' equity	4,006.9	12,861.2	4,310.5	13,836.0	15,689.9
Total liabilities and shareholders' equity	12,946.3	41,554.9	12,582.7	40,388.0	36,103.7

(1) Translated for convenience only using the selling rate as reported by the Central Bank for reais into U.S. dollars at June 30, 2016 of R\$3.2098 = U.S.\$1.00.

	At and for the Six Months Ended June 30,			At and for the Year Ended December 31,			
	2016(1)	2016	2015	2015(1)	2015	2014	2013
	(in millions of U.S.\$)	(in millions of reais)	(in millions of reais)	(in millions of U.S.\$)	(in millions of reais)	(in millions of reais)	(in millions of reais)
	<i>(unaudited)</i>						
Other Financial information (unaudited):							
Net debt (at period end)(2)	3,439.7	11,040.8	n/a	2,285.7	7,336.8	5,031.9	6,784.3
EBITDA(3)	609.9	1,957.5	2,339.2	1,727.5	5,545.0	4,708.7	3,013.7
Net debt/ LTM EBITDA(2)(3)	—	(4)	—	—	1.3x	1.1x	2.3x
EBITDA margin(5)	11.8%	11.8%	15.6%	17.2%	17.2%	16.2%	10.8%

(1) Translated for convenience only using the selling rate as reported by the Central Bank for reais into U.S. dollars at June 30, 2016 of R\$3.2098 = U.S.\$1.00.

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

The following table sets forth our net debt at the dates indicated:

	At June 30,		At December 31,			
	2016(a)	2016	2015(a)	2015	2014	2013
	(in millions of U.S.\$)	(in millions of reais)	(in millions of U.S.\$)	(in millions of reais)		
	<i>(unaudited)</i>					
Current and non-current foreign currency debt	3,129.4	10,044.9	3,539.1	11,359.7	7,596.2	6,108.7
(+) Current and non-current local currency debt	2,154.3	6,915.0	1,190.0	3,819.6	3,993.1	4,072.5
(+) Other financial liabilities	278.0	892.2	207.7	666.6	257.4	357.2
(-) Cash and cash equivalents and current and non-current marketable securities	1,758.2	5,643.4	2,041.7	6,553.6	6,656.5	3,643.3

	At June 30,		At December 31,			
	2016(a)	2016	2015(a)	2015	2014	2013
	(in millions of U.S.\$)	(in millions of reais) (unaudited)	(in millions of U.S.\$)	(in millions of reais)		
(-) Other financial assets.....	163.8	525.8	40.3	129.4	43.1	11.6
(-) Current and non-current restricted cash	200.0	642.1	568.9	1,826.1	115.2	99.2
Net debt (unaudited).....	3,439.7	11,040.8	2,285.7	7,336.7	5,031.9	6,784.3

(a) Translated for convenience only using the selling rate as reported by the Central Bank for *reais* into U.S. dollars at June 30, 2016 of R\$3.2098 = U.S.\$1.00.

(3) We calculate EBITDA as income from continuing operations *plus* current and deferred income and social contribution taxes *plus* financial expenses, net *plus* depreciation, amortization and depletion of our biological assets. We use EBITDA as a supplemental measure of our financial performance as well as of our ability to generate cash from operations. We also use EBITDA in making certain management decisions. EBITDA is not a prescribed measure under IFRS and should not be considered as a substitute for net profit or loss, cash flow from operations or other measures of operating performance or liquidity determined in accordance with IFRS. The use of EBITDA has material limitations, including, among others, the following:

- EBITDA adds back financial expenses, including interest expense. However, because we borrow money to finance some of our operations and capital expenditures, interest is a necessary and ongoing part of our costs.
- EBITDA adds back current and deferred income taxes expense, but the payment of these taxes is a necessary and ongoing cost of our operations.
- EBITDA adds back depreciation, amortization and depletion, but because we use property, plant and equipment, intangibles and biological assets to generate revenues in our operations, depreciation, amortization and depletion are necessary and ongoing components of our costs.
- EBITDA as calculated by us may not be comparable to similarly titled measures of other companies.

The following table reconciles EBITDA to our consolidated income from continuing operations:

	For the twelve months ended June 30,		For the six months ended June 30,			For the year ended December 31,			
	2016(a)	2016	2016(a)	2016	2015	2015(a)	2015	2014	2013
	(in millions of U.S.\$)	(in millions of reais) (unaudited)	(in millions of U.S.\$)	(in millions of reais) (unaudited)		(in millions of U.S.\$)	(in millions of reais)		
Net Income from continuing operations	676.7	2,172.0	18.2	58.5	834.2	918.3	2,947.7	2,135.0	1,019.7
(+) Income and social contribution taxes(b)	(147.2)	(472.5)	5.4	17.3	100.3	(121.3)	(389.5)	352.6	129.1
(+) Financial expenses, net	627.5	2,014.0	345.2	1,108.0	764.2	520.3	1,670.2	990.7	747.5
(+) Depreciation, amortization and depletion ...	451.7	1,449.8	241.0	773.7	640.5	410.2	1,316.6	1,230.4	1,117.4
EBITDA (unaudited)	1,608.6	5,163.3	609.9	1,957.5	2,339.2	1,727.5	5,545.0	4,708.7	3,013.7

(a) Translated for convenience only using the selling rate as reported by the Central Bank for *reais* into U.S. dollars at June 30, 2016 of R\$3.2098 = U.S.\$1.00.

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

(4) The Net debt/LTM EBITDA ratio for June 30, 2016 is 2.1x. This is calculated using EBITDA figures for the twelve months ended June 30, 2016.

(5) Represents EBITDA divided by net sales.

	At and for the Six Months Ended June 30,		At and for the Year Ended December 31,		
	2016	2015	2015	2014	2013
Operating Information:					
Poultry slaughtered (million heads per period).....	861.9	827.6	1,724.4	1,663.6	1,795.9
Pork/beef slaughtered (thousand heads per period).....	4,807.0	4,571.2	9,510.5	9,620.6	9,744.1
Total production of meat and other processed food products (thousand tons per period).....	2,092.3	2,147.1	4,358.2	4,307.1	4,595.4
Employees (at period end)(1).....	103,708	98,904	96,279	108,829	110,138

(1) The number of employees includes permanent and temporary employees.

RISK FACTORS

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

Risks Relating to Our Business and Industry

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, the potential cost and disruption of a product recall and possible impacts on our image and our brands. 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 and hogs), but 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 their meat, which require us to maintain animal health and control disease. We could be required to destroy animals or suspend the sale of some of our products to customers in Brazil and abroad in the event of an outbreak of disease affecting animals, such as the following: (1) in the case of hogs and certain other animals, foot-and-mouth disease and A(H5N1) influenza (discussed below); and (2) in the case of poultry, avian influenza and Newcastle disease. In addition, if the Porcine Reproductive and Respiratory Syndrome and Porcine Epidemic Diarrhea, which have broken out in Europe and the United States, were to outbreak in Brazil, we could be required to destroy hogs, however currently there is no legislation supporting this action. Destruction of poultry, hogs or other animals would preclude recovery of costs incurred in raising or purchasing these animals and result in additional expense for the disposal of such animals. An outbreak of foot-and-mouth disease could have an effect on livestock we own, the availability of livestock for purchase, consumer perception of certain protein products or our ability to access certain markets, which would adversely affect our results of operations and financial condition.

Outbreaks, or fears of outbreaks, of any of these or other animal diseases may lead to cancellation of orders by our customers and, particularly if the disease has the potential to affect humans, create adverse publicity that may have a material adverse effect on consumer demand for our products. Moreover, outbreaks of animal disease in Brazil may result in foreign governmental action to close export markets to some or all of our products, which may result in the destruction of some or all of these animals. Our poultry business in Brazilian and export markets could also be negatively affected by avian influenza.

Chicken and other birds in some countries, particularly in Asia but also in Europe and Africa, have become infected by highly pathogenic avian influenza. 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.

Between 2010 and the first week of 2016, there have been over 378 human cases of avian influenza and over 167 related deaths, according to the World Health Organization, or “WHO, and “the Food and Agriculture Organization, or “FAO.” The cases reported were caused by the H5N1 and H7N9 viruses. In 2013, direct human-to-human transmission of the H7N9 virus was proven. Various countries in Asia, the Middle East and Africa reported human cases in the last five years and various European countries reported avian flu cases in poultry. In 2014, there were reports of human cases of avian influenza in Egypt, Indonesia, Cambodia, China and Vietnam. In the Americas, there were reports of human cases of avian influenza in both Canada and the United States. In early 2015, additional new cases of H5N1 and H5N2 were reported in the United States, which has already resulted in restrictions on U.S. exports.

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

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

We may also be subject from time to time to additional outbreaks of animal-related diseases, such as Porcine Epidemic Diarrhea and foot-and-mouth disease affecting cattle. See “Item 5: Operating and Financial Review and Prospects—A. Operating Results—Effect of Animal Diseases—Other Animal Diseases” in our 2015 Form 20-F for further information.

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

A consensus has developed in the scientific community that global warming will continue to occur even if greenhouse gas emissions were to be slowed, thereby reinforcing the need to intensify actions to adapt to climate changes. We consider the potential effects of climate change when evaluating and managing our operations and supply chain, recognizing the vulnerability of natural resources and agricultural inputs that are essential for our activities.

The main risks we have identified relate to the alterations in temperature (average and extreme) and changes in rainfall (average and extreme, such as drought, flooding and storms), both of which could affect agricultural productivity, the quality and availability of pasture areas, animal well-being and the availability of energy. These changes could have a direct impact on our costs, raising the price of agricultural commodities as a result of long periods of drought or excessive rainfall, increasing operating costs to ensure animal well-being, increasing the risk of rationing and raising the price of electrical energy through water shortages and the need for other energy sources to supply the demand for electricity. We also consider potential regulatory changes and monitor trends in changes to licensing legislation for greenhouse gas emissions at the domestic and international levels.

Our operations are largely dependent on electricity and energy-related expenses are our second highest fixed cost. A significant portion of Brazil’s installed electric generation capacity is currently dependent upon hydroelectric generation facilities. 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.

Among the initiatives we have taken to reduce our exposure to climate change and to maintain our competitiveness in terms of costs is the monitoring of stocks in grains purchases and the constant monitoring of the weather in agricultural regions to guide buying decisions, as well as anticipating price movements in the commodity markets. We also undertake efficiency projects to develop more efficient processes that consume less energy. Other initiatives include technological innovations in the animal-raising installations to improve the environment and

acclimatization and safeguard the animal's well-being. We may fail to continue to implement programs to mitigate effects of climate change, which may affect our business and results of operations in the future.

Any shortage or lack of water could materially adversely affect our business and results of operations.

A study conducted by the FAO indicates that, in the next two decades, the demand for water will increase 50% on a global scale. In connection with that, it is estimated that by 2025, 1.8 billion people will live in places with absolute shortage of water and two thirds of the global population will live in water-stressed places. By 2050, the demand for water will jump 55%, according to FAO, on a global scale, including some of our key markets, such as the Middle East and North of Africa. Water is an essential raw material for our businesses, being present from the production of grains and inputs, the agricultural chain through our production processes. As a result, the shortage or lack of water represents a critical risk for our business. On the other hand, we are aware that the industrial use of water may adversely affect its availability.

In order to mitigate these risks, in 2015, we began developing a methodology to evaluate water-related risks in the locations where we have operations in order to understand the specific impacts of our company and others in those regions and, consequently, reduce our water consumption and exposure to water supply risks in each location. It is an initiative regarding water-related risks through which we can assess internal and external aspects impacting water supply and quality and generate a score for each unit. The objective is to carry out internal and external actions to reduce consumption and comply with applicable rules in order to minimize our impact on the environment and the community. We conducted this methodology in four plants in Brazil – Toledo (PR), Rio Verde (GO), Lucas do Rio Verde (MT) and Carambeí (PR) – in 2015 as a pilot-project. We analyzed the micro and macro watersheds composing the region, as well as the industrial activities and characteristics of the use of water resources, in order to understand the local demand growth, anticipating risks. In 2016, we expect to expand this assessment to the other plants in Brazil.

The shortage or lack of water could materially adversely affect our business and results of operations.

We rely on our governance structure and compliance processes to sustain our positive image and reputation in the marketplace and are subject to anticorruption, anti-bribery, anti-money laundering and other international trade laws and regulations.

BRF has a strong image related to solid corporate governance and is associated with values such as trust, ethics and transparency. We have a framework of antifraud initiatives - including anti-bribery and anti-corruption - that supports all business segments and their commercial standards worldwide. However, we may not be able to mitigate all fraud risk entirely. In cases of bad publicity or acts that may negatively affect our image, we have a Crisis Committee that works with our stakeholders. Any negative reflection on our image or the strength of 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.

We are subject to anticorruption, anti-bribery, anti-money laundering and other international trade 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, to the U.S. Foreign Corrupt Practices Act of 1977, or the "FCPA," to the United Kingdom Bribery Act of 2010, as well as economic sanction programs, 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, or "OFAC." 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 which are considered foreign officials for purposes of the FCPA. In addition, economic sanctions programs restrict our dealings with certain sanctioned countries, individuals and entities. Although we have internal policies and procedures designed to ensure compliance with applicable anti-fraud, anti-bribery and anti-corruption laws and sanctions regulations, potential violations of anti-corruption laws have been identified on occasion as part of our compliance and internal control processes. When such issues arise, we attempt to act promptly to learn relevant facts, conduct appropriate due diligence, and take any appropriate remedial action to address the risk. Given the size of our operations and the complexity of the production chain, there can be no assurance that our internal policies and procedures will be sufficient to prevent or detect all inappropriate practices, fraud or violations of law by our employees, directors, officers, partners, agents and service providers or that such persons will not take actions in

violation of our policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which we or they may be ultimately held responsible. Violations of anti-bribery and anti-corruption laws and sanctions regulations could have a material adverse effect on our business, reputation, results of operations and financial condition. In addition, we may be subject to one or more enforcement actions, investigations and proceedings by authorities for alleged infringements 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 reputation, business, financial condition and results of operations.

Our failure to continually innovate and successfully launch new products, 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 successfully develop and launch new products and product extensions that consumers want. We devote resources to new product development and product extensions; however we may not be successful in developing innovative new products or our new products may not be commercially successful. 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, our financial results and our competitive position may suffer.

We also seek to maintain and extend the image of our brands through marketing, including advertising, consumer promotions and trade spending. 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. Continuing global focus on health and wellness, including weight management, and increasing media attention to the role of food marketing could 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 extend our brand image, then our product sales, financial condition and results of operations could be materially and adversely affected.

Recent and future acquisitions or joint ventures may divert management resources or prove to be disruptive to our company.

We regularly review and pursue opportunities for strategic growth through acquisitions, joint ventures and other initiatives. We have completed several acquisitions in recent years, including the acquisitions of GFS in Thailand, Campo Austral and Calchaquí in Argentina, Universal Meats in the United Kingdom, AKF in Oman, QNIE's frozen distribution business in Qatar, and the sale of certain plants and trademarks related to our dairy division to Lactalis, through the sale of Elebat and Nutrifont. For more details on these and other transactions, see "Item 4. Information on the Company—A. History and Development of the Company—Other Acquisitions and Investments in 2015" in our 2015 Form 20-F. Acquisitions, new businesses and joint ventures, especially involving sizeable enterprises, may present financial, managerial and operational risks and uncertainties, including:

- challenges in realizing the anticipated benefits of the transaction;
- diversion of management attention from existing businesses;
- difficulty with integrating personnel and financial and other systems;
- difficulty 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;

- increased compensation expenses for newly hired employees; and
- exposure to unforeseen liabilities or problems of the acquired companies or joint ventures.

Acquisitions outside of Brazil may present additional difficulties and new political and countries risks, such as compliance with foreign legal and regulatory systems, difficulties to transfer capital, integration of personnel to different managerial practices and would increase our exposure to risks associated with international operations.

We may be unable to realize synergies and efficiency gains from our recent acquisitions in the timeframe we anticipate or at all, because of integration or other challenges. In addition, we may be unable to identify, negotiate or finance future acquisitions, particularly as part of our international growth strategy, successfully or at favorable terms, or to effectively integrate these acquisitions or joint venture businesses with our current businesses. 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 acquisitions and joint ventures may also result in unforeseen operating difficulties and expenditures, as well as strain on our organizational culture.

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

- governmental inertia;
- geopolitical risk (including terrorism);
- imposition of exchange or price controls;
- imposition of restrictions on exports of our products or imports of raw materials necessary for our production;
- fluctuation of local currencies against the *real*;
- nationalization of our property;
- increase in export tax and income tax rates for our products; and
- unilateral (governmental) institutional and contractual changes, 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 in the future significant variability in our revenue on both an annual and a quarterly basis from those operations. The impact of these changes on our ability to deliver on our planned projects and execute our strategy cannot be ascertained with any degree of certainty, and these changes may, therefore, have an adverse effect on our operations and financial results.

Deterioration of general economic conditions could negatively impact our business.

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

Since the end of 2015, the price of oil has declined significantly and has led to lower economic growth in relevant oil dependent regions, such as several countries in the Middle East, Russia, Venezuela and Angola. Thus, per capita meat consumption in these areas could be affected as well. In addition, concerns about the Chinese economy and its inability to grow at rates as high as the ones we had in prior years could affect the prices and

consumption of all commodities, including chicken and hogs. Because of the global nature of our business, we remain subject to the risk of economic volatility worldwide, and economic and political disruptions around the world can have a material adverse effect on our business and results of operations.

Furthermore, on June 23, 2016, the United Kingdom held an in-or-out referendum on the United Kingdom's membership within the European Union, the result of which favored the exit of the United Kingdom from the European Union, or "Brexit." A process of negotiation will determine the future terms of the United Kingdom's relationship with the European Union. The potential impact of Brexit on our market share, sales, profitability and results of operations is unclear. Depending on the terms of Brexit, economic conditions in the United Kingdom, the European Union and global markets may be adversely affected by reduced growth and volatility. The uncertainty before, during and after the period of negotiation could also have a negative economic impact and increase volatility in the markets, particularly in the eurozone. Such volatility and negative economic impact could, in turn, adversely affect the value and trading of the notes.

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

Our business is largely dependent on the cost and supply of corn, soy meal, soybeans, hogs and other raw materials, as well as the selling prices of our poultry, pork and beef. 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, hog and cattle production levels, environmental and conservation regulations, economic conditions, weather, animal and crop diseases, cost of international freight and exchange rate and interest rate fluctuations.

Our industry, both in Brazil and abroad, is generally 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 entirely.

Natural disasters, pandemics or extreme weather, including floods, excessive cold or heat, hurricanes or other storms, as well as any interruption we can observe in our plants that may require the temporary re-allocation of plant functions to other facilities could impair the health or growth of livestock or interfere with our operations due to power outages, damage to our production and processing facilities or disruption in transportation channels or information systems, among other issues.

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

International sales account for a significant portion of our net sales in line with our global strategy, representing 48.1% in 2013, 46.8% in 2014, 50.2% in 2015 and 53.0% in the first six months of 2016. Our major international markets include the Middle East (particularly Saudi Arabia), Asia (particularly Japan, Hong Kong, Singapore and China), Europe, Eurasia (particularly Russia), Africa and Americas (particularly Argentina), 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 the economic, political and social conditions in our main export markets.

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

- exchange rate and interest rate fluctuations;
- commodities price volatility;
- deterioration in international economic conditions;
- political risks, such as turmoil, government policies, difficulties to transfer capital and political instability;
- decreases in demand, particularly from large markets such as China;
- imposition of increased tariffs, anti-dumping duties or other trade barriers;

- strikes or other events affecting ports and other transport facilities;
- compliance with differing foreign legal and regulatory regimes;
- 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 our products; 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.

Any of these risks could adversely affect our business and our results of operations. In addition, flooding and similar events affecting the infrastructure necessary for the export of our products could adversely affect our revenues and our 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 a particular concern, especially sanitary and technical restrictions.

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

In addition, many developed countries use direct and indirect subsidies to enhance the competitiveness of their producers in other markets. In addition, local producers in some markets may exert political pressure on their governments to prevent foreign producers from exporting to their market, particularly during unfavorable economic conditions. Any of the above restrictions could substantially affect our export volumes and, consequently, our export sales and financial performance. If new trade barriers arise in our key export markets, we may face difficulties in reallocating our products to other markets on favorable terms, and our business, financial condition and results of operations might be adversely affected.

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

We face strong competition from other Brazilian producers in our domestic market and from Brazilian and foreign producers in our international markets. The Brazilian market for whole poultry and poultry and pork cuts is highly fragmented. Small producers can also be important competitors, some of which operate in the informal economy and are able to offer lower prices by meeting lower quality standards. Competition from small producers is a primary reason why we sell most of our frozen (*in natura*) meat products in the export markets and is a barrier to expanding our sales of those products in the domestic market. With respect to exports, we compete with other large, vertically integrated Brazilian producers that have the ability to produce quality products at low cost, as well as with foreign producers.

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

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, 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 and animal welfare 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. We currently comply with all food safety requirements and animal welfare laws in the markets where we conduct our business. We already incur significant costs in connection with such compliance and changes in government regulations relating to food safety 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 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, recall certain products, destroy all or part of a shipment or incur costs because of delays in delivering products to our customers. Any tightening of food safety or animal welfare regulations could result in increased costs and could have an adverse effect on our business and results of operations.

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

As of June 30, 2016, we had a total of 103,708 employees worldwide. All of our production employees, in Brazil and in countries where there is a labor union force, are represented by labor unions. Upon the expiration of existing collective bargaining agreements or other collective labor agreements, we may not reach new agreements without union action and any such agreements may not be on terms satisfactory to us, which could result in us paying higher wages or benefits to union workers. If we are unable to negotiate acceptable union agreements, we may become subject to work stoppages or strikes.

Labor costs are among our most significant expenditures. In 2015, they represented 15.4% of our cost of sales, representing an increase of 1.5 percentage points compared to 2014. In the event of an employee contractual structure review, additional operational expenses could be incurred. Additionally, during its normal business operation, we outsource some of our labor force, therefore being subject to the contingencies that may arise from this relationship. These contingencies may involve claims directly against us as if we were the direct employer of those outsourced workers or claims seeking our subsidiary liability. In the event that a significant amount of these contingencies materializes 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 considered to be our 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. Material increases in our labor costs could have a material adverse effect on our business and results of operations.

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 interference with protected areas (conservation units, archeological areas and permanent preservation areas), handling and disposal of waste, discharges of pollutants into the air, water and soil, atmospheric emissions, noise and clean-up of contamination, all of which affect our business. Any failure to comply with these laws and regulations or any lack of authorizations or licenses could result in administrative and criminal penalties, such as fines, cancellation of authorizations or revocation of licenses, in addition to negative publicity and civil liability for remediation or compensation for environmental damage without any caps. We cannot operate a plant if the required environmental permit is not valid or updated. Civil penalties may include summons, fines, temporary or permanent bans, the suspension of subsidies

by public bodies and the temporary or permanent shutdown of commercial activities. Criminal penalties include fines, temporary interdiction of rights and prison (for individual offenders) and liquidation, temporary interdiction of rights, fines and community services (for legal entities).

Furthermore, pursuant to Brazilian environmental legislation, the corporate entity of a company will be disregarded (such that the owners of the company will be liable for its debts) if necessary to guarantee the payment of costs related to the recovery of environmental damages, whenever the legal entity is deemed by a court to be an obstacle to reimbursement of damages caused to the quality of the environment.

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

Our plants are subject to environmental licensing, based on their pollution potential and usage of natural resources. If, for example, one of our plants is built or expanded without an environmental license or if our environmental licenses expire, are not timely renewed or have their request of renewal dismissed 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 failure to fulfill the conditions of validity foreseen in the environmental licenses already held by us. Currently, some of our environmental licenses are in the renewal process, and we cannot guarantee that environmental agencies will approve our renewal requests within the required legal period. Brazilian Complementary Law No. 140/2011 establishes that renewal of environmental licenses must be requested at least 120 days in advance of its expiration, so that the license may be automatically extended until a final decision from the environmental authority is reached. In the interim, we are permitted to continue operations under the respective license, during the renewal process.

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*), or “TAC.” Under IFRS, we classify the risk of adverse results in legal proceedings as “remote,” “possible” or “probable.” We disclose the aggregate amounts of these proceedings that we have judged possible or probable, to the extent the amounts are known or reasonably estimable, and we record provisions only for losses that we consider probable. These disclosures for 2015 are included in “Item 8. Financial Information—Legal Proceedings” of our 2015 Form 20-F incorporated by reference and Note 26 of our consolidated financial statements.

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

With regard to tax contingencies, we are currently defendants in tax cases that involve tax credit offsets. These cases have not yet reached a final ruling by the Brazilian courts. We may face risks arising from tax liabilities and the monetization of tax credits, which can negatively impact our results. The Supreme Court of Brazil has ruled that the use of total tax credits of the state Tax on the Circulation of Merchandise and Services (*Imposto Sobre a Circulação de Mercadorias e Serviços*), or “ICMS,” in operations related to food products classified as staple foods in Brazil (*cesta básica*), which benefit from a reduced tax basis in the calculation of the ICMS tax, is improper. The case is currently on appeal and, if the decision is upheld and determined to apply to some or all of BRF’s operations, it could have a significant impact on our operations, liquidity and financial results. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Tax Proceedings” of our 2015 Form 20-F.

As of June 30, 2016, we had R\$87.8 million in provisions for civil contingencies, R\$275.9 million in provisions for tax contingencies and R\$437.6 million in provisions for labor contingencies. See Note 27.1 to our interim consolidated financial statements. We cannot assure you that we will obtain favorable decisions in these proceedings or that our reserves will be sufficient to cover potential liabilities resulting from unfavorable decisions.

In addition, 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 and/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 to settle such claims, we could be required to pay damages and/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 any third party's intellectual property, 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, and our insurance policies are subject to liability limits and exclusions. If an event that cannot be insured occurs, or the damages are higher than our policy limits, we may incur significant costs. In addition, we could be required to pay indemnification to parties affected by such an event.

In addition, even where we incur losses that are ultimately covered by insurance, we may incur additional expenses to mitigate the loss, such as shifting production to another facility. These costs may not be fully covered by our insurance.

From time to time, our installations may be affected by fires, such as part of our Toledo unit in 2014. Although the facilities are covered by fire insurance and the units' production was temporarily absorbed by other BRF plants, we cannot assure you that all of our direct and indirect costs will be covered by our insurance. Any similar event at other facilities in the future could adversely affect our revenues, expenses and our business.

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, the loss of key professionals may adversely affect our ability to implement our strategy, as well as the expenses associated to these losses can impact our results.

Failures or security breaches of our information technology systems could disrupt our operations and negatively impact our business.

Information technology is an important part of our business operations and we increasingly rely on information technology systems to manage business data and increase efficiencies in 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. Like other companies, our information technology systems may be vulnerable to a variety of interruptions, including during the process of upgrading or replacing software, databases or components thereof, natural disasters, terrorist attacks, telecommunications failures, computer viruses, cyber-attacks, hackers, unauthorized access attempts and other security issues. We have implemented technology security initiatives and disaster recovery plans to mitigate our exposure to these risks, but these measures may not be

sufficient. A significant failure of our systems, including failures that prevent our systems from functioning as intended, could cause transaction errors, processing inefficiencies, loss of customers and sales, have negative consequences on our employees and our business partners and have a negative impact on our operations or business reputation.

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. In addition, the disclosure of non-public sensitive information through external media channels could lead to the loss of intellectual property or damage our reputation and brand image.

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.

At June 30, 2016, our total consolidated debt (comprised of short-term and long-term debt) was R\$16,959.9 million (U.S.\$5,283.8 million).

Our substantial indebtedness could have major consequences for us, including:

- requiring that a substantial portion of our cash flows from operations be used for the payment of principal and interest on our debt, reducing the funds available for our operations or other capital needs;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate because our available cash flow after paying principal and interest on our debt might not be sufficient to make the capital and other expenditures necessary to address these changes;
- increasing our vulnerability to general adverse economic and industry conditions because, during periods in which we experience lower earnings and cash flows, we would be required to devote a proportionally greater amount of our cash flows to paying principal and interest on debt;
- limiting our ability to obtain additional financing in the future to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- increasing our expenditures due to depreciations of the Brazilian *real*, which can lead to an increased amount of capital needed to service indebtedness that are denominated in U.S. dollars;
- making it difficult for us to refinance our indebtedness or to refinance such indebtedness on terms favorable to us, including with respect to existing accounts receivable securitizations;
- placing us at a competitive disadvantage compared to competitors that are relatively less leveraged and that may be better positioned to withstand economic downturns; and
- exposing our current and future borrowings made at floating interest rates to increases in interest rates.

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

As of June 30, 2016, we had R\$1,894.1 million of debt that matures in 2016, R\$2,225.9 million of debt that matures in 2017, R\$2,698.2 million of debt that matures in 2018, R\$3,179.8 million of debt that matures in 2019 and R\$6,961.9 million of debt that matures in 2020 and thereafter.

A substantial portion of our outstanding debt is denominated in foreign currencies, primarily U.S. dollars. As of June 30, 2016, we had R\$10,044.9 million of foreign currency debt, including R\$2,198.8 million of short-term foreign currency debt. Our U.S. dollar-denominated debt must be serviced by funds generated from sales by our subsidiaries, the majority of which are not denominated in U.S. dollars. Consequently, when we do not generate sufficient U.S. dollar revenues to cover that debt service, we must use revenues generated in *reais* or other currencies to service our U.S. dollar-denominated debt. Depreciation in the value of the *real* or any of the other

currencies of the countries in which we operate, compared to the U.S. dollar, could adversely affect our ability to service our debt. Foreign currency hedge agreements may not be effective in covering these currency-related risks.

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

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

The terms of our indebtedness impose restrictions on us.

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

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

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

Risks Relating to Brazil

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

The Brazilian economy has historically been characterized by interventions by the Brazilian government and unstable economic cycles. The Brazilian government has often changed monetary, 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 notes may be adversely affected by, among others, the following factors:

- exchange rate fluctuations;
- expansion or contraction of the Brazilian economy, as measured by rates of growth in GDP;
- high inflation rates;
- changes in fiscal or monetary policies;
- increase in interest rates;
- exchange control policies;
- volatility and liquidity of domestic capital and credit markets;
- changes in climate and weather patterns;
- energy or water shortages or rationalization, particularly in light of water shortages in parts of Brazil;
- changes in environmental regulation;
- social and political instability, particularly in light of recent protests against the government; 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.

The Brazilian economy has been experiencing a slowdown. While GDP growth rates were 3.9%, 1.8%, 2.7%, and 0.1% in 2011, 2012, 2013 and 2014, respectively, GDP decreased 3.8% in 2015. In addition, inflation, unemployment and interest rates increased in 2015, and the Brazilian *real* weakened significantly in comparison to the U.S. dollar. The market expectation for 2016 is that the Brazilian economy will continue to slow down.

Our results of operations and financial condition may be adversely affected by the economic conditions in Brazil and, in addition, protests, strikes and corruption scandals, including the "Lava Jato" investigation, have led to a decrease in confidence and a political crisis.

After the legal and administrative process for the impeachment, Brazil's Senate removed president Dilma Rousseff from office on August 31, 2016 for infringing budgetary laws. Michel Temer, the former vice president, who has run Brazil since Ms. Rousseff's suspension in May, was sworn in by Senate to serve out the remainder of the presidential term until 2018. However, the resolution of the political and economic crisis in Brazil still depends on the outcome of the "Lava Jato" investigation and approval of reforms that are expected to be promoted by the new president. We cannot predict which policies Mr. Temer may adopt or change during his mandate or the effect that any such policies might have on our business and on the Brazilian economy. Any such new policies or changes to current policies may have a material adverse effect on our business, results of operations and financial condition.

The political crisis could worsen the economic conditions in Brazil, which may worsen purchasing power, consumption and supply chain costs and adversely affect our results of operations and financial condition.

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 notes.

Brazil experienced high inflation rates in the past. The political crisis could worsen the economic conditions in Brazil, which may worsen purchasing power, consumption and supply chain costs and adversely affect our results of operations and financial condition. 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” in our 2015 Form 20-F.

Brazil may continue experiencing high levels of inflation in 2016, above the Central Bank’s target. Periods of higher inflation slow the growth rate of the Brazilian economy, which may lead to lower growth in consumption of food products. Inflation also is likely to continue to put pressure on industry costs of production and expenses, which will force companies to search for innovative solutions in order to remain competitive. We may not be able to pass this cost onto our customers and, as a result, it may reduce our profit margins and net profit. 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 profit. In addition, inflation and its effect on domestic interest rates can lead to reduced liquidity in the domestic capital and lending markets, which could affect our ability to refinance our indebtedness in those markets and may have an adverse effect on our business, results of operations, financial condition and the market prices of our notes.

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

The interest rate is one of the instruments used by the Central Bank to keep inflation under control or to stimulate the economy. If interest rates decrease, the population has greater access to credit and consumes more. This increase in demand can push prices if the industry is not prepared to meet higher consumption. On the other hand, if interest rates go up, the monetary authority inhibits consumption and investment once they get more expensive. Another consequence is the greater return paid by government securities, directly impacting other investments that become less attractive. Investment in public debt absorbs money that would fund the productive sector.

On June 30, 2016, 36.9% of our total liabilities with respect to indebtedness and derivative instruments corresponding to the amount of R\$17,852.1 million were either (1) denominated in (or swapped into) *reais* and bears interest based on Brazilian floating interest rates, such as the Long-Term Interest Rate (*Taxa de Juros de Longo Prazo*), or “TJLP,” the interest rate used in our financing agreements with Brazilian National Bank for Economic and Social Development (*Banco Nacional de Desenvolvimento Econômico e Social*), or “BNDES,” and the Interbank Deposit Certificate Rate (*Certificado de Depósito Interbancário*), or “CDI” rate, an interbank certificate of deposit rate that applies to our foreign currency swaps and some of our other *real*-denominated indebtedness, or (2) U.S. dollar-denominated and bears interest based on the London Interbank Offered Rate, or “LIBOR.” Any increase in the CDI, TJLP or LIBOR rates may have an adverse impact on our financial expenses and our results of operations.

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

From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. In 2011, 2012, 2013, 2014 and 2015, the *real* depreciated 12.6%, 8.9%, 14.6%, 13.4% and 47.0%, respectively, against the U.S. dollar.

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

U.S. dollar, the cost in *reais* of our U.S. dollar-linked raw materials and equipment increases, and these increases could materially adversely affect our results of operations.

We had total foreign currency-denominated debt obligations in an aggregate amount of R\$10,044.9 million at June 30, 2016, representing 59.2% 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 may increase our tax burden and, as a result, negatively affect our profitability.

The Brazilian government regularly implements changes to tax regimes that may increase our and our customers' tax burdens. These changes include modifications in the tax rates and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. In the past, the Brazilian government has presented certain tax reform proposals, which have been mainly designed to simplify the Brazilian tax system, to avoid internal disputes within and between the Brazilian states and municipalities, and to redistribute tax revenues. The tax reform proposals provide for changes in the rules governing the federal Social Integration Program (*Programa de Integração Social*), or "PIS," and Social Security Contribution (*Contribuição para o Financiamento da Seguridade Social*), or "COFINS," taxes, the ICMS and some other taxes, such as increases in payroll taxes. These proposals may not be approved and passed into law. The effects of these proposed tax reform measures and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified. However, some of these measures, if enacted, may result in increases in our overall tax burden, which could negatively affect our overall financial performance.

Recently, regarding the ICMS, there have been some discussions about the difference between a full exemption and a base reduction. If a base reduction is considered a partial exemption, there is a risk of reduction of our tax credits, which may adversely affect our results of operations as described in "Risk Factors—Risks Relating to the Our Business and Industry—Unfavorable outcomes in legal proceedings may reduce our liquidity and negatively affect us."

Risks Relating to the Notes and the Guarantee

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

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

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

Payments on the notes and the guarantee will be junior to the Issuer's and the guarantor's secured debt obligations and effectively junior to debt obligations of non-guarantor subsidiaries.

The notes and the guarantee will constitute our senior unsecured obligations of the Issuer and of BRF, as guarantor. The notes and the guarantee will rank equal in right of payment with all of the Issuer's and the

guarantor's existing and future senior unsecured indebtedness. However, the notes and the guarantee will be effectively subordinated to the Issuer's and the guarantor's secured debt to the extent of the assets and property securing such debt and other debt preferred by law. Payment on the notes and the guarantee will also be structurally subordinated to the payment of secured and unsecured debt and other creditors of BRF's subsidiaries.

At June 30, 2016, we had total consolidated debt of R\$16,959.9 million (U.S.\$5,283.8 million), of which R\$15,801.9 million (U.S.\$4,923.0 million) was unsecured debt and R\$1,157.9 million (U.S.\$360.8 million) was secured debt. Any right of the holders of the notes as a result of the guarantee to participate in our assets and the assets of our subsidiaries upon any liquidation or reorganization will be subject to the prior claims of our secured creditors and the creditors of our subsidiaries. The indenture relating to the notes and the guarantee includes a limitation on our ability and those of our subsidiaries subject to the covenants under the indenture to create or suffer to exist liens, although this limitation is subject to certain significant exceptions.

We conduct a portion of our business operations through subsidiaries that will not guarantee the notes. The ability of these subsidiaries to make dividend payments to us will be affected by, among other factors, the obligations of these entities to their creditors, requirements of the Brazilian Corporations Law and other applicable law, and restrictions contained in agreements entered into by or relating to these entities. As of June 30, 2016, BRF's unconsolidated investments in its subsidiaries amounted to R\$5,358.7 million (U.S.\$1,669.5 million), representing 13% of our consolidated total assets and 42.7% of its unconsolidated shareholders' equity. As of June 30, 2016, our subsidiaries had total aggregate indebtedness of R\$1,509.9 million (U.S.\$470.4 million), excluding trade payables and intercompany liabilities.

The guarantor's obligations under the guarantee are subordinated to certain statutory preferences.

Under Brazilian law, the guarantor's obligations under the guarantee are subordinated to certain statutory preferences. In the event of a liquidation, bankruptcy or judicial reorganization of BRF, such statutory preferences, including post-petition claims, claims for salaries, wages, social security, taxes and court fees and expenses and claims secured by collateral, among others, will have preference over any other claims, including claims by any investor in respect of the guarantee. In such a scenario, enforcement of the guarantee under the notes may be jeopardized, and noteholders may lose some or all of their investment.

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

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

Brazil's foreign exchange policy may affect our ability to make money remittances outside Brazil with respect to the Guarantee.

Under current Brazilian regulations, we are not required to obtain authorization from the Central Bank in order to make payments in U.S. dollars outside Brazil to holders of the notes, including under the guarantee. However, we cannot assure that these regulations will continue to be in force at the time we may be required to perform our payment obligations under the notes or the guarantee. If these regulations or their interpretation are modified and an authorization from the Central Bank is required, we would be required to seek an authorization from the Central Bank to transfer the amounts under notes or the guarantee out of Brazil or, alternatively, make such payments with funds held by us outside Brazil. We cannot assure that such an authorization will be obtained or that such funds will be available. If such authorization is not obtained, we may be unable to make payments to holders of the notes in U.S. dollars. If we are unable to obtain the required approvals as needed for the payment of amounts owed by BRF through remittances from Brazil, we may have to seek other lawful mechanisms to effect payment of amounts due under the notes. However, we cannot assure you that other remittance mechanisms will be available in the future,

and even if they are available in the future, we cannot assure you that payment on the notes would be possible through such mechanism.

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

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

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

The guarantee may not be enforceable if deemed fraudulent and declared void.

The guarantee may not be enforceable under Brazilian law. While Brazilian law does not prohibit the granting of guarantees, in the event that we were to become subject to a reorganization proceeding or to bankruptcy, our guarantee, if granted up to two years before the declaration of bankruptcy, may be deemed to have been fraudulent and declared void, based upon our being deemed not to have received fair consideration in exchange for the guarantee. In the event of a judicial reorganization, the guarantee may be declared unenforceable against BRF if a bankruptcy court considers that BRF did not receive fair consideration in exchange for the guarantee. Under Brazilian law, a guarantee is considered an accessory obligation to the underlying or principal obligation, and Brazilian law establishes that the nullity of the principal obligation causes the nullity of the accessory obligation. Therefore, a judgment obtained in a court outside Brazil against BRF for enforcement of a guarantee in respect of obligations that have been considered null, may not be confirmed by the Superior Court of Justice of Brazil.

Judgments of Brazilian courts enforcing BRF's obligations under the guarantee would be payable only in reais.

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

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

The Issuer is a subsidiary in Austria of BRF. All or substantially all of the Issuer's directors and officers and certain advisors named herein reside in Brazil and Austria. We are incorporated under the laws of Brazil and substantially all of our assets are located in Brazil. In addition, all or substantially all of our directors and officers and certain advisors named herein reside in Brazil. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer, us or our respective directors, officers and advisors or to enforce against the Issuer, us or them in U.S. courts any judgments predicated upon the civil liability provisions of the U.S. federal securities laws. We cannot assure you that confirmation of any judgment will be obtained, that the proceeding can be conducted in a timely manner, or that Brazilian courts will enforce a judgment for violation of the federal securities laws of the United States.

In addition, we have been advised by our Austrian counsel that as of the date of this offering memorandum, a judgment of a court in the United States would not be enforceable in Austria. See "Service of Process and Enforcement of Judgments—Austria."

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

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

The notes are subject to transfer restrictions.

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

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

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

If the Issuer is unable to pay his indebtedness, then he may become subject to bankruptcy proceedings in Austria. Also Austrian bankruptcy laws are significantly different from, and may be less favorable to creditors than, those of the United States.

In addition, creditors of the issuer may hold negotiable or other instruments governed by local law that grant rights to attach the assets of the issuer at the inception of judicial proceedings in the relevant jurisdiction, which is likely to result in priorities benefitting those creditors when compared to the rights of holders of the notes.

USE OF PROCEEDS

We expect the net proceeds from the sale of the notes to be approximately U.S.\$486.0 million after deducting estimated fees and expenses of the offering. We intend to use the entirety of the net proceeds of this offering to refinance a portion of our foreign currency outstanding indebtedness that will settle in the short term.

EXCHANGE RATES

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

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

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

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

Year	<i>Reais per U.S. Dollar</i>			
	High	Low	Average	Period End
2011.....	1.9016	1.5345	1.6746	1.8758
2012.....	2.1121	1.7024	1.9550	2.0435
2013.....	2.4457	1.9528	2.1605	2.3426
2014.....	2.7403	2.1974	2.3547	2.6562
2015.....	4.1949	2.5754	3.3387	3.9048

Month	High	Low
January 2016	4.1558	3.9863
February 2016	4.0492	3.8653
March 2016	3.9913	3.5589
April 2016	3.6921	3.4508
May 2016	3.6168	3.4645
June 2016	3.6126	3.2028
July 2016.....	3.3388	3.2311
August 2016.....	3.2733	3.1302
September 2016 (through September 21).....	3.3326	3.1934

Source: Central Bank.

The exchange rate on September 21, 2016 was R\$3.2408 to U.S.\$1.00.

CAPITALIZATION

The following table sets forth our consolidated debt, total shareholders' equity and capitalization at June 30, 2016 derived or calculated from our unaudited interim consolidated financial statements included in this offering memorandum:

- on an actual basis; and
- as adjusted for the sale of the notes.

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

	At June 30, 2016			
	Actual		As Adjusted(1)	
	(in millions of U.S.\$)(2)	(in millions of reais)	(in millions of U.S.\$)(2)	(in millions of reais)
				<i>(unaudited)</i>
Short-term debt (including current portion of long-term debt):				
Real-denominated debt:				
Total <i>real</i> -denominated debt.....	482.7	1,549.5	482.7	1,549.5
Foreign currency-denominated debt:				
Total foreign currency-denominated debt.....	685.0	2,198.8	199.0	638.8
Total short-term debt.....	1,167.8	3,748.3	681.8	2,188.3
Long-term debt:				
Real-denominated debt:				
Total <i>real</i> -denominated debt.....	1,671.6	5,365.5	1,671.6	5,365.5
Foreign currency-denominated debt:				
Total foreign currency-denominated debt.....	2,444.4	7,846.1	2,944.4	9,450.9
Total long-term debt.....	4,116.0	13,211.6	4,616.0	14,816.4
Total debt	5,283.8	16,959.9	5,297.7	17,004.7
Total shareholders' equity.....	4,006.9	12,861.2	4,006.9	12,861.2
Total capitalization (short-term and long-term debt plus total shareholders' equity)	9,290.6	29,821.1	9,304.6	29,865.9

(1) The "As Adjusted" columns reflect the effect of the sale of the notes and the use of the estimated net proceeds of U.S.\$486.0 million therefrom, converted into Brazilian *reais* using the selling rate as reported by the Central Bank for *reais* into U.S. dollars at June 30, 2016 of R\$3.2098 to U.S.\$1.00, but not the results of the Tender Offers that expired on September 14, 2016. See "Use of Proceeds" and "Summary—Recent Developments—Tender Offers."

(2) Translated for convenience only using the selling rate as reported by the Central Bank for *reais* into U.S. dollars at June 30, 2016 of R\$3.2098 to U.S.\$1.00.

SELECTED FINANCIAL INFORMATION

The following selected financial information as of December 31, 2015 and 2014 and for the three years ended December 31, 2015, 2014 and 2013 should be read in conjunction with our audited consolidated financial statements included in our 2015 Form 20-F, which is incorporated by reference in this offering memorandum. The summary financial information as of June 30, 2016 and for the six-month periods ended June 30, 2016 and 2015 should be read in conjunction with our unaudited interim consolidated financial statements included in this offering memorandum. Our audited consolidated financial statements incorporated by reference in this offering memorandum have been prepared in accordance with IFRS, as issued by IASB. Our unaudited interim consolidated financial statements included in this offering memorandum have been prepared in conformity with IFRS for interim financial reporting in accordance with IAS 34—Interim Financial Reporting. The results for the six-month period ended June 30, 2016 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2016 or any other period.

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

	Six Months Ended June 30,			Year Ended December 31,			
	2016(1)	2016	2015	2015(1)	2015	2014	2013
	(in millions of U.S.\$)	(in millions of reais) <i>(unaudited)</i>	(in millions of reais)	(in millions of U.S.\$)	(in millions of reais)	(in millions of reais)	(in millions of reais)
Summary Statement of Income Information:							
Net sales.....	5,182.5	16,634.9	14,960.9	10,030.7	32,196.6	29,006.8	27,787.5
Cost of sales.....	(3,952.2)	(12,685.9)	(10,272.6)	(6,887.6)	(22,107.7)	(20,497.4)	(20,877.6)
Gross profit	1,230.3	3,949.0	4,688.3	3,143.2	10,088.9	8,509.4	6,909.9
Operating income (expenses):							
Selling expenses.....	(759.5)	(2,437.7)	(2,238.0)	(1,497.3)	(4,805.9)	(4,216.5)	(4,141.0)
General and administrative expenses.....	(86.0)	(276.1)	(222.4)	(157.7)	(506.1)	(402.1)	(427.3)
Other operating expenses, net.....	(21.2)	(68.1)	(462.1)	(138.5)	(444.7)	(438.1)	(458.1)
Income (loss) from associates and joint ventures ..	5.2	16.7	(67.1)	(32.3)	(103.8)	25.6	12.9
Operating income.....	368.8	1,183.8	1,698.7	1,317.3	4,228.4	3,478.3	1,896.4
Financial expenses.....	(902.0)	(2,895.4)	(2,295.6)	(1,565.7)	(5,025.5)	(2,571.5)	(1,564.8)
Financial income.....	556.9	1,787.4	1,531.4	1,045.3	3,355.3	1,580.8	817.3
Income before taxes	23.6	75.8	934.5	797.0	2,558.2	2,487.6	1,148.8
Current.....	(86.5)	(277.5)	(9.7)	(5.3)	(17.1)	(117.4)	(13.1)
Deferred.....	81.1	260.2	(90.6)	126.7	406.6	(235.2)	(116.0)
Income from continuing operations.....	18.2	58.5	834.2	918.3	2,947.7	2,135.0	1,019.7
Income (loss) from discontinued operations.....	—	—	(7.1)	57.0	183.1	89.8	47.2
Net profit	18.2	58.5	827.1	975.4	3,130.8	2,224.8	1,066.8
Attributable to:							
Controlling shareholders.....	21.7	69.6	819.0	969.3	3,111.2	2,225.0	1,062.4
Non-controlling interest.....	(3.5)	(11.1)	8.1	6.1	19.6	(0.2)	4.4

(1) Translated for convenience only using the selling rate as reported by the Central Bank for reais into U.S. dollars at June 30, 2016 of R\$3.2098 = U.S.\$1.00.

	At June 30,		At December 31,		
	2016(1)	2016	2015(1)	2015	2014
	(in millions of U.S.\$)	(in millions of reais) <i>(unaudited)</i>	(in millions of U.S.\$)	(in millions of reais)	(in millions of reais)
Summary Balance Sheet Information:					
Cash and cash equivalents	1,442.7	4,630.9	1,670.8	5,362.9	6,006.9
Marketable securities	209.3	671.8	228.9	734.7	587.5
Trade accounts receivable, net and notes receivable	1,094.7	3,513.9	1,302.3	4,180.0	3,262.0
Inventories	1,472.0	4,724.9	1,256.4	4,032.9	2,941.4
Biological assets	513.0	1,646.5	414.3	1,329.9	1,130.6
Other current assets.....	881.2	2,828.4	1,092.7	3,507.3	1,601.9
Assets from discontinued operations and held for sale.....	11.5	36.8	10.1	32.4	1,958.0
Total current assets.....	5,624.4	18,053.2	5,975.5	19,180.1	17,488.3
Marketable securities and restricted cash	249.4	800.6	291.5	935.8	177.3
Trade accounts receivable, net and notes receivable	64.4	206.6	73.2	234.9	369.7

	At June 30,		At December 31,		
	2016(1)	2016	2015(1)	2015	2014
	(in millions of U.S.\$)	(in millions of reais)	(in millions of U.S.\$)	(in millions of reais)	(in millions of reais)
	<i>(unaudited)</i>				
Biological assets	262.9	844.0	237.1	761.0	683.2
Other non-current assets	1,065.8	3,421.1	985.6	3,163.6	2,558.9
Investments in associates and joint ventures	23.5	75.4	57.9	185.9	438.4
Property, plant and equipment, net	3,590.9	11,526.1	3,400.8	10,915.8	10,059.3
Intangible assets	2,064.9	6,627.9	1,561.1	5,010.9	4,328.6
Total non-current assets	7,321.9	23,501.7	6,607.2	21,207.9	18,615.4
Total assets	12,946.3	41,554.9	12,582.7	40,388.0	36,103.7
Short-term debt	1,167.8	3,748.3	818.8	2,628.2	2,738.9
Trade accounts payable and supply chain finance	1,897.4	6,090.2	1,844.2	5,919.6	3,977.3
Other current liabilities	996.0	3,196.9	957.5	3,073.4	2,344.6
Liabilities of discontinued operations	—	—	—	—	508.3
Total current liabilities	4,061.1	13,035.4	3,620.5	11,621.2	9,569.1
Long-term debt	4,116.0	13,211.6	3,910.2	12,551.1	8,850.4
Other non-current liabilities	762.3	2,446.7	741.4	2,379.7	1,994.3
Total non-current liabilities	4,878.3	15,658.3	4,651.6	14,930.8	10,844.7
Total current and non-current liabilities	8,939.4	28,693.7	8,272.2	26,552.0	20,413.8
Capital	3,882.0	12,460.5	3,882.0	12,460.5	12,460.5
Capital reserves	4.4	14.2	2.2	7.0	109.4
Income reserves	546.6	1,754.6	1,893.2	6,076.8	3,945.8
Retained earnings	5.9	19.0	—	—	—
Treasury shares	(225.5)	(723.9)	(1,230.0)	(3,947.9)	(304.9)
Other comprehensive loss	(300.9)	(965.7)	(336.3)	(1,079.5)	(620.4)
Attributable to interest of controlling shareholders	3,912.6	12,558.7	4,211.1	13,516.9	15,590.4
Attributable to non-controlling interest	94.2	302.5	99.4	319.1	99.5
Total shareholders' equity	4,006.9	12,861.2	4,310.5	13,836.0	15,689.9
Total liabilities and shareholders' equity	12,946.3	41,554.9	12,582.7	40,388.0	36,103.7

(1) Translated for convenience only using the selling rate as reported by the Central Bank for reais into U.S. dollars at June 30, 2016 of R\$3.2098 = U.S.\$1.00.

	At and for the Six Months Ended June 30,			At and for the Year Ended December 31,			
	2016(1)	2016	2015	2015(1)	2015	2014	2013
	(in millions of U.S.\$)	(in millions of reais)	(in millions of reais)	(in millions of U.S.\$)	(in millions of reais)	(in millions of reais)	(in millions of reais)
	<i>(unaudited)</i>						
Other Financial information (unaudited):							
Net debt (at period end)(2)	3,439.7	11,040.8	n/a	2,285.7	7,336.8	5,031.9	6,784.3
EBITDA(3)	609.9	1,957.5	2,339.2	1,727.5	5,545.0	4,708.7	3,013.7
Net debt/ LTM EBITDA(2)(3)	—	(4)	—	—	1.3x	1.1x	2.3x
EBITDA margin(5)	11.8%	11.8%	15.6%	17.2%	17.2%	16.2%	10.8%

(1) Translated for convenience only using the selling rate as reported by the Central Bank for reais into U.S. dollars at June 30, 2016 of R\$3.2098 = U.S.\$1.00.

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

The following table sets forth our net debt at the dates indicated:

	At June 30,		At December 31,			
	2016(a)	2016	2015(a)	2015	2014	2013
	(in millions of U.S.\$)	(in millions of reais)	(in millions of U.S.\$)	(in millions of reais)		
	<i>(unaudited)</i>					
Current and non-current foreign currency debt	3,129.4	10,044.9	3,539.1	11,359.7	7,596.2	6,108.7
(+) Current and non-current local currency debt	2,154.3	6,915.0	1,190.0	3,819.6	3,993.1	4,072.5
(+) Other financial liabilities	278.0	892.2	207.7	666.6	257.4	357.2
(-) Cash and cash equivalents and current and non-current marketable securities	1,758.2	5,643.4	2,041.7	6,553.6	6,656.5	3,643.3

	At June 30,			At December 31,		
	2016(a)	2016	2015(a)	2015	2014	2013
	(in millions of U.S.\$)	(in millions of reais)	(in millions of U.S.\$)	(in millions of reais)		
	<i>(unaudited)</i>					
(-) Other financial assets.....	163.8	525.8	40.3	129.4	43.1	11.6
(-) Current and non-current restricted cash	200.0	642.1	568.9	1,826.1	115.2	99.2
Net debt (unaudited).....	3,439.7	11,040.8	2,285.7	7,336.7	5,031.9	6,784.3

(a) Translated for convenience only using the selling rate as reported by the Central Bank for *reais* into U.S. dollars at June 30, 2016 of R\$3.2098 = U.S.\$1.00.

(3) We calculate EBITDA as income from continuing operations *plus* current and deferred income and social contribution taxes *plus* financial expenses, net *plus* depreciation, amortization and depletion of our biological assets. We use EBITDA as a supplemental measure of our financial performance as well as of our ability to generate cash from operations. We also use EBITDA in making certain management decisions. EBITDA is not a prescribed measure under IFRS and should not be considered as a substitute for net profit or loss, cash flow from operations or other measures of operating performance or liquidity determined in accordance with IFRS. The use of EBITDA has material limitations, including, among others, the following:

- EBITDA adds back financial expenses, including interest expense. However, because we borrow money to finance some of our operations and capital expenditures, interest is a necessary and ongoing part of our costs.
- EBITDA adds back current and deferred income taxes expense, but the payment of these taxes is a necessary and ongoing cost of our operations.
- EBITDA adds back depreciation, amortization and depletion, but because we use property, plant and equipment, intangibles and biological assets to generate revenues in our operations, depreciation, amortization and depletion are necessary and ongoing components of our costs.
- EBITDA as calculated by us may not be comparable to similarly titled measures of other companies.

The following table reconciles EBITDA to our consolidated income from continuing operations:

	For the twelve months ended June 30,		For the six months ended June 30,			For the year ended December 31,			
	2016(a)	2016	2016(a)	2016	2015	2015(a)	2015	2014	2013
	(in millions of U.S.\$)	(in millions of reais)	(in millions of U.S.\$)	(in millions of reais)		(in millions of U.S.\$)	(in millions of reais)		
	<i>(unaudited)</i>								
Net Income from continuing operations	676.7	2,172.0	18.2	58.5	834.2	918.3	2,947.7	2,135.0	1,019.7
(+) Income and social contribution taxes(b)	(147.2)	(472.5)	5.4	17.3	100.3	(121.3)	(389.5)	352.6	129.1
(+) Financial expenses, net	627.5	2,014.0	345.2	1,108.0	764.2	520.3	1,670.2	990.7	747.5
(+) Depreciation, amortization and depletion ...	451.7	1,449.8	241.0	773.7	640.5	410.2	1,316.6	1,230.4	1,117.4
EBITDA (unaudited)	1,608.6	5,163.3	609.9	1,957.5	2,339.2	1,727.5	5,545.0	4,708.7	3,013.7

(a) Translated for convenience only using the selling rate as reported by the Central Bank for *reais* into U.S. dollars at June 30, 2016 of R\$3.2098 = U.S.\$1.00.

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

(4) The Net debt/LTM EBITDA ratio for June 30, 2016 is 2.1x. This is calculated using EBITDA figures for the twelve months ended June 30, 2016.

(5) Represents EBITDA divided by net sales.

	At and for the Six Months Ended June 30,		At and for the Year Ended December 31,		
	2016	2015	2015	2014	2013
Operating Information:					
Poultry slaughtered (million heads per period)	861.9	827.6	1,724.4	1,663.6	1,795.9
Pork/beef slaughtered (thousand heads per period).....	4,807.0	4,571.2	9,510.5	9,620.6	9,744.1
Total production of meat and other processed food products (thousand tons per period).....	2,092.3	2,147.1	4,358.2	4,307.1	4,595.4
Employees (at period end)(1).....	103,708	98,904	96,279	108,829	110,138

(1) The number of employees includes permanent and temporary employees.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements, our unaudited interim consolidated financial statements and the information presented under "Presentation of Financial and Other Information," "Summary—Summary Financial and Other Information" and "Selected Financial Information." This discussion and analysis should also be read in conjunction with "Item 5: Operating and Financial Review and Prospects" in our 2015 Form 20-F incorporated by reference in this offering memorandum.

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

Results of Operations

Business Segments and Product Lines

We report our results according to the following regions, divided according to sales channels:

- **Brazil**, which includes our sales within Brazil;
- **Middle East and North of Africa**, or "MENA," which includes our export sales to the Middle East and North of Africa regions;
- **Asia**, which includes our export sales to the Asia region;
- **Europe/Eurasia**, which includes our export sales to the Europe and Eurasia regions;
- **Latin America**, or "LATAM," which includes our export sales to the Latin America region; and
- **Africa**, which includes our export sales to the Africa region.

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

- **Meat Products**, consisting of *in natura* meat, which we define as frozen whole and cut chicken, frozen pork and frozen beef cuts;
- **Processed Food Products** includes the following:
 - marinated, frozen, whole and cut chicken, roosters (sold under the *Chester*[®] brand) and turkey;
 - specialty meats, such as sausages, ham products, bologna, frankfurters, salami, bacon and other smoked products; and
 - frozen processed meats, such as hamburgers, steaks, breaded meat products, *kibes* and meatballs;
- **Other Processed Products** includes the following:
 - frozen prepared entrees, such as lasagna and pizzas, as well as other frozen foods; and
 - margarine, mayonnaise, mustard and ketchup;
- **Other**, consisting of soy meal, refined soy flour and animal feed.

In the six months ended June 30, 2016, we generated 40.4% of our net sales from *in natura* poultry, 8.2% from *in natura* pork and *in natura* beef, 47.7% from processed and other processed meat products and 3.7% from other

sales. No single customer or economic group represented more than 5.0% of our total net sales in the six-month period ended June 30, 2016.

In the Brazilian market, which accounted for 42.7% of our net sales in the six months ended June 30, 2016, we operate under such brand names as *Sadia*, *Perdigão*, *Chester*, *Miss Daisy*, *Qualy* and *Becel* (through a strategic joint venture with Unilever), which are among the most recognized names in Brazil. In our export markets, which accounted for the remaining 53.0% of our total net sales in the six months ended June 30, 2016, the leading brands were *Perdix*, *Sadia*, *Hilal*, *Halal*, *Paty*, *Corcovado*, *Fazenda*, *Borella* and *Confidence*. The “Other Segments” (all volumes of our non-core products, such as animal feed, flours, cattle, etc.) accounted for 4.3% of our total net sales in the six months ended June 30, 2016.

We export to more than 120 countries, primarily to distributors, the institutional market (which includes restaurants and food service chains) and food processing companies. In the six months ended June 30, 2016, our exports accounted for 53.0% of our net sales, of which exports (1) 36.1% were to the Middle East and North of Africa, (2) 26.5% were to Asia, (3) 22.4% were to Europe/Eurasia, (4) 10.8% were to Latin America and (5) the remaining 4.2% were to Africa.

Results of Operations as a Percentage of Net Sales for the Six Months Ended June 30, 2016 Compared to the Six Months Ended June 30, 2015

The following table sets forth the components of our results of operations as a percentage of net sales for the six months ended June 30, 2016 and 2015.

	Six Months Ended June 30,	
	2016	2015
	(%)	(%)
Net sales	100.0	100.0
Cost of sales	(76.3)	(68.7)
Gross profit	23.7	31.3
Operating expenses:		
Selling expenses.....	(14.7)	(15.0)
General and administrative expenses.....	(1.7)	(1.5)
Other operating expenses, net.....	(0.4)	(3.1)
Income (loss) from associates and joint ventures.....	0.1	(0.4)
Operating income	7.1	11.4
Financial expenses	(17.4)	(15.3)
Financial income.....	10.7	10.2
Income before taxes	0.5	6.2
Current taxes	(1.7)	(0.0)
Deferred taxes	1.6	(0.6)
Income from continuing operations	0.4	5.6
Loss from discontinued operations	—	(0.0)
Net profit	0.4	5.5
Attributable to:		
Controlling shareholders.....	0.4	5.5
Non-controlling interest.....	(0.1)	0.1

Presentation of Net Sales Information

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

- *ICMS Taxes* — ICMS is a state value-added tax on our gross sales in the Brazilian market at a rate that varies by state and product sold. Our average ICMS tax rate for the six months ended June 30, 2016 was 12%;

- *PIS and COFINS Taxes* — The PIS and the COFINS taxes are federal social contribution taxes levied on our gross revenues from the Brazilian market at the rates of 1.65% for PIS and 7.60% for COFINS for the six months ended June 30, 2016. However, (1) exports are not subject to these taxes, (2) we currently benefit from a suspension of these taxes with respect to our *in natura* pork, poultry and beef cuts and (3) our financial revenues have benefitted from a PIS and COFINS tax rate of zero since 2004. According to Brazilian Decree No. 8,426 dated April 1, 2015, PIS and COFINS on financing revenues (other than interest on shareholders' equity) are levied at rates of 0.65% and 4% respectively. For more information, see "Risk Factors—Changes in tax laws may increase our tax burden and, as a result, negatively affect our profitability;" and
- *Discounts, Returns and Other Deductions* — Discounts, returns and other deductions are unconditional discounts granted to customers, product returns and other deductions from gross sales.

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

The table below sets forth our gross sales and deductions for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,		Change
	2016	2015	
	(in millions of reais)		(%)
	<i>(unaudited)</i>		
Gross sales:			
Brazilian market sales.....	8,835.1	9,083.0	(2.7)
European market sales.....	2,119.0	1,574.6	34.6
Middle East and North African market sales	3,534.6	3,137.3	12.7
African market sales.....	378.9	340.4	11.3
Asia market sales.....	2,374.6	1,662.2	42.9
Latin America market sales.....	1,132.8	952.6	18.9
Other segments.....	769.2	388.9	97.8
	19,144.2	17,139.0	11.7
Sales deductions			
Brazilian market sales.....	(1,728.7)	(1,693.6)	2.1
European market sales.....	(141.7)	(106.3)	33.3
Middle East and North African market sales	(350.8)	(214.9)	63.2
African market sales.....	(3.6)	(11.7)	(69.2)
Asia market sales.....	(42.4)	(18.9)	124.3
Latin America market sales.....	(184.3)	(101.6)	81.4
Other segments.....	(57.8)	(31.1)	85.9
	(2,509.3)	(2,178.1)	15.2
Net sales			
Brazilian market sales.....	7,106.4	7,389.4	(3.8)
European market sales.....	1,977.3	1,468.3	34.7
Middle East and North African market sales	3,183.8	2,922.4	8.9
African market sales.....	375.3	328.7	14.2
Asia market sales.....	2,332.2	1,643.3	41.9
Latin America market sales.....	948.5	851.0	11.5
Other segments.....	711.4	357.8	98.8
TOTAL.....	16,634.9	14,960.9	11.2

We report net sales by region: Brazil, the Middle East and North of Africa, "MENA," Asia, Europe/Eurasia, Latin America (excluding Brazil), Africa and Other Segments. Within these regions, we report a breakdown of net sales by the following product categories: (i) poultry (whole poultry and *in natura* cuts), (ii) pork (*in natura* cuts), (iii) beef cuts (*in natura* cuts), (iv) others (fish, sheep and vegetables); (v) processed food (processed foods, frozen

and processed derivatives of poultry, pork and beef and other processed foods, such as margarine and vegetable and soybean-based products), and (vi) other sales (including animal feed, soy meal and refined soy flour).

Six Months Ended June 30, 2016 Compared with Six Months Ended June 30, 2015

The following provides a comparison of our results of operations for the six months ended June 30, 2016 against our results of operations for the six months ended June 30, 2015, based on our unaudited interim consolidated financial statements prepared in accordance with IAS 34—Interim Financial Reporting, included elsewhere in this offering memorandum.

As described in more detail below, our consolidated results of operations for the six months ended June 30, 2016 increased in comparison with the six months ended June 30, 2015.

Net Sales

Our net sales increased 11.2%, to R\$16,634.9 million, in the six months ended June 30, 2016, from R\$14,960.9 million in the corresponding period in 2015, primarily due a 16.9% increase in sales volume of international operations and 6.9% higher average prices.

In the six months ended June 30, 2016, sales to our export markets benefited from an average 25.0% devaluation year-on-year of the *real* against the U.S. dollar, increasing average prices in *reais* of 6.9%.

Brazil

Net sales in the Brazil region decreased 3.8%, to R\$7,106.4 million, in the six months ended June 30, 2016, from R\$7,389.4 million in the corresponding period in 2015, primarily due to an 8.9% decrease in the volume of products sold in Brazil, which was partially offset by 5.5% increase in average selling prices.

Sales volumes in the Brazil region decreased 8.9% to 979.5 thousand tons in the six months ended June 30, 2016, from 1,074.8 thousand tons in the corresponding period in 2015, primarily as a result of a decrease in demand, together with price increases of 10% in January 2016 and 7% in May 2016, which caused additional pressure on sales. Average selling prices increased 5.5% to R\$7.25 per kilogram in the six months ended June 30, 2016 from R\$6.87 per kilogram in the corresponding period in 2015, primarily as a result of increases in prices of poultry and processed foods. Despite price increases implemented in first half of 2016, the company reported a slowdown in prices due to poorer mix (products with low prices), primarily as a result of a down trade in the processed products category, which reduced volumes in categories with higher prices, such as frozen food. In addition, there was a shift towards channels with lower prices, such as the wholesale channel.

The following table provides a breakdown of changes in net sales and sales volumes in the Brazil region.

	Net Sales			Sales Volumes		
	Six Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(in millions of reais)		(%)	(in thousands of tons)		(%)
	<i>(unaudited)</i>					
<i>In natura</i> meat:						
Poultry	1,112.3	1,087.7	2.3%	168.9	195.8	(13.7)%
Pork and others	362.9	392.6	(7.6)%	50.5	51.1	(1.1)%
Total <i>in natura</i> meat	1,475.2	1,480.3	(0.3)%	219.4	246.9	(11.1)%
Processed foods	5,585.2	5,898.6	(5.3)%	738.0	824.1	(10.4)%
Other Sales	46.0	10.5	338.1%	22.0	3.8	479.2%
Total.....	7,106.4	7,389.4	(3.8)%	979.5	1074.8	(8.9)%

The following table sets forth our average selling prices in the Brazil region.

	Average Selling Prices		
	Six Months Ended June 30,		
	2016	2015	Change
	(in reais per kg)		(%)
Brazil.....	7.25	6.87	5.5

Europe

Net sales increased 34.7%, to R\$1,977.3 million in the six months ended June 30, 2016, compared to R\$1,468.3 million in the corresponding period in 2015, primarily due to an increase in volumes of 21.4% compared to the corresponding period in 2015, and an increase in average prices in *reais* of 10.9% compared to the corresponding period in 2015, as a result of a better product mix and improved distribution channels. The consolidation of the distributors Invicta and Universal contributed to this result, reinforcing the strategy to consolidate our leadership in the food service channel.

	Net Sales			Sales Volumes		
	Six Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(in millions of reais)		(%)	(in thousands of tons)		(%)
	<i>(unaudited)</i>					
<i>In natura</i> meat:						
Poultry	521.3	293.8	77.4%	49.2	42.8	14.9%
Pork and others	381.4	323.3	18.0%	54.5	30.6	78.0%
Total in <i>natura</i> meat.....	902.7	617.1	46.3%	103.7	73.4	41.3%
Processed foods.....	1,074.5	851.2	26.2%	91.2	87.2	4.7%
Total	1,977.3	1,468.3	34.7%	194.9	160.6	21.4%

The following table sets forth our average selling prices in our European region.

	Average Selling Prices		
	Six Months Ended June 30,		
	2016	2015	Change
	(in reais per kg)		(%)
Europe	10.14	9.14	10.9

Middle East and North of Africa (MENA)

Net sales in the Middle East and North of Africa region increased 8.9%, to R\$ 3,183.8 million in the six months ended June 30, 2016, compared to R\$2,922.4 million in the corresponding period in 2015, primarily due to 5.1% higher average selling prices as a result of increases in the prices of processed foods and a 40.3% increase in the volume of processed products compared to the corresponding period in 2015, in line with our strategy to expand our offering of processed products in the region.

	Net Sales			Sales Volumes		
	Six Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(in millions of reais)		(%)	(in thousands of tons)		(%)
	<i>(unaudited)</i>					
<i>In natura</i> meat:						
Poultry	2,845.3	2,721.8	4.5%	429.8	424.3	1.3%
Others	20.1	14.2	41.5%	1.4	1.0	39.8%
Total in <i>natura</i> meat.....	2,865.5	2,736.1	4.7%	431.1	425.3	1.4%
Processed foods.....	318.3	186.3	70.9%	36.7	26.2	40.1%
Total	3,183.8	2,922.4	8.9%	467.9	451.5	3.6%

The following table sets forth our average selling prices in our Middle East and North of Africa region.

	Average Selling Prices		
	Six Months Ended June 30,		
	2016	2015	Change
	(in reais per kg)		(%)
Middle East and North of Africa.....	6.80	6.47	5.1

Africa

Net sales in the African region increased 14.2%, to R\$375.3 million in the six months ended June 30, 2016, compared to R\$328.7 million in the corresponding period in 2015, primarily as a result of a 13.1% increase in volumes in the region compared to the same period in 2015 and 0.9% higher average selling prices, mainly due to the better mix of products in existing markets.

	Net Sales			Sales Volumes		
	Six Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(in millions of reais)		(%)	(in thousands of tons)		(%)
	<i>(unaudited)</i>					
<i>In natura</i> meat:						
Poultry	241.9	215.0	12.5%	51.1	46.1	10.9%
Pork and others	55.5	48.9	13.5%	12.4	9.4	31.7%
Total in <i>natura</i> meat.....	297.4	263.9	12.7%	63.4	55.5	14.4%
Processed foods.....	77.9	64.8	20.2%	18.2	16.7	8.9%
Total	375.3	328.7	14.2%	81.7	72.2	13.1%

The following table sets forth our average selling prices in our African region.

	Average Selling Prices		
	Six Months Ended June 30,		
	2016	2015	Change
	(in reais per kg)		(%)
Africa	4.6	4.55	0,9%

Asian

Net sales in the Asia region increased 41.9%, to R\$2,332.2 million in the six months ended June 30, 2016, compared to R\$1,643.3 million in the corresponding period in 2015, primarily as a result of a 43.6% increase in volumes in the region compared to the same period in 2015, partially offset by a decrease of 1.2% in average prices. The increase in volumes was due to the full consolidation of the operations of GFS (BRF Thailand) in the first half of 2016, as well as additional export volumes from the new plants qualified to export to China.

	Net Sales			Sales Volumes		
	Six Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(in millions of reais)		(%)	(in thousands of tons)		(%)
	<i>(unaudited)</i>					
<i>In natura</i> meat:						
Poultry	1,734.7	1,449.4	19.7%	244.3	214.1	14.1%
Pork and others	270.6	155.5	74.0%	33.8	18.5	83.1%
Total in <i>natura</i> meat.....	2,005.3	1,604.9	24.9%	278.1	232.5	19.6%
Processed foods.....	243.7	38.4	534.6%	16.8	4.6	266.4%
Other sales.....	83.2	—	—	45.6	—	—
Total	2,332.2	1,643.3	41.9%	340.5	237.1	43.6%

The following table sets forth our average selling prices in our Asia region.

	Average Selling Prices		
	Six Months Ended June 30,		
	2016	2015	Change
	(in reais per kg)		(%)
Asia	6.85	6.93	(1.2)

Latin American (Other than Brazil) (LATAM)

Net sales from Latin America region (other than Brazil) increased 11.5%, to R\$948.5 million in the six months ended June 30, 2016, compared to R\$851.0 million in the corresponding period in 2015, primarily as a result of a 9.9% increase in volumes, due to the partial consolidation in the first half of the operations of Campo Austral and Calchaquí, an increase in volumes of processed products in the Southern Cone region, especially in Argentina and an increase in volumes in the Americas region, particularly in Mexico and the Caribbean.

	Net Sales			Sales Volumes		
	Six Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(in millions of reais)		(%)	(in thousands of tons)		(%)
	<i>(unaudited)</i>					
<i>In natura</i> meat:						
Poultry	261.7	175.7	48.9%	32.8	31.1	5.2%
Pork and others	55.8	127.1	(56.1)%	8.1	12.4	(34.5)%
Total <i>in natura</i> meat	317.5	302.7	4.9%	40.8	43.4	(6.0)%
Processed foods	623.1	521.0	19.6%	68.2	56.4	20.9%
Other sales	7.9	27.3	(71.1)%	0.8	0.1	987.1%
Total	948.5	851.0	11.5%	109.9	100.0	9.9%

The following table sets forth our average selling prices in our Latin America region.

	Average Selling Prices		
	Six Months Ended June 30,		
	2016	2015	Change
	(in reais per kg)		(%)
Latin America Market	8.63	8.51	1.4%

Cost of Sales

Cost of sales increased 23.5%, to R\$12,685.9 million in the six months ended June 30, 2016 compared to R\$10,272.6 million in the corresponding period in 2015, mainly due to the increase in prices of grains, components of packaging and imported inputs due to the impact of the depreciation of the *real* against the U.S. dollar as well as higher costs for utilities and energy. The price of grains, a main component of our costs, increased 71.7% in the case of corn and 28.4% in the case of soy, in each case in *reais* terms, in the first half of 2016.

Gross Profit and Gross Margin

Gross profit decreased 15.8% to R\$3,949.0 million in the six months ended June 30, 2016 compared to R\$4,688.3 million in the corresponding period in 2015. Our gross margin decreased 7.6 percentage points to 23.7% in the six months ended June 30, 2016, compared to 31.3% in the corresponding period in 2015, primarily affected by a very challenging industry dynamics, characterized mainly by pressure from the cost of grains and a downturn in the Brazilian economy. The 6.9% increase in average selling prices in the first half of 2016 compared to the same period in 2015 was more than offset by a 23.5% increase in cost of sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 10.3% to R\$2,713.8 million in the six months ended June 30, 2016 compared to R\$2,460.4 million in the corresponding period in 2015, representing 16.3% of our net sales in the six months ended June 30, 2016, compared to 16.4% in the corresponding period in 2015. Selling

expenses increased 8.9% and general and administrative expenses increased 24.1% as compared to the corresponding period in 2015. Selling, general and administrative expenses were primarily impacted by the integration of recently-acquired companies, exchange rate fluctuations and inflation. Notwithstanding, our Zero-Based Budgeting, or “ZBB,” program, helped to mitigate such impacts through initiatives such as a better planning of the distribution of products, consolidation of distribution centers, and optimization of our vehicle fleet, among others.

Other Operating Expenses, Net

Other operating expenses, net decreased 85.3% to R\$68.1 million in the six months ended June 30, 2016 from R\$462.1 million in the corresponding period in 2015. In the first six months of 2015, we were impacted by expenses totaling R\$180.4 million, primarily due to the impacts of the strike of truck drivers, and restructuring charges. In addition, our employee profit sharing expenses decreased from R\$172.1 million in the six months ended June 30, 2015 to R\$9.0 million in the six months ended June 30, 2016 in line with lower operating results.

Income (loss) from associates and joint ventures

Income (loss) from associates and joint ventures totaled an income of R\$16.7 million in the six months ended June 30, 2016, as compared to a loss of R\$67.1 million in the corresponding period in 2015. This decreased was due to the change in accounting for our investment in Minerva, in the fourth quarter of 2015, from an equity method investee to a financial asset available for sale, due to the decrease of our equity interest to below 20%.

The operating income for each operating segment is presented below:

The table below sets forth the operating income for each of our operating segment:

	Operating Income by Segment		
	Six Months Ended June 30,		
	2016	2015	Change
	(in millions of reais)		
	<i>(unaudited)</i>		(%)
Brazil.....	536.3	781.9	(31.4)%
Europe.....	70.4	208.8	(66.3)%
Middle East and North African (MENA).....	259.7	475.6	(45.4)%
Asia.....	273.4	419.0	(34.7)%
Africa.....	27.9	49.5	(43.6)%
Latin America (LATAM).....	34.9	11.2	211.6%
Other Segments.....	45.8	17.4	163.2%
Corporate (1).....	(64.6)	(264.7)	(75.6)%
Total	1,183.8	1,698.7	(30.3)%

(1) Includes income and expenses and equity pick up income or losses that are not directly attributed to the segments.

Operating income

In the Brazil segment, our operating results were R\$536.3 million in the six months ended June 30, 2016, a 31.4% decrease over R\$781.9 million in the corresponding period in 2015, representing an operating margin of 7.5% compared to 10.6% in the corresponding period in 2015. The operating results in the Brazilian segment accounted for 45.3% of our consolidated operating results for the six months ended June 30, 2016. Operating results were affected by the strong pressure on costs, primarily due to grains. However, we continue with our strategy to improve operational efficiency using strict expense controls under our ZBB program.

In the Europe segment, our operating results were R\$70.4 million in the six months ended June 30, 2016, a 66.3% decrease over R\$208.8 million in the corresponding period in 2015, representing an operating margin of 3.6% compared to 14.2% in the corresponding period in 2015. The operating results in the Europe segment accounted for 5.9% of our consolidated operating results for the six months ended June 30, 2016. Operating results were affected by an increased pressure on costs, and a challenging scenario in Eurasia (to where we basically export *in natura* pork from Brazil). Increased pork supplies in Russia (the main country in the Eurasia sub-region), tied to the local macroeconomic scenario, and significantly pressured prices in U.S. dollars.

In the Middle East and North of Africa segment, our operating results were R\$259.7 million in the six months ended June 30, 2016, a 45.4% decrease over R\$475.6 million in the corresponding period in 2015, representing an operating margin of 8.2% compared to 16.3% in the corresponding period in 2015. The operating results in the Middle East and North of Africa segment accounted for 21.9% of our consolidated operating results for the six months ended June 30, 2016. Operating results were affected mainly by increases in grain prices and by expenses related to the integration of the acquired companies in the first half of 2016.

In the Asia segment, our operating results were R\$273.4 million in the six months ended June 30, 2016, a 34.7% decrease over R\$419.0 million in the corresponding period in 2015, representing an operating margin of 11.7% compared to 25.5% in the corresponding period in 2015. The operating results in the Asia segment accounted for 23.1% of our consolidated operating results for the six months ended June 30, 2016. Operating results were affected by pressure on costs and by increases in grain prices.

In the Latin America segment, our operating results were R\$34.9 million in the six months ended June 30, 2016, compared to an operating income of R\$11.2 million in the corresponding period in 2015, representing an operating margin of 3.7% compared to 1.3% in the corresponding period in 2015. The operating results in the Latin America segment accounted for 2.9% of our consolidated operating results for the six months ended June 30, 2016. Operating results were positively affected by the partial integration of Calchaquí and Campo Austral, improvements in execution of sales, stricter expense controls and dilution of fixed expenses.

In the Africa segment, our operating results were R\$27.9 million in the six months ended June 30, 2016, compared to an operating income of R\$49.5 million in the corresponding period in 2015, representing an operating margin of 7.4% compared to an operating margin of 15.1% in the corresponding period in 2015. The operating results in the Africa segment accounted for 2.4% of our consolidated operating results for the six months ended June 30, 2016. Operating results were negatively affected by exchange rate fluctuations and the increase in costs.

Financial Income (Expenses), Net

Financial expenses, net totaled R\$1,108.0 million in the six months ended June 30, 2016, representing a 45.0% increase from R\$764.2 million in the corresponding period in 2015, primarily due to the net interest on debt driven by an increase in net debt, and higher losses on derivative transactions.

Income Tax and Social Contribution

Current and deferred income tax and social contribution expenses were R\$17.3 million in the six months ended June 30, 2016 representing a 82.8% decrease as compared to R\$100.3 million in the corresponding period in 2015. Our income tax and social contribution was 22.8% of our pre-tax results for the first semester of 2016.

Net Profit

For the reasons described above, net profit was R\$58.5 million in the six months ended June 30, 2016, representing a 92.9% decrease as compared to R\$827.1 million for the corresponding period in 2015, as a result of a decrease in net profit that generated a lower income tax and social contribution expenses. Our net margin for the six months ended June 30, 2016 was 0.4%, representing a 5.1 percentage point decrease as compared to our net margin of 5.5% for the corresponding period of 2015.

Liquidity and Capital Resources

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

For a description of our cash flows for the year ended December 31, 2015, see "Item 5: Operating and Financial Review and Prospects—Liquidity and Capital Resources" in our 2015 Form 20-F.

Cash Flows from Operating Activities

The net cash flow used in our operating activities totaled R\$36.4 million in the six months ended June 30, 2016, compared to net cash flow provided by our operating activities of R\$2,259.4 million in the corresponding period in 2015. Our operating cash flow for the six months ended June 30, 2016 reflects net income attributable to BRF shareholders of R\$69.6 million. The depreciation of the *real* against the U.S. dollar resulted in a significant increase in the foreign exchange rate costs and interest expense in the amount of R\$769.2 million, in the six months ended June 30, 2016. The net changes in operating assets and liabilities in the six months ended June 30, 2016 was positively impacted by a decrease in trade accounts receivable of R\$947.7 million, a decrease in other financial assets and liabilities of R\$1,079.6 million and an increase in trade accounts payable of R\$316.7 million partially offset by an increase in inventories of R\$355.4 million, interest paid of R\$470.9 million and a decrease of other operating assets and liabilities of R\$542.3 million.

Cash Flows Used in Investing Activities

The net cash flow used in our investing activities totaled R\$ 2,851.5 million in the six months ended June 30, 2016, compared to R\$895.8 million in the corresponding period in 2015. In the six months ended June 30, 2016, our cash used in investing activities consisted of: (1) addition to property, plant and equipment in the amount of R\$922.5 million, (2) additions to biological assets in the amount of R\$ 380.1 million, and (3) consideration paid to acquire new businesses net of cash acquired amounted to R\$2,762.0 million, mainly with GFS in the amount of R\$1,428.5 million and Calchaquí in the amount of R\$364.1 million, and (4) offset by redemptions in restricted cash in the amount of R\$1,184.0 million in the six months ended June 30, 2016.

Cash Flows Used in Financing Activities

Net cash flows provided by financing activities amounted to R\$2,555.7 million in the six months ended June 30, 2016, compared to R\$3,188.1 million net cash flows used in financing activities in the corresponding period in 2015. In the six months ended June 30, 2016, we received proceeds from loans and financings (debt issuance) in the amount of R\$5,019.1 million, which was offset by repayments of debt totaling R\$1,261.6 million and payments of dividends and interest on shareholders' equity of R\$663.0 million. We also acquired 11,107,600 of our own shares at a cost of R\$543.3 million, in order to hold treasury shares to comply with the provisions of our stock option plan.

Debt

Our principal debt instruments as of June 30, 2016 are described below. The descriptions below update and supersede the descriptions set forth in "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Debt" in our 2015 Form 20-F. For more information on these facilities, including information on average interest rates and weighted average maturities, see Note 20 to our audited consolidated financial statements included in our 2015 Form 20-F and Note 20 to our unaudited interim consolidated financial statements as of and for the six months ended June 30, 2016, included in this offering memorandum.

	Short-Term Debt as of June 30, 2016	Long-Term Debt as of June 30, 2016	Total Debt as of June 30, 2016	Total Debt as of December 31, 2015
	(in millions of reais)			
	<i>(unaudited)</i>			
Local currency:				
Development bank credit lines	306.9	677.1	984.0	726.3
Other secured debt	32.4	112.2	144.6	159.7
Export credit facilities.....	64.4	1,850.0	1,914.4	—
Bonds	4.1	498.4	502.5	502.0
Working capital facilities.....	1,109.6	—	1,109.6	1,169.6
PESA Loan facility	1.8	242.3	244.1	234.8
Agribusiness Receivables Certificates.....	15.8	1,985.5	2,001.3	1,025.3
Tax incentives	14.5	—	14.5	1.9
Local currency.....	1,549.5	5,365.5	6,915.0	3,819.6

	Short-Term Debt as of June 30, 2016	Long-Term Debt as of June 30, 2016	Total Debt as of June 30, 2016	Total Debt as of December 31, 2015
	(in millions of reais)			
	(unaudited)			
Foreign currency:				
Export credit facilities.....	953.4	1,142.8	2,096.2	2,152.3
Bonds	447.7	6,698.0	7,145.7	8,787.8
Development bank credit lines	9.5	5.3	14.8	24.2
Other secured debt	0.9	—	0.9	3.6
Advances on foreign exchange contracts	531.4	—	531.4	391.1
Working capital facilities.....	255.9	—	255.9	0.7
Foreign currency.....	2,198.8	7,846.1	10,044.9	11,359.7
Total	3,748.3	13,211.6	16,959.9	15,179.3

Local Currency Debt

Development Bank Credit Lines

BNDES FINEM Facilities. We have a number of outstanding obligations with BNDES, including loans under its FINEM program, in the amount of R\$840.8 million as of June 30, 2016. The loans from BNDES were entered into to finance purchases of machinery and equipment and construction of improvement and expansion of our production facilities. Principal and interest on the loans are generally payable monthly, with maturity dates varying from 2016 through 2020. The principal amount of the loans is denominated in *reais*, the majority of which bears interest at the TJLP rate plus a margin. These loans are included in the line “Local currency—Development bank credit lines” in the table above.

FINEP Financing. We obtained certain financing from the Brazilian Financing Agency for Studies and Projects (*Financiadora de Estudos e Projetos*), or “FINEP,” a public financing company under the Ministry of Science, Technology and Innovation, with maturity dates between 2016 and 2019. The outstanding debt under this financing was R\$143.3 million at June 30, 2016. We obtained FINEP credit lines with reduced rates for projects relating to research, development and innovation.

Export Credit Facilities

Export Credit Notes. We have export credit notes in local currency, totaling R\$1,914.4 million as of June 30, 2016. These notes bear interest at floating rates (CDI), with maturity date in 2019. These credit lines are included in the line “Local currency —Export credit facilities” in the table above.

Working Capital Facilities

Rural Credit Financing. We have short-term rural credit loans in the amount of R\$1,109.6 million as of June 30, 2016 with several commercial banks under a Brazilian federal government program that offers favorable interest rates as an incentive to invest in rural activities. We generally use the proceeds of these loans for working capital. These credit lines are included in the line “Local currency—Working capital facilities” in the table above.

PESA Loan Facility

PESA. We have a loan facility obtained through the Special Sanitation Program for Agroindustrial Assets (*Programa Especial de Saneamento de Ativos*), or “PESA,” for an outstanding amount of R\$244.1 million as of June 30, 2016, subject to the variation of the General Market Price Index (*Índice Geral de Preços do Mercado*), or “IGP-M,” a general price inflation index, as of June 30 2016, plus interest of 4.9% per year, secured by endorsements and pledges of public debt securities.

Other Local Currency Financings

Industrial Credit Notes. We had outstanding industrial credit notes (*Cédulas de Crédito Industrial*), receiving credits from official funds and the Constitutional Fund for the Financing of the Northeast (*Fundo Constitucional de Financiamento do Nordeste*), or “FNE,” in the amount of R\$144.6 million as of June 30, 2016. The notes have maturity dates from 2016 to 2021. These titles are secured by liens on machinery and equipment and real estate mortgages. We guarantee the industrial credit notes with respect to the FNE in an amount in excess of the principal amount of the notes. These loans are included in the line “Local currency—Other secured debt” in the table above.

Tax Incentive Financing Programs

State Tax Incentive Financing Programs. We also had R\$14.5 million outstanding as of June 30, 2016 under credit facilities offered by the State of Goiás under tax incentive programs to promote investments in the states. Under these programs, we are granted credit proportional to the payment of ICMS tax generated by investments in the construction or expansion of manufacturing facilities in these states. The credit facilities have a 20-year term and fixed or variable interest rates based on the IGP-M plus a margin. This credit line is included in the line “Local currency—Tax incentives” in the table above.

Agribusiness Receivables Certificate

Agribusiness Receivables Certificate, or “CRA.” On September 29, 2015, BRF concluded the CRA issuance related to the public distribution of the 1st series of the 3rd issuance by Octante Securitizadora SA, or “Securitization Company,” in the amount of R\$1.0 billion, net of interest, which will mature on September 29, 2018 and were issued with a coupon of 96.9% per year of the CDI rate, payable every nine months. The CRAs are derived from our exports contracted with BRF Global GmbH, which have been transferred and/or pledged to Securitization Company.

On April 19, 2016, BRF concluded the CRA issuance related to the public distribution of the 1st series of the 9th issuance by the Securitization Company, in the amount of R\$1.0 billion net of interest, which will mature on April 19, 2019, and were issued with a coupon of 96.50% of the CDI rate, payable every nine months. The CRAs are derived from our exports contracted with BRF Global GmbH and were transferred and/or pledged to the Securitization Company.

On June 30, 2016, the outstanding balance of this transaction totaled R\$2,001.3 million. This transaction is included in the line “Local currency—Agribusiness Receivables Certificate” in the table above.

Foreign Currency Debt

Development Bank Credit Facilities

BNDES Facilities. The values set out in the table mainly consist of a total funding of R\$14.8 million related to the BNDES Monetary Unit, or “UMBNDDES,” currency basket, which are the currencies in which BNDES borrows, and are subject to interest at the rate of UMBNDDES, reflecting fluctuations in daily exchange rates of the currencies of this basket. These loans are guaranteed by BRF and, in most cases, are secured by assets. The covenants under these agreements include limitations on indebtedness, liens and mergers and sales of assets. These loans are included under “Foreign currency—Development banks credit lines” in the table above.

Export Credit Facilities

Export Prepayment Facilities. We had several export prepayment facilities in an aggregate outstanding amount of R\$1,775.0 million as of June 30, 2016. The indebtedness under these facilities is generally denominated in U.S. dollars, with maturity dates in 2019. Interest under these export prepayment facilities accrues LIBOR plus a spread. Under each of these facilities, we receive a loan from one or more lenders secured by the accounts receivable relating to exports of our products to specific customers. The facilities are generally guaranteed by BRF S.A. The covenants under these agreements include limitations on liens and mergers. These credit lines are included in the line “Foreign currency—Export credit facilities” in the table above.

Business Loan Facilities. We had several trade-related business loan facilities in an aggregate outstanding amount of R\$321.2 million as of June 30, 2016. The indebtedness under these facilities is denominated in U.S. dollars, with maturity in 2018. These facilities bear interest at Libor plus a margin, payable quarterly. The proceeds from these facilities are used to import raw materials or for other working capital needs. The facilities are generally guaranteed by BRF. The principal covenants under these agreements include limitations on mergers and sales of assets. These credit lines are included in the line “Foreign currency—Export credit facilities” in the table above.

Advances on foreign exchange contracts

Advances on foreign exchange contracts. We had exchange contract advances, modality for funding through exports, with total balance of R\$531.4 million at June 30, 2016, maturing in 2016 and 2017 with a fixed rate of 2.0%. We must provide proof of ballast later by the accounts receivable relating to exports of their products. These loans are included under “Foreign currency—ACC / ACE pre-export loans” in the table above.

Bonds

BRF Euro Notes 2022. On May 29, 2015, we issued senior notes in an aggregate principal amount of €500.0 million, with principal due on June 3, 2022, and bearing interest at a rate of 2.75% per year, payable annually, as of June 3, 2016. As of June 30, 2016, the outstanding debt under these bonds was €500.0 million, equivalent to R\$1,770.0 million.

BRF Notes 2024. On May 15, 2014, we issued senior notes in an aggregate principal amount of U.S.\$750.0 million, or the “BRF 2024 Notes.” The principal is due on May 22, 2024 and bears interest at 4.75% per year, payable semiannually from November 22, 2014. Of the proceeds from the offering, U.S.\$470.6 million was used for a tender offer to repurchase part of the debt of the Sadia Overseas Bonds 2017 and BRF Notes 2020, both defined below. To implement the tender offer, BRF made a payment of U.S.\$86.4 million (equivalent to R\$198.6 million) to the holders of existing bonds, which was recorded as an interest expense. As of June 30, 2016, the outstanding aggregate principal amount under these bonds was U.S.\$750.0 million, equivalent to R\$2,407.4 million.

BRF Notes 2023. In May 2013, we issued senior notes in an aggregate principal amount of U.S.\$500.0 million, or the BRF Notes 2023, with principal due on May 22, 2023 and bearing interest at a rate of 3.95% per year, payable semiannually as of November 22, 2013. As of June 30, 2016, the outstanding aggregate principal amount under these bonds was U.S.\$500.0 million, equivalent to R\$1,604.9 million outstanding on these bonds.

BRF Notes 2018. In May 2013, we issued notes in an aggregate principal amount of R\$500.0 million, with principal due on May 22, 2018 and bearing interest at a rate of 7.75% per year, payable semiannually as of November 22, 2013. As of June 30, 2016, the outstanding aggregate principal amount under these bonds was R\$500.0 million.

BRF Notes 2022. In June 2012, we issued senior notes in an aggregate principal amount of U.S.\$500.0 million and bearing interest at a rate of 5.875% per year and mature on June 6, 2022. Later the same month, we issued an additional U.S.\$250.0 million of senior notes under the same indenture and with the same terms and conditions. On May 28, 2015, we finished a tender offer of bonds in the amount of U.S.\$577.1 million so that the remaining balance totaled U.S.\$172.9 million on June 30, 2015. As of June 30, 2016, the outstanding aggregate principal amount under these bonds was U.S.\$172.9 million, equivalent to R\$555.0 million.

BFF Notes 2020. On January 28, 2010, BFF International Limited issued senior notes in an aggregate principal amount of U.S.\$750 million, guaranteed by BRF, bearing a nominal interest rate of 7.25% per year and effective rate of 7.54% per year, and maturing on January 28, 2020, or the “BFF Notes 2020.” On June 20, 2013, U.S.\$120.7 million of these Senior Notes was replaced by Senior Notes BRF 2023, defined below, and, on May 15, 2014, U.S.\$409.6 million were repurchased with part of the proceeds from the BRF 2024 Senior Notes. On May 28, 2015, we completed a tender offer of bonds in the amount of U.S.\$101.4 million so that the remaining balance totaled U.S.\$118.3 million on June 30, 2015. As of June 30, 2016, the outstanding aggregate principal amount under these bonds was U.S.\$118.3 million, equivalent to R\$379.7 million.

Sadia Overseas Bonds 2017. In May 2007, Sadia Overseas Ltd. issued bonds in an aggregate principal amount of U.S.\$250.0 million, or the “Sadia Overseas Bonds 2017.” The bonds are guaranteed by BRF, bearing interest at a rate of 6.875% per year and maturing on May 24, 2017. On June 20, 2013, U.S.\$29.3 million of these bonds was repurchased with the proceeds of the offering of the BRF Notes 2023, and, on May 15, 2014, U.S.\$61.0 million was repurchased with part of the proceeds from the BRF 2024 Notes. On May 28, 2015, we completed a tender offer of bonds in the amount of U.S.\$47.0 million so that the remaining balance totaled U.S.\$112.8 million on June 30, 2015. As of June 30, 2016, the outstanding aggregate principal amount under these bonds was U.S.\$112.8 million, equivalent to R\$ 362.0 million.

Quickfood Bonds. In 2013, a subsidiary of BRF in Argentina, Quickfood S.A., or “Quickfood,” issued notes guaranteed by BRF, in an aggregate principal amount of ARS150.0 million with a nominal interest rate of 21.8% per year and an effective rate of 22.1% per year, with maturity dates between 2015 and 2016. In 2014, Quickfood issued notes guaranteed by BRF, in an aggregate principal amount of ARS436.0 million with a nominal interest rate of 24.1% per year and an effective rate of 27.0% per year, with maturity dates between 2015 and 2018. In 2015, Quickfood issued notes guaranteed by BRF, in an aggregate principal amount of ARS475.2 million with a nominal interest rate of 24.3% per year and an effective rate of 29.0% per year, with maturity dates between 2018 and 2022. As of June 30, 2016, the outstanding aggregate principal amount under these bonds was ARS783.5 million, equivalent to R\$168.2 million.

Other Secured Debt

Investments Financing. The subsidiaries of BRF in Argentina obtained financing for investment projects for the acquisition of capital goods and/or construction of necessary facilities for the production of goods and/or services and marketing of goods (excluding inventories) in the amount of R\$0.9 million, denominated in Argentine pesos with an interest rate of 15.2% and maturity dates in 2016. These loans are included in the line “Foreign currency—Other secured debt” in the table above.

Working Capital Facilities

Working capital in foreign currency. These are funds obtained from financial institutions, mainly used for working capital and short-term import financing operations of subsidiaries located in Argentina in the amount of R\$175.2 million, as of June 30, 2016. This funding is denominated in Argentine pesos, with interest rates of 19.7% per year, due to the fact that most of the debt is denominated in Argentine pesos, and with maturity substantially in 2016. The new subsidiaries Golden Foods and Al Khan Foods acquired this year have an outstanding loan for working capital of R\$80.7 million, as of June 30, 2016, mainly in OMR. These credit lines are included in the line “Foreign currency—Working capital facilities” in the table above.

International Credit Facilities

Revolving Credit Facility. In order to improve our liquidity management, in 2014, we and our subsidiary BRF Global GmbH entered into a revolving credit facility in the amount of U.S.\$1.0 billion, maturing in May 2019, with a syndicate of 28 banks. This revolving credit facility accrues interest at three-month LIBOR plus an applicable margin, which is calculated based on the company’s credit rating at the time of borrowing. As of the date hereof, we have not made any borrowings under this revolving credit facility.

Derivatives

We entered into foreign currency exchange derivatives under which we had exposure of R\$382.3 million and commodity derivatives under which we had exposure of R\$15.8 million, in each case as of June 30, 2016. The counterparties include several Brazilian financial institutions and involve interest rate swaps and the purchase and sale of currencies and commodities. Their maturity dates vary from 2016 through 2019. These transactions do not require any guarantees and follow the rules of the BM&FBOVESPA or CETIP S.A., a trading and securities registration company. These derivatives are recorded in our balance sheet as other financial assets and liabilities. See “Item 11—Quantitative and Qualitative Disclosures About Market Risk” in our 2015 Form 20-F.

Covenants and Covenant Compliance

Several of the instruments governing our indebtedness contain limitations on liens, and some of the instruments governing our indebtedness contain other covenants, such as limitations on indebtedness, mergers and sales of assets, and transactions with affiliates. As of June 30, 2016 we were in compliance with the covenants contained in our debt instruments.

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

THE ISSUER

The Issuer is a subsidiary of BRF, organized under the laws of the Republic of Austria as a limited liability company established on May 15, 2003, with an unlimited duration. The registered office of the Issuer is located at Guglgasse 17/5/ 1. OG, 1110 Vienna, Austria. The Issuer was registered with the Austrian commercial register under Company No. FN 235603a on May 24, 2003.

The Issuer is required to file its unaudited financial statements with the Austrian companies' register on an annual basis. Such financial statements will be made available free of charge at the office of the Luxembourg listing agent and sent to you upon request of the Trustee. Under Article 2 of the Issuer's articles of association, the object of the Issuer's business is (i) to acquire and administer shares and interest in companies of all kinds, (ii) to trade in food of all kinds, and (iii) to engage in all activities useful and/or necessary to achieve these objects, except for banking transactions and stock exchange transactions. As of the date of this Offering Memorandum, the managing directors of the Issuer are Rodrigo Alves Coelho; Colin James Norton; Dalvi Marcelo Rudek; Djavan Biffi; Pedro de Andrade Faria; Roberto Banfi; Juliana Lacchini; and José Alexandre Carneiro Borges. Each managing director is entitled to represent the Issuer jointly with another managing director. As managing directors of the Issuer and subject to general provisions of Austrian law, they act in accordance with the instructions of BRF, as its sole direct shareholder. The share capital of the Issuer is €35,000.00 and is fully paid-in.

BUSINESS AND INDUSTRY UPDATES

Industry Update for the Six Months Ended June 30, 2016

Brazilian Market

As a Brazilian company, with a significant portion of our operations in Brazil, we are significantly affected by local economic conditions. Because of our significant operations in Brazil, fluctuations in Brazilian demand for our products affect our production levels and revenues.

Real GDP in Brazil increased at an average annual rate of 2.9% from 2003 through 2015. In 2015, Brazil's GDP decreased by 3.9%, as compared to a growth of 0.1% in 2014 and 3.0% in 2013. From March 2013 to August 2015, the Central Bank has increased the SELIC interest rate, which is the short-term benchmark interest rate. Nevertheless, despite the recent increases, the long-term trend remains downward, from 17.8% as of December 31, 2004 to 14.2% as of July 31, 2016. In July 2016, the IPCA, published by the IBGE, increased by 0.52%. For the first six months of 2016, the IPCA had increased 4.42%.

The unemployment rate and consumer confidence levels also have an impact on consumption levels in Brazil. The unemployment rate for July 2016 was 11.6% an increase of 2.6 percentage points when compared to the 9.0% in December 2015. The Consumer Confidence Index for July 2016 was 76.7, 7.6% higher than the one reported for June 2016 of 71.3 and 18.2% higher when compared to the end of 2015 (64.9).

According to ABRAS, in July 2016, supermarket sales in real terms (deflated by the IPCA), increased 7.6% compared to the previous month and increased 4.2% compared to July 2015.

Export Markets

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

Brazilian exports of chicken increased 14.1% in the six months ended June 30, 2016 compared to the corresponding period in 2015 in terms of volume, with a reduction of 1.0% in terms of sales, in U.S. dollars, primarily as a result of the 13.7% decline in the average prices of exports in the first six months of 2016. Pork exports registered increases of 55.8% in volume and 15.1% in sales, in U.S. dollars, in the six months ended June 30, 2016 compared to the corresponding period in 2015, with the average price of exports falling by 26.6% in the first six months of 2015. Beef exports recorded a strong increase of 13.7% in volume and 3.7% in sales, in U.S. dollars, in the six months ended June 30, 2016 compared to the corresponding period in 2015.

Brazilian exports of chicken in the six months ended June 30, 2016 totaled 2.2 million tons on sales of U.S.\$3.3 billion. China remains as one of the top three leading importers of *in natura* products (12.2%), together with Saudi Arabia (18.9%) and Japan (9.6%). This result was partially explained by the Chinese announcement in 2014 of the certification of five additional Brazilian chicken processing units.

Pork shipment volume in the six months ended June 30, 2016 amounted to 349 thousand tons of sales, totaling of U.S.\$629.4 million. The leading importers, Russia, Hong Kong and China, represented 38%, 19% and 14%, respectively, of total exports from Brazil. Beef shipments in the six months ended June 30, 2016 totaled 668 thousand tons with sales of U.S.\$2.56 billion. Volumes increased 13.7% compared to the same period in 2015, despite a decline in volumes exported to Venezuela and Russia.

Updates to Legal Proceedings

The following information supplements and updates the descriptions set forth under "Item 8. Financial Information—A. Consolidated Statements and Other Information—Legal Proceedings" in our 2015 Form 20-F.

Social Security Contribution Assessment

On January 4, 2016 and April 14, 2016, the Brazilian Internal Revenue Service (*Secretaria da Receita Federal*) filed several tax assessments against us in the total amount of R\$151.1 million (as of June 30, 2016), related to the

use of federal PIS and COFINS tax credits to offset other federal taxes carried out in the first and second quarters of 2011, respectively. We filed administrative appeals that are still waiting for decisions by the lower administrative court. Our legal advisors have classified our risk of loss as possible.

ICMS Assessments

On January 28 and June 6, 2016, the Rio Grande do Sul State Treasury Office (*Secretaria de Fazenda do Estado do Rio Grande do Sul*) filed two tax assessments against us in the total amount of R\$64.1 million related to ICMS taxes in operations related to food products classified as staple foods in Brazil (*cesta básica*) carried out in 2011 to 2015. We filed two administrative appeals on February 26 and July 5, 2016, respectively. Our legal advisors have classified our risk of loss as possible.

Income tax and social contribution

On February 5, 2015, we received two tax assessments notices related to the compensation of tax loss carryforwards and negative calculation basis up to a limit of 30% when we incorporated one of the group's entities during calendar year 2012, in the amount of R\$574.7 million as of December 31, 2015 (R\$605.4 million on June 30, 2016). On April 28, 2016, the lower administrative court rendered unfavorable decisions against us. The judgment of our appeals to the superior administrative court remains pending. Our legal advisors have classified our risk of loss as possible.

Updates to Management Section

The current members of our board of directors are: Abílio dos Santos Diniz (Chairman and Independent member); Renato Proença Lopes (Vice-Chairman); Aldemir Bendine; Henri Philippe Reichstul (Independent member); José Carlos Reis Magalhães Neto; Luiz Fernando Furlan (Independent member); Manoel Cordeiro Silva Filho (Independent member); Vicente Falconi Campos; and Walter Fontana Filho (Independent member). As a result of the approval of the amendment of the By-Laws of BRF, on our general shareholders' meeting held on April 7, 2016, which led to the exclusion of the position of alternate member of the board of directors, the term of office of all alternate members of BRF's board of directors was automatically ended.

At our general shareholders' meeting held on April 7, 2016, the following members of our fiscal council (*Conselho Fiscal*) were nominated, with term of office until the next annual general meeting of BRF: as independent effective member, Atílio Guaspari, and, as its independent alternate member, Susana Hanna Stiphan Jabra; as effective member, Marcus Vinicius Dias Severini, and, as its alternate, Marcos Tadeu de Siqueira; and as independent effective member, Reginaldo Ferreira Alexandre, and, as its independent alternate member, Walter Mendes de Oliveira Filho.

As of July 11, 2016, the following executive officers were elected by our board of directors for a two-year term:

Executive Officers	
Name	Position Held
Pedro de Andrade Faria	Chief Executive Officer, Global
Alexandre Borges	Chief Financial and Investor Relations Officer
Hélio Rubens Mendes dos Santos Júnior	Vice President
José Roberto Pernomian Rodrigues	Vice President
Rodrigo Vieira	Vice President
Rafael Ivanisk	Vice President
Leonardo Almeida Byrro	Vice President
Arthur Tacla	Vice President

Our current members of our Statutory Audit Committee (*Comitê de Auditoria*) are: as independent member, Sergio Ricardo Silva Rosa (Coordinator), Fernando Maida Dall Acqua (Member and Financial Expert), and Walter Fontana Filho (Member), and as a member, Renato Proença Lopes. On September 7, 2016, our board of directors suspended Mr. Sergio Ricardo Silva Rosa from his duties as a member of our Statutory Audit Committee. The decision was prompted by a court order rendered in connection with a governmental investigation into alleged misconduct related to the management of pension funds. To our knowledge, the allegations are unrelated to his tenure at our company.

DESCRIPTION OF THE NOTES

BRF GmbH (the “Issuer”), a *Gesellschaft mit beschränkter Haftung* (limited liability company) organized under the laws of Austria, will issue U.S.\$500,000,000 aggregate principal amount of 4.350% senior notes due 2026 (the “notes”) under an indenture to be dated as of September 29, 2016 (the “indenture”), among the Issuer, BRF S.A., a *companhia aberta* (corporation) organized under the laws of the Federative Republic of Brazil (“Brazil”), as guarantor (the “Guarantor”), The Bank of New York Mellon, as trustee (the “trustee”), registrar and paying agent and transfer agent, and The Bank of New York Mellon (Luxembourg) S.A., as Luxembourg paying agent and transfer agent.

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

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

Brief description of the notes and the guarantee

The notes

The notes will:

- be the senior unsecured obligations of the Issuer;
- initially be issued in an aggregate principal amount of U.S.\$500.0 million;
- bear interest at an annual rate of 4.350%;
- mature at 100% of their principal amount on September 29, 2026;
- be issued in fully registered form without coupons, in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof;
- rank equally in right of payment with all existing and future senior unsecured Indebtedness of the Issuer (other than obligations preferred by statute or by operation of law);
- rank senior in right of payment to all existing and future Indebtedness that is subordinated to the notes; and
- be unconditionally and irrevocably guaranteed on a senior unsecured basis by the Guarantor as described under the “—The guarantee” below.

The guarantee

The obligations of the Issuer pursuant to the notes will be unconditionally and irrevocably guaranteed by the Guarantor (the “guarantee”). The guarantee will:

- be the senior unsecured obligation of the Guarantor;
- rank equally in right of payment with all existing and future senior unsecured obligations of the Guarantor (other than obligations preferred by statute or by operation of law); and
- rank senior in right of payment to all existing and future Indebtedness that is subordinated to the guarantees of the Guarantor.

As of June 30, 2016, the Guarantor had consolidated total indebtedness of R\$16,959.9 million (U.S.\$5,283.8 million). Of the Guarantor’s consolidated total indebtedness, the Guarantor had R\$1,157.9 million (U.S.\$360.8million) of secured indebtedness. As of June 30, 2016, the Issuer had no indebtedness outstanding. As of June 30, 2016, investments by the Guarantor in the Issuer amounted to R\$4,560.5 million (U.S.\$1,420.8 million), representing 11.0% of the Guarantor’s consolidated total assets and 35.5% of the Guarantor’s consolidated shareholders’ equity.

The full and prompt payment of the Issuer’s payment Obligations under the notes and the indenture will be guaranteed by the Guarantor. The Guarantor will fully and unconditionally guarantee on a senior unsecured basis to each holder and the trustee the full and prompt payment by, and performance of, the Issuer’s Obligations under the indenture and the notes, including the payment of principal of, interest on, premium, if any, on and Additional Amounts, if any, on the notes and all costs and expenses (including legal fees and expenses) incurred by holders to enforce their rights under the guarantee. The guarantee will rank senior in right of payment to all existing and future subordinated Indebtedness of the Guarantor and equally in right of payment with all other existing and future senior Indebtedness of the Guarantor. So long as any note remains outstanding (as defined in the indenture), the Issuer shall continue to be a Subsidiary of the Guarantor.

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

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

Principal, maturity and interest

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

The notes will mature on September 29, 2026 (the “Stated Maturity Date”). On that date, the Issuer will pay the registered holders of the notes the principal amount thereof in U.S. dollars.

Interest on the notes will accrue from September 29, 2016 at the rate of 4.350% per annum and will be due and payable semi-annually in arrears in immediately available funds on each March 29 and September 29, commencing on March 29, 2017 to the Persons who are registered holders at the close of business on each March 15 and September 15 immediately preceding the applicable Interest Payment Date (whether or not a Business Day). Interest on the notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the Issue Date. The Issuer will pay interest on overdue principal at 1.00% per annum in excess of

the above rate and will pay interest on overdue installments of interest at such higher rate, in each case to the extent permitted by applicable law. Interest on the notes will be payable in U.S. dollars.

Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Additional Notes

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

Redemption

Optional redemption

The Issuer may redeem the notes, in whole or in part, at any time after September 29, 2017 at a redemption price equal to the greater of (1) 100% of principal amount thereof, and (2) the sum of the present values, calculated as of the redemption date, of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the redemption date) due after the redemption date through the Stated Maturity Date, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 45 basis points, plus in each case accrued and unpaid interest thereon and Additional Amounts, if any, to the redemption date. Any redemption of notes by the Issuer pursuant to this paragraph will be subject to either (1) there being at least U.S.\$150.0 million in aggregate principal amount of notes (including any Additional Notes) outstanding after such redemption or (2) the Issuer redeeming all the then outstanding principal amount of the notes.

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

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

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

Redemption for tax reasons

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

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

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

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

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

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

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

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

The foregoing provisions will apply mutatis mutandis to the laws and official interpretations or applications of any jurisdiction in which any successor permitted under “Covenants—Merger, consolidation and sale of assets” or Substituted Issuer (as described under “—Substitution of the Issuer”) is organized, but only with respect to events arising after the date of succession or substitution.

No mandatory redemption or sinking fund

Neither the Issuer nor the Guarantor is required to make any mandatory redemption or sinking fund payments with respect to the notes.

Open market purchases

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

Additional Amounts

All payments made by the Issuer or the Guarantor under, or with respect to, the notes or the guarantee, as the case may be, will be made free and clear of, and without withholding or deduction for or on account of, any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other

liabilities related thereto) (collectively, “Taxes”) imposed or levied by or on behalf of Austria, Brazil or any other jurisdiction in which the Issuer or the Guarantor is organized or is a resident for tax purposes or within or through which payment is made or any political subdivision or taxing authority or agency thereof or therein (each, a “Taxing Jurisdiction”) unless the Issuer or the Guarantor is required to withhold or deduct Taxes by law or by the official interpretation or administration thereof.

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

- (1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant holder or beneficial owner (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant holder or beneficial owner, if the relevant holder or beneficial owner is an estate, nominee, trust, partnership, limited liability company or corporation) and the relevant Taxing Jurisdiction (other than the mere receipt of such payment or the ownership or holding of or the execution, delivery, registration or enforcement of such note);
- (2) any estate, inheritance, gift, sales, excise, transfer, personal property tax or similar Taxes;
- (3) any Taxes payable otherwise than by deduction or withholding from payments of principal of, premium, if any, or interest on, such note;
- (4) any Taxes that would not have been so imposed but for the presentation of such notes (where presentation is required) for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever is later, except to the extent that the holder or beneficial owner thereof would have been entitled to Additional Amounts had the notes been presented for payment on any date during such 30-day period;
- (5) any Taxes that would not have been so imposed if the holder or beneficial owner of the note had made a declaration of non-residence or any other claim or filing for exemption to which it is entitled (provided that (a) such declaration of non-residence or other claim or filing for exemption is required by the applicable law, regulations or administrative practice of the Taxing Jurisdiction as a precondition to exemption from the requirement to deduct or withhold all or part of such Taxes and (b) at least 30 days prior to the first payment date with respect to which such declaration of non-residence or other claim or filing for exemption is required under the applicable law, regulations or administrative practice of the Taxing Jurisdiction, the relevant holder or beneficial owner at that time has been notified by the Issuer or Guarantor or any other person through whom payment may be made, that a declaration of non-residence or other claim or filing for exemption is required to be made);
- (6) any payment to a holder of a note that is a fiduciary or partnership or any Person other than the sole beneficial owner of such payment or note, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such partnership or the beneficial owner of such payment or note would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such note;
- (7) any withholding or deduction that is required to be made pursuant to the European Union Directive on the taxation of savings income (the “Directive”) implementing the conclusions of the European Council of Economic and Finance Ministers (ECOFIN) meeting on November 26-27, 2000, or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (8) any Taxes imposed in connection with a note presented for payment by or on behalf of a holder or beneficial owner who would have been able to avoid such Taxes by presenting the relevant note to

another paying agent in a member state of the European Union if the holder is a resident of the European Union for tax purposes; or

- (9) any Taxes imposed pursuant to Sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (the “Code”), any current or future regulations or official interpretations thereof, any similar law or regulation adopted pursuant to an intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing or any agreements entered into pursuant to Section 1471(b)(1) of the Code (collectively, “FATCA”).

Such Additional Amounts will also not be payable where, had the beneficial owner of the note been the holder of the note, it would not have been entitled to payment of Additional Amounts by reason of any combination of clauses (1) to (9), inclusive, above.

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

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

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

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

Covenants

The following covenants will, so long as any of the notes remains outstanding, apply to, as the case may be, the Issuer, the Guarantor and their respective Subsidiaries.

Limitation on Liens

The Guarantor will not, and will not cause or permit any of its Subsidiaries (including the Issuer) to, directly or indirectly, create, incur, assume or permit or suffer to exist any Lien, other than a Permitted Lien, of any kind

against or upon any Property or assets of the Guarantor or any of its Subsidiaries (including the Issuer) whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom, or assign or otherwise convey any right to receive income or profits therefrom unless it has made or will make effective provision whereby (a) the notes or the guarantee, as the case may be, will be secured by such Lien equally and ratably with (or prior to, in the event such Indebtedness is subordinated in right of payment to the notes or the guarantee) all other Indebtedness of the Guarantor or any Subsidiary (including the Issuer) secured by such Lien and (b) if such Lien secures obligations subordinated to the notes or the guarantee in right of payment, such Lien will be subordinated to a Lien securing the notes or the guarantee in the same Property as that securing such Lien to the same extent as such subordinated obligations are subordinated to the notes and the guarantee. Any Lien created for the benefit of the holders of the notes pursuant to the preceding sentence will provide by its terms that such Lien will be automatically and unconditionally released and discharged upon release and discharge of the initial Lien.

Limitation on sale and leaseback transactions

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

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

Merger, consolidation and sale of assets

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

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

transaction, such supplemental indenture comply with the applicable provisions of the indenture and that all conditions precedent in the indenture relating to such transaction have been satisfied; and

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

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

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

Notwithstanding anything to the contrary in the foregoing, so long as no event or condition that, with the giving of notice, the lapse of time or failure to satisfy certain specified conditions, or any combination thereof, would constitute an Event of Default under the indenture or the notes or an Event of Default will have occurred and be continuing at the time of such proposed transaction or would result therefrom, any merger or consolidation of the Guarantor with an Affiliate organized solely for the purpose of reincorporating the Guarantor in another jurisdiction need only comply with clauses (1) and (4) of the first paragraph of this covenant.

Reports to holders

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

- (1) within 120 days following the end of each fiscal year of the Guarantor after the Issue Date, English language versions of the audited annual financial statements (including the notes thereto) that the Guarantor or its Subsidiaries file with CVM, prepared in accordance with GAAP and presented in the English language or, if the Guarantor is no longer required to file such financial statements, financial statements meeting the requirements of CVM on the Issue Date and accompanied by an opinion of internationally recognized independent public accountants selected by the Guarantor, which opinion shall be in accordance with generally accepted auditing standards in Brazil;
- (2) within 60 days following the end of the first three fiscal quarters in each fiscal year of the Guarantor beginning with the quarter ending after the Issue Date, all quarterly financial statements (including the notes thereto) that the Guarantor or its Subsidiaries file with CVM, prepared in accordance with GAAP and presented in the English language and accompanied by a "special review" (*revisão especial*) report of internationally recognized independent public accountants selected by the Guarantor or, if the Guarantor is no longer required to file such financial statements, financial statements meeting the requirements of the CVM on the Issue Date;
- (3) without duplication, English language versions or summaries of such other reports or notices as may be filed or submitted by (and promptly after filing or submission by) the Guarantor with (a) the CVM, (b) the Luxembourg Stock Exchange or any other stock exchange on which the notes may be listed or (c) the SEC (in each case, to the extent that any such report or notice is generally available to its security holders or the public in Brazil or elsewhere and, in the case of clause (c), is filed or submitted pursuant to Rule 12g3-2(b) under, or Section 13 or 15(d) of, the Exchange Act);

- (4) simultaneously with the delivery of the audited annual financial statements referred to in clause (1) above, an Officers' Certificate from the Guarantor stating whether a Default or Event of Default exists on the date of such certificate and, if a Default or Event of Default exists, setting forth the details thereof and the action which the Guarantor is taking or proposes to take with respect thereto; and
- (5) for so long as the notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Guarantor will furnish to any holder or to any prospective purchaser designated by such holder, upon request of such holder, any financial and other information (to the extent not otherwise provided pursuant as set forth above) described in Rule 144A(d)(4) under the Securities Act with respect to the Guarantor and its Subsidiaries to the extent required in order to permit such holder to comply with Rule 144A with respect to any resale of its notes unless, during that time, the Guarantor is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act and no such information about the Guarantor is otherwise required pursuant to Rule 144A.

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

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

U.S. Dollar Equivalent

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

Additional covenants

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

Substitution of the Issuer

The Issuer may, without the consent of any holder of the notes, be replaced and substituted by any direct or indirect Subsidiary of the Guarantor as principal debtor in respect of the notes (in that capacity, the "Substituted Issuer"); provided that the following conditions are satisfied:

- (1) such documents will be executed by the Substituted Issuer, the Issuer, the Guarantor and the trustee as may be necessary to give full effect to the substitution, including a supplemental indenture under which the Substituted Issuer assumes all of the Issuer's obligations under the indenture and the notes (the "Issuer Substitution Documents"); and pursuant to which the Substituted Issuer shall undertake in favor of each holder, the trustee and the agents to be bound by the terms and conditions of the notes and the provisions of the indenture as fully as if the Substituted Issuer had been named in the notes and the indenture as the principal debtor in respect of the notes in place of the Issuer (or any previous substitute) and pursuant to which the Guarantor shall continue to unconditionally and irrevocably guarantee in favor

of each holder the payment of all sums payable by the Substituted Issuer as such principal debtor on the same terms mutatis mutandis as the notes, and the covenants and events of default shall apply to the Substituted Issuer in respect of the notes as if no such substitution had occurred, it being the intent that the rights of holders in respect of the notes shall be unaffected by such substitution;

- (2) if the Substituted Issuer is organized in a jurisdiction other than Brazil or Austria, the Issuer Substitution Documents will contain covenants (1) to ensure that each holder of the notes has the benefit of a covenant in terms corresponding to the obligations of the Issuer in respect of the payment of Additional Amounts (but replacing references to Brazil or Austria, as the case may be, with references to such other jurisdiction); and (2) to indemnify each holder and beneficial owner of the notes against all taxes or duties (other than taxes or duties imposed pursuant to FATCA) (x) which are imposed by the jurisdiction in which the Substituted Issuer is organized (including any political subdivision or taxing authority thereof) and arise by reason of a law or regulation in effect or contemplated on the effective date of the substitution, to the extent such taxes or duties are incurred or levied against such holder or beneficial owner of the notes as a result of the substitution and would not have been so incurred or levied had the substitution not been made or (y) which are imposed on such holder or beneficial owner of the notes by any country (including any political subdivision or taxing authority thereof) in which such holder or beneficial owner of the notes resides or is subject to tax on a net income basis and which would not have been so imposed had the substitution not been made; provided that, any holder or beneficial owner making a claim with respect to such tax indemnity shall provide the Substituted Issuer with notice of such claim, along with supporting documentation, within 30 days of the announcement of the substitution of the Issuer;
- (3) the Issuer shall have delivered, or procured the delivery, to the trustee of a legal opinion from a firm of lawyers in the country of incorporation of the Substituted Issuer, to the effect that the Issuer Substitution Documents constitute legal, valid and binding obligations of the Substituted Issuer;
- (4) the Issuer shall have delivered, or procured the delivery, to the trustee of a legal opinion from a firm of Austrian lawyers acting for the Issuer to the effect that the Issuer Substitution Documents constitute legal, valid and binding obligations of the Issuer;
- (5) the Issuer shall have delivered, or procured the delivery, to the trustee of a legal opinion from a leading firm of New York lawyers to the effect that the Issuer Substitution Documents constitute legal, valid and binding obligations of the parties thereto under New York law;
- (6) the Substituted Issuer shall have appointed a process agent in the Borough of Manhattan, the City of New York to receive service of process on its behalf in relation to any legal action or proceedings arising out of or in connection with the notes or the Issuer Substitution Documents;
- (7) there will be no outstanding Event of Default in respect of the notes; and
- (8) the substitution will comply with all applicable requirements under the laws of Brazil.

Upon the execution of the Issuer Substitution Documents as referred to in paragraph (i) above, the Substituted Issuer shall be deemed to be named in the notes as the principal debtor in place of the Issuer (or of any previous substitute under these provisions) and the notes shall thereupon be deemed to be amended to give effect to the substitution.

The execution of the Issuer Substitution Documents shall operate to release the Issuer (or such previous substitute as aforesaid) from all its obligations in respect of the notes and the indenture, including its obligation to indemnify the trustee and agents under the indenture.

The Issuer Substitution Documents shall be deposited with and held by the trustee for so long as any note remains outstanding and for so long as any claim made against the Substituted Issuer or the Issuer by any holder in relation to the notes or the Issuer Substitution Documents shall not have been finally adjudicated, settled or discharged.

Not later than 10 Business Days after the execution of the Issuer Substitution Documents, the Substituted Issuer shall give notice thereof to the holders in accordance with the provisions described in the indenture.

Holders are urged to consult their tax advisors regarding any potential adverse tax consequences that may result from a substitution of the Issuer.

Events of Default

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

- (1) any failure to pay the principal of or premium, if any, on any notes, when such principal becomes due and payable, at maturity, upon redemption or otherwise;
- (2) any failure to pay interest and Additional Amounts, if any, on any notes or any other amount (other than principal for the notes) when the same becomes due and payable, and the default continues for a period of 30 days;
- (3) any failure to comply with “—Merger, consolidation and sale of assets;”
- (4) a default in the observance or performance of any other covenant or agreement contained in the indenture (other than the payment of the principal of or premium, if any, or interest and Additional Amounts, if any, on any note), which default continues for a period of 60 days after the Guarantor receives written notice specifying the default (and demanding that such default be remedied) from the trustee or the holders of at least 25% of the outstanding principal amount of the notes (with a copy to the trustee if given by the holder);
- (5) any failure to pay at final maturity (giving effect to any applicable grace periods and any extensions thereof) the principal amount of any Indebtedness of the Guarantor or any of its Subsidiaries, or the acceleration of the final stated maturity of any such Indebtedness if the aggregate principal amount of such Indebtedness, together with the principal amount of any other such Indebtedness in default for failure to pay principal at final maturity or which has been accelerated, aggregates U.S.\$150.0 million or more at any time;
- (6) one or more judgments in an aggregate amount in excess of U.S.\$150.0 million shall have been rendered against the Guarantor or any of its Subsidiaries (other than any judgment as to which a reputable and solvent third-party insurer has accepted full coverage) and such judgments remain undischarged, unpaid or unstayed for a period of 60 days after such judgment or judgments become final and non-appealable;
- (7) the Guarantor or any Significant Subsidiary shall (a) apply for or consent to the appointment of a receiver, trustee, liquidator or similar official for all or any substantial part of the Property of the Issuer, the Guarantor or such Significant Subsidiary, (b) make a general assignment for the benefit of the creditors of the Issuer, the Guarantor or such Significant Subsidiary, (c) be adjudicated bankrupt (*decretação de falência*) or insolvent, (d) file a voluntary petition in bankruptcy or a petition seeking judicial reorganization (*pedido de recuperação judicial*), seeking extrajudicial reorganization (*pedido de recuperação extrajudicial*), or seeking to take advantage of any applicable insolvency law, (e) file any answer admitting the allegations of a petition filed against the Issuer, the Guarantor or such Significant Subsidiary in any bankruptcy, reorganization or insolvency proceeding, or (f) take any corporate action for the purpose of effecting any of the foregoing under Brazilian Law No. 11,101/05 or any other applicable law; and the Issuer is (i) insolvent, or (ii) over-indebted, or (iii) about to become insolvent (*drohend zahlungsunfähig*), each within the meaning of the Austrian Insolvency Code (*Insolvenzordnung*) or (iv) there is a need for reorganization, or (v) the Issuer enters into negotiations with creditors on an extra-judicial settlement or deferred payment to avert insolvency, or makes a corresponding proposal; an application for the opening of insolvency proceedings is filed against the Issuer, unless the Issuer immediately substantiates that the application is unfounded.
- (8) without its application, approval or consent, a proceeding shall be instituted in any court of competent jurisdiction, seeking in respect of the Issuer, the Guarantor or any Significant Subsidiary adjudication in

bankruptcy (*decretação de falência*), dissolution, winding-up, liquidation, a composition, arrangement with creditors, readjustment of debt, the appointment of a trustee, receiver, administrator, liquidator or similar official for the Issuer, the Guarantor or such Significant Subsidiary or other like relief under any applicable bankruptcy or insolvency law; and either (a) such proceeding shall not be actively contested by the Issuer, the Guarantor or such Significant Subsidiary in good faith, or (b) such proceedings shall continue undismissed for any period of 90 consecutive days, or (c) any conclusive order, judgment or decree shall be entered by any court of competent jurisdiction to effect any of the foregoing;

- (9) the Issuer, the Guarantor or any Significant Subsidiary shall cease or threaten to cease to carry out its business except (i) in the case of a Significant Subsidiary, a winding-up, dissolution or liquidation for the purpose of and followed by a consolidation, merger, conveyance or transfer whereby the undertaking, business and assets of such Significant Subsidiary are transferred to or otherwise vested in the Guarantor, the Issuer or any of their subsidiaries or affiliates, or the terms of which shall have been approved by a resolution of a meeting of the holders or (ii) a voluntary winding-up, dissolution or liquidation of a Significant Subsidiary where there are surplus assets in such Significant Subsidiary attributable to the Issuer, the Guarantor or any other Significant Subsidiary, and such surplus assets are distributed to the Issuer, the Guarantor or such other Significant Subsidiary, as applicable;
- (10) the Issuer, the Guarantor or any Significant Subsidiary shall convene a meeting for the purpose of proposing, or otherwise propose or enter into, any composition or arrangement with its creditors or any group or class thereof, or anything analogous to, or, having a substantially similar effect to, any of the events specified in this paragraph (10) or in paragraph (7), (8) or (9) above shall occur in any jurisdiction;
- (11) any event occurs that under the laws of Brazil or any political subdivision thereof has substantially the same effect as any of the events referred to in any of paragraphs (7), (8), (9) or (10); or
- (12) any of the notes, the indenture or the guarantee or any part thereof, shall cease to be in full force and effect or is declared to be null and void and unenforceable or inadmissible in evidence in the courts of Brazil, or is found to be invalid, or it becomes unlawful for the Issuer or the Guarantor, as the case may be, to perform any obligation thereunder, or the Issuer or the Guarantor, as the case may be, shall contest the enforceability of or deny its obligations under the indenture or the guarantee (other than by reason of release in accordance with the terms of the indenture), or the Issuer shall contest the enforceability of or deny its obligations under the notes or the indenture.

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

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

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

- (a) if the rescission would not conflict with any judgment or decree;
- (b) if all existing Events of Default have been cured or waived except nonpayment of principal, premium, if any, interest or Additional Amounts, if any, that has become due solely because of the acceleration;

- (c) if the Issuer or the Guarantor has paid or deposited with the trustee (to the extent the payment of such interest is lawful) interest on overdue installments of interest and overdue principal and premium, if any, and Additional Amounts, if any, which has become due otherwise than by such declaration of acceleration; and
- (d) if the Issuer or the Guarantor has paid or deposited with the trustee compensation acceptable to the trustee and reimbursed the documented expenses, disbursements and advances of the trustee, its agents, and counsel under the indenture.

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

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

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

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

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

No personal liability of directors, officers, employees and shareholders

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

Legal defeasance and covenant defeasance

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

- (1) the rights of holders to receive payments in respect of the principal of and premium, if any, interest and Additional Amounts, if any, on the notes when such payments are due;

- (2) the Issuer's obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payments;
- (3) the rights, powers, trust, duties and immunities of the trustee and agents and the obligation of the Issuer in connection therewith; and
- (4) the legal defeasance provisions of the indenture.

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

In order to exercise either legal defeasance or covenant defeasance:

- (a) the Issuer or the Guarantor must irrevocably deposit with the trustee, in trust, for the benefit of the holders cash in U.S. dollars, non-callable U.S. government obligations, or a combination thereof, in such amounts and at such times as will be sufficient, in the written opinion of a nationally recognized firm of independent public accountants delivered to the trustee, to pay the principal of, premium, if any, interest and Additional Amounts, if any, on the notes on the stated date for payment thereof or on the applicable redemption date, as the case may be;
- (b) in the case of legal defeasance, the Issuer or the Guarantor will have delivered to the trustee an Opinion of Counsel in the United States confirming that:
 - (i) the Issuer or the Guarantor has received from, or there has been published by, the U.S. Internal Revenue Service a ruling; or
 - (ii) since the date of the indenture, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel will confirm that, the holders and beneficial owners of the notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such legal defeasance and will be subject to U.S. federal income tax in the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred;
- (c) in the case of covenant defeasance, the Issuer or the Guarantor will have delivered to the trustee an Opinion of Counsel in the United States confirming that the holders and beneficial owners of the notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such covenant defeasance and will be subject to U.S. federal income tax in the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred;
- (d) no Default or Event of Default will have occurred and be continuing on the date of such deposit pursuant to clause (a) of this paragraph;
- (e) such legal defeasance or covenant defeasance will not result in a breach of, or constitute a default under, any material agreement or instrument (other than the indenture) to which the Guarantor or any of its Subsidiaries is a party or by which the Guarantor or any of its Subsidiaries is bound;
- (f) the trustee will have received an Officers' Certificate of the Issuer and the Guarantor stating that the deposit was not made with the intent of preferring the holders over any other creditors of the Issuer or the Guarantor or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Issuer, the Guarantor or others; and
- (g) the trustee will have received an Officers' Certificate of the Issuer and the Guarantor and an Opinion of Counsel, each stating that all conditions precedent provided for or relating to the legal defeasance or the covenant defeasance, as the case may be, have been complied with.

Satisfaction and discharge

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

- (1) either:
 - (a) all the notes theretofore authenticated and delivered (except lost, stolen or destroyed notes which have been replaced or paid and notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer or the Guarantor and thereafter repaid to the Issuer or the Guarantor or discharged from such trust) have been delivered to the trustee for cancellation; or
 - (b) all notes not theretofore delivered to the trustee for cancellation (i) have become due and payable, (ii) will become due and payable at their stated maturity within one year or (iii) are to be called for redemption within one year under arrangements reasonably satisfactory to the trustee, and the Issuer or the Guarantor has irrevocably deposited or caused to be deposited with the trustee funds in an amount sufficient to pay and discharge the entire Indebtedness on the notes not theretofore delivered to the trustee for cancellation, for principal of, premium, if any, interest and Additional Amounts, if any, on the notes to the date of deposit (if amounts are then due and payable) or to the redemption or maturity date together with irrevocable instructions from the Issuer or the Guarantor directing the trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be;
- (2) the Issuer or the Guarantor has paid all other sums payable by each under the indenture; and
- (3) the trustee will have received an Officers' Certificate of the Issuer and the Guarantor and an Opinion of Counsel stating that all conditions precedent under the indenture relating to the satisfaction and discharge of the indenture have been complied with.

Modification of the indenture

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

- (1) to cure any ambiguity, defect or inconsistency contained therein;
- (2) to provide for uncertificated notes in addition to or in place of certificated notes;
- (3) to provide for the assumption of the Guarantor's obligations under the indenture and the guarantee in accordance with the covenant described under "Covenants—Merger, consolidation and sale of assets;"
- (4) to provide for the assumption of the Issuer's obligations under the indenture and the notes, in accordance with the covenants described under "—Substitution of the Issuer;"
- (5) to allow any Subsidiary or any other Person to guarantee the notes;
- (6) to provide for the issuance of Additional Notes in accordance with the indenture;
- (7) to evidence the replacement of the trustee as provided for under the indenture;
- (8) if necessary, in connection with any addition or release of any security permitted under the indenture;
- (9) to conform the text of the indenture, the notes or the guarantee to any provision of this "Description of the Notes" section to the extent that such provision in this section was intended to be a verbatim recitation of a provision of the indenture, the guarantee or the notes;

- (10) to surrender any right conferred upon the Issuer or the Guarantor;
- (11) to comply with any requirements of the SEC in connection with any qualification of the indenture under the U.S. Trust Indenture Act of 1939, as amended; or
- (12) to make any other change that would provide any additional rights or benefits to the holders or that does not materially and adversely affect the rights of any such holder or beneficial owner under the indenture, the notes or the guarantee.

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

- (a) reduce the percentage of the principal amount of the notes whose holders must consent to an amendment, supplement or waiver of any provision of the indenture or the notes;
- (b) reduce the rate of or change or have the effect of changing the time for payment of interest, including defaulted interest, or Additional Amounts, if any, on any notes;
- (c) reduce the principal of or change or have the effect of changing the fixed maturity of any notes, or change the date on which any notes may be subject to redemption or reduce the redemption price therefor;
- (d) change the currency in which amounts due in respect of the notes are payable;
- (e) make any change in provisions of the indenture (i) protecting the contractual right of each holder expressly set forth in the indenture to receive payment of principal of, premium, if any, interest and Additional Amounts, if any, on such note on or after the due date thereof, (ii) protecting the contractual right of each holder expressly set forth in the indenture to bring suit to enforce such payment, or (iii) permitting holders of a majority in outstanding principal amount of notes to waive Defaults or Events of Default;
- (f) subordinate the notes in right of payment to any other Indebtedness of the Issuer or the Guarantor or otherwise affect the ranking of the notes or the guarantee in a manner adverse to the holders;
- (g) make any change in the guarantee that would materially and adversely affect the holders otherwise than in accordance with the terms of the indenture;
- (h) release any security interest that may have been granted in favor of the holders other than pursuant to the terms of such security interest;
- (i) amend or modify the provisions described under “—Additional Amounts” or reduce the price payable pursuant to a redemption made pursuant to “—Redemption—Redemption for tax reasons;” or
- (j) make any change in the preceding amendment and waiver provisions.

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

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

Meetings of holders

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

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

Currency indemnity

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

The above indemnity, to the extent permitted by law:

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

Governing law

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

Consent to jurisdiction and service of process; sovereign immunity

The Issuer and the Guarantor will irrevocably submit to the non-exclusive jurisdiction of the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, the City of New York for purposes of any suit, action or proceeding instituted in connection with the indenture or the notes. Each of the Issuer and the Guarantor will appoint National Corporate Research, Ltd., 10 East 40th Street, 10th Floor, New York, New York 10016, as its authorized agent to accept service of process in any such suit, action or proceeding. Such appointments will be irrevocable so long as any of the notes or the guarantee remain outstanding or until the irrevocable appointment of a successor agent. In addition to the foregoing, the holders of notes may serve legal process in any other manner permitted by applicable law. The above provisions do not limit the right of any holder or the trustee to bring any action or proceeding against either the Issuer, the Guarantor or their respective Properties in other jurisdictions where jurisdiction is independently established.

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

The trustee

The Bank of New York Mellon will be the trustee under the indenture. The address of the trustee's corporate trust office is 101 Barclay Street, Floor 7 East, New York, New York 10286, Attention: Global Finance Americas. Except during the continuance of an Event of Default, the trustee will be required to perform only such duties as are specifically set forth in the indenture. During the existence of an Event of Default, the trustee will exercise such of the rights and powers vested in it under the indenture and use the same degree of care and skill in its exercise as a prudent person would exercise under the circumstances in the conduct of such person's own affairs. The Issuer and the Guarantor, jointly and severally, will indemnify the trustee against any and all loss, liability or expense, including attorneys' fees and expenses incurred by it without gross negligence or willful misconduct on its part arising out of and in connection with its duties under the indenture.

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

Luxembourg listing

Application has been made to list the notes on the Luxembourg Stock Exchange for trading on the Euro MTF Market. Following the issuance of the notes, we will use our commercially reasonable efforts to obtain listing of the notes on the Luxembourg Stock Exchange for trading on the Euro MTF Market. If the European Union's directive (2003/0045(COD), the "Transparency Directive") would require us to publish financial information either more regularly than we would otherwise be required to or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our published financial information, we may delist the notes and, at our option, seek an alternative admission to listing, trading and/or quotation for the notes by another listing authority, stock exchange and/or quotation system outside the European Union. In such event, we will give notice of the identity of such other listing authority, stock exchange and/or quotation system to the holders of the notes as described under "—Notices."

Paying agents, registrar and transfer agents; listing agent

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

The trustee will initially act as paying agent for the Notes, and registrar and transfer agent for the notes in New York. The Bank of New York Mellon (Luxembourg) S.A. is the Luxembourg listing agent and will be the

Luxembourg paying agent and Luxembourg transfer agent for the notes. The addresses of the trustee and Luxembourg paying agent and Luxembourg transfer agent and paying agent are set forth on the inside back cover of this offering memorandum.

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

Transfer

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

Notices

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

If, and for so long as, the notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market, and the rules of the Luxembourg Stock Exchange so require, we will also give notices to holders by publication in a daily newspaper of general circulation in Luxembourg. We expect that newspaper will be the *Luxemburger Wort*. If publication in Luxembourg is impracticable, we will make the publication in a widely circulated newspaper in London or elsewhere in Western Europe. We expect that newspaper to be, but it need not be, the Financial Times. By “daily newspaper,” we mean a newspaper that is published on each day, other than a Saturday, Sunday or holiday, in Luxembourg or, when applicable, elsewhere in Western Europe. All notices to holders may also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). If we are unable to give notice as described in this paragraph because the publication of any newspaper or the website of the Luxembourg Stock Exchange is suspended or it is otherwise impractical for us to publish the notice, then we, or the trustee, will give holders notice in another form. That alternate form of notice will be deemed to be sufficient notice to you. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder will affect the sufficiency of any notice given to another holder.

Prescription

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

Certain definitions

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

“*Acquired Indebtedness*” means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Subsidiary of the Guarantor or at the time it merges or consolidates with or into the Guarantor or any of its Subsidiaries or assumed in connection with the acquisition of assets from such Person and in each case not incurred by such Person in connection with, or in anticipation or contemplation of, such Person becoming a

Subsidiary of the Guarantor or such acquisition, merger or consolidation and which Indebtedness is without recourse to the Guarantor or any of its Subsidiaries or to any of their respective properties or assets other than the Person or the assets to which such Indebtedness related prior to the time such Person became a Subsidiary of the Guarantor or the time of such acquisition, merger or consolidation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (1) all Obligations of such Person for borrowed money;
- (2) all Obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all Capitalized Lease Obligations of such Person;
- (4) all Obligations of such Person issued or assumed as the deferred purchase price of Property, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business that are not overdue by 120 days or more or are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and any deferred purchase price represented by earn-outs consistent with the Guarantor’s past practice);
- (5) all Obligations for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction, whether or not then due;
- (6) guarantees and other contingent obligations in respect of Indebtedness referred to in clauses (1) through (5) above and clause (8) below;
- (7) all Obligations of any other Person of the type referred to in clauses (1) through (6) above that are secured by any Lien on any Property or asset of such Person, the amount of any such Obligation being deemed to be the lesser of the Fair Market Value of the Property or asset securing such Obligation or the amount of such Obligation;
- (8) to the extent not otherwise included in this definition, net obligations of all Interest Swap Obligations and all Obligations under Currency Agreements and Commodity Agreements (the amount of any obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such person at such time); and
- (9) all Disqualified Share Capital issued by such Person with the amount of Indebtedness represented by such Disqualified Share Capital being equal to the greater of its voluntary or involuntary liquidation preference and its “*maximum fixed repurchase price*,” but excluding accrued dividends, if any. Notwithstanding the foregoing, Indebtedness will not include any Share Capital other than Disqualified Share Capital. For purposes hereof, the

“*maximum fixed repurchase price*” of any Disqualified Share Capital which does not have a fixed repurchase price will be calculated in accordance with the terms of such Disqualified Share Capital as if such Disqualified Share Capital were purchased on any date on which Indebtedness shall be required to be determined pursuant to the indenture, and if such price is based upon, or measured by, the Fair Market Value of such Disqualified Share Capital, such Fair Market Value shall be determined reasonably and in good faith by the Board of Directors of the Guarantor of such Disqualified Share Capital.

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

“*Interest Payment Date*” means the stated maturity of an installment of interest on the notes each March 29 and September 29 of each year, beginning on March 29, 2017.

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

“*Issue Date*” means September 29, 2016 (being the original issuance date of the notes).

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

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

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

“*Officer*” means the Chief Executive Officer, the President, the Chief Financial Officer or any other officer of the Issuer or the Guarantor, as the case may be, duly appointed at a meeting of its Board of Directors or relevant governing body.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(13) Liens securing Acquired Indebtedness; provided that:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“*Share Capital*” means:

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

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

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

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

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

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

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

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

FORM OF THE NOTES

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

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

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

Global Notes

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

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

Investors may hold interests in the Regulation S Global Note through Euroclear or Clearstream, if they are participants in such systems. Euroclear and Clearstream will hold interests in the Regulation S Global Note on behalf of their account holders through customers’ securities accounts in their respective names on the books of their

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

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

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

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

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

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

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

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

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

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

Individual Definitive Notes

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

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

Individual definitive notes will not be eligible for clearing and settlement through Euroclear, Clearstream or DTC.

TAXATION

The following discussion summarizes certain Austrian, Brazilian and U.S. federal income tax considerations that may be relevant to you if you invest in the notes. This summary is based on laws, regulations, rulings and decisions now in effect in Austria, Brazil and the United States, any of which may change at any time and are subject to differing interpretation. Any change could affect the continued accuracy of this summary. Changes in the Brazilian tax regulations may only apply in relation to the future.

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

Austrian Tax Considerations

This section on taxation contains a brief summary of the Issuer's understanding with regard to certain important principles which are of significance in connection with the purchase, holding or sale of the notes in the Republic of Austria. This summary does not purport to exhaustively describe all possible tax aspects and does not deal with specific situations which may be of relevance for certain potential investors. The following comments are rather of a general nature and included herein solely for information purposes. They are not intended to be, nor should they be construed to be, legal or tax advice. This summary is based on the currently applicable tax legislation, case law and regulations of the tax authorities, as well as their respective interpretation, all of which may be amended from time to time. Such amendments may possibly also be effected with retroactive effect and may negatively impact the tax consequences described. For the purposes of the following, it is assumed that the notes are legally and factually offered to an indefinite number of persons.

IT IS RECOMMENDED THAT POTENTIAL INVESTORS IN THE NOTES CONSULT WITH THEIR LEGAL AND TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THE PURCHASE, HOLDING OR SALE OF THE NOTES. TAX RISKS RESULTING FROM THE NOTES SHALL IN ANY CASE BE BORNE BY THE INVESTOR.

General Principles

Individuals having a permanent domicile (*Wohnsitz*) and/or their habitual abode (*gewöhnlicher Aufenthalt*) in Austria are subject to income tax (*Einkommensteuer*) in Austria on their worldwide income (unlimited income tax liability; *unbeschränkte Einkommensteuerpflicht*). Individuals having neither a permanent domicile nor their habitual abode in Austria are subject to income tax only on income from certain Austrian sources (limited income tax liability; *beschränkte Einkommensteuerpflicht*).

Corporations having their place of effective management (*Ort der Geschäftsleitung*) and/or their legal seat (*Sitz*) in Austria are subject to corporate income tax (*Körperschaftsteuer*) in Austria on their worldwide income (unlimited corporate income tax liability; *unbeschränkte Körperschaftsteuerpflicht*). Corporations having neither their place of effective management nor their legal seat in Austria are subject to corporate income tax only on income from certain Austrian sources (limited corporate income tax liability; *beschränkte Körperschaftsteuerpflicht*).

Both in the case of unlimited and limited (corporate) income tax liability Austria's right to tax may be restricted by double taxation treaties.

Income Taxation of the Notes

Pursuant to sec. 27(1) of the Austrian Income Tax Act (*Einkommensteuergesetz*), the term investment income (*Einkünfte aus Kapitalvermögen*) comprises:

- income from the letting of capital (*Einkünfte aus der Überlassung von Kapital*) pursuant to sec. 27(2) of the Austrian Income Tax Act, including dividends and interest;

- income from realized increases in value (*Einkünfte aus realisierten Wertsteigerungen*) pursuant to sec. 27(3) of the Austrian Income Tax Act, including gains from the alienation, redemption and other realization of assets that lead to income from the letting of capital, zero coupon bonds and broken-period interest; and
- income from derivatives (*Einkünfte aus Derivaten*) pursuant to sec. 27(4) of the Austrian Income Tax Act, including cash settlements, option premiums received and income from the sale or other realization of forward contracts like options, futures and swaps and other derivatives such as index certificates.

Also the withdrawal of the notes from a bank deposit (*Depotentnahme*) and circumstances leading to a loss of Austria's taxation right regarding the notes vis-à-vis other countries, e.g., a relocation from Austria (*Wegzug*), are in general deemed to constitute a sale (cf. sec. 27(6)(1) of the Austrian Income Tax Act).

Individuals subject to unlimited income tax liability in Austria holding the notes as non-business assets are subject to income tax on all resulting investment income pursuant to sec. 27(1) of the Austrian Income Tax Act. In case of investment income with an Austrian nexus (*inländische Einkünfte aus Kapitalvermögen*), basically meaning income paid by an Austrian paying agent (*auszahlende Stelle*) or an Austrian custodian agent (*depotführende Stelle*), the income is subject to withholding tax (*Kapitalertragsteuer*) of 25% in case of money deposited in a bank account and other non-securitized receivables vis-à-vis a bank with the exception of lending fees in the sense of sec. 27(5) of the Austrian Income Tax Act (sec. 27a(1)(1) of the Austrian Income Tax Act) and of 27.5% in all other cases (sec. 27a(1)(2) of the Austrian Income Tax Act) with the exception of those mentioned in sec. 27a(2) of the Austrian Income Tax Act; no additional income tax is levied over and above the amount of tax withheld (final taxation pursuant to sec. 97(1) of the Austrian Income Tax Act). In case of investment income without an Austrian nexus, the income must be included in the investor's income tax return and is subject to tax at a flat rate of 25% or 27.5%, respectively. In both cases upon application the option exists to tax all income subject to tax at the flat rate of 25% or 27.5%, respectively at the lower progressive income tax rate (option to regular taxation pursuant to sec. 27a(5) of the Austrian Income Tax Act). Sec. 27(8) of the Austrian Income Tax Act, inter alia, provides for the following restrictions on the offsetting of losses: negative income from realized increases in value and from derivatives may neither be offset against interest and other claims vis-à-vis credit institutions nor against income from certain private foundations and comparable foreign legal estates (*ausländische Stiftungen und sonstige Vermögensmassen die jeweils mit einer Privatstiftung vergleichbar sind*); income subject to tax at a flat rate of 25% or 27.5%, respectively may not be offset against income subject to the progressive income tax rate (this equally applies in case of an exercise of the option to regular taxation); negative investment income not already offset against positive investment income may not be offset against other types of income.

Individuals subject to unlimited income tax liability in Austria holding the notes as business assets are subject to income tax on all resulting investment income pursuant to sec. 27(1) of the Austrian Income Tax Act. In case of investment income with an Austrian nexus (as described above) the income is subject to withholding tax of 25% or 27.5%, respectively. While withholding tax has the effect of final taxation for income from the letting of capital, income from realized increases in value and income from derivatives must be included in the investor's income tax return (nevertheless taxed at a flat rate of 25% or 27.5%, respectively). In case of investment income without an Austrian nexus, the income must always be included in the investor's income tax return (taxed at a flat rate of 25% or 27.5%, respectively). In both cases upon application the option exists to tax all income subject to tax at the flat rate of 25% or 27.5%, respectively at the lower progressive income tax rate (option to regular taxation pursuant to sec. 27a(5) of the Austrian Income Tax Act). Pursuant to sec. 6(2)(c) of the Austrian Income Tax Act, depreciations to the lower fair market value and losses from the alienation, redemption and other realization of financial assets and derivatives in the sense of sec. 27(3) and (4) of the Austrian Income Tax Act, which are subject to tax at the flat rate of 25% (sec. 27a(1)(1) of the Austrian Income Tax Act), are primarily to be offset against income from realized increases in value of such financial assets and derivatives and with appreciations in value of such assets; only half of the remaining negative difference may be offset against other types of income (and carried forward).

Corporations subject to unlimited corporate income tax liability in Austria are subject to corporate income tax on interest from the notes at a rate of 25%. In case of investment income with an Austrian nexus (as described above) the income is subject to withholding tax of 25%, which can be credited against the corporate income tax liability. However, under the conditions set forth in sec. 94(5) of the Austrian Income Tax Act withholding tax is not levied in the first place. Income from the alienation of the notes is subject to corporate income tax of 25%. Losses from the alienation of the notes can be offset against other income (and carried forward).

Private foundations (*Privatstiftungen*) pursuant to the Austrian Private Foundations Act (*Privatstiftungsgesetz*) fulfilling the prerequisites contained in sec. 13(3) and (6) of the Austrian Corporate Income Tax Act (*Körperschaftsteuergesetz*) and holding the notes as non-business assets are subject to taxation at a rate of 25% on interest income, income from realized increases in value and income from derivatives (inter alia, if the latter are in the form of securities). The taxable income resulting from investment income or the sale of real estate is decreased by distributions subject to withholding tax that are made to beneficiaries in the same tax period. In case of investment income with an Austrian nexus (as described above) income is in general subject to withholding tax of 25%, which can be credited against the tax falling due. Under the conditions set forth in sec. 94(12) of the Austrian Income Tax Act withholding tax is not levied.

Individuals and corporations subject to limited (corporate) income tax liability in Austria are taxable on investment income from the notes if they have a permanent establishment (*Betriebsstätte*) in Austria and the notes are attributable to such permanent establishment (cf. sec. 98(1)(3) of the Austrian Income Tax Act, sec. 21(1)(1) of the Austrian Corporate Income Tax Act). As from January 1, 2015 they are also taxable on interest that qualify as interest in the sense of the Austrian EU Withholding Tax Act (*EU-Quellensteuergesetz*, see below) from the notes if the interest is subject to withholding tax (this does not apply to individuals falling within the scope of the Austrian EU Withholding Tax Act; cf. sec. 98(1)(5)(b) of the Austrian Income Tax Act, sec. 21(1)(1) of the Austrian Corporate Income Tax Act).

Austrian withholding tax (*Kapitalertragsteuer*) on investment income derived by non-resident individuals and corporations generally only applies if the investment income is paid by an Austrian paying agent (*auszahlende Stelle*) or an Austrian custodian agent (*depotführende Stelle*). Interest paid to a non-resident corporation is also exempt from withholding tax by virtue of Sec. 98(1)(5e) of the Austrian Income Tax Act.

Pursuant to sec. 93(6) of the Austrian Income Tax Act, the Austrian custodian agent is obliged to automatically offset negative investment income against positive investment income, taking into account all of a taxpayer's bank deposits with the custodian agent. If negative and at the same time or later positive income is earned, then the negative income is to be offset against the positive income. If positive and later negative income is earned, then withholding tax on the positive income is to be credited, with such tax credit being limited to 27.5% of the negative income. In certain cases the offsetting is not permissible. The custodian agent has to issue a written confirmation on the offsetting of losses for each bank deposit to the taxpayer.

EU Withholding Tax

Sec. 1 of the Austrian EU Withholding Tax Act—implementing Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments – provides that interest payments paid or credited by an Austrian paying agent (*Zahlstelle*) to a beneficial owner who is an individual resident in another EU member state (or in certain dependent or associated territories, which currently include Anguilla, Aruba, the British Virgin Islands, Guernsey, the Isle of Man, Jersey, Montserrat, the Netherlands Antilles and the Turks and Caicos Islands) are subject to EU withholding tax (*EU-Quellensteuer*) of 35%. Sec. 10 of the Austrian EU Withholding Tax Act provides for an exemption from EU withholding tax if the beneficial owner presents to the paying agent a certificate drawn up in his/her name by the competent authority of his/her member state of residence for tax purposes, indicating the name, address and tax or other identification number or, failing such, the date and place of birth of the beneficial owner, the name and address of the paying agent, and the account number of the beneficial owner or, where there is none, the identification of the security; such certificate shall be valid for a period not exceeding three years.

Tax Treaties Austria/Switzerland and Austria/Liechtenstein

The Treaty between the Republic of Austria and the Swiss Confederation on Cooperation in the Areas of Taxation and Capital Markets and the Treaty between the Republic of Austria and the Principality of Liechtenstein on Cooperation in the Area of Taxation provide that a Swiss or Liechtenstein, respectively, paying agent has to withhold a tax amounting to 25% on, *inter alia*, interest income, dividends and capital gains from assets booked with an account or deposit of such Swiss or Liechtenstein, respectively, paying agent or managed by a Liechtenstein paying agent, if the relevant holder of such assets (*i.e.* in general individuals on their own behalf and as beneficial owners of assets held by a domiciliary company (*Sitzgesellschaft*)) is tax resident in Austria. For Austrian income tax purposes this withholding tax has the effect of final taxation regarding the underlying income if the Austrian

Income Tax Act provides for the effect of final taxation for such income. The treaties, however, do not apply to interest covered by the agreements between the European Community and the Swiss Confederation or the Principality of Liechtenstein, regarding Council Directive 2003/48/EC on taxation of savings income in the form of interest payments. The taxpayer can opt for voluntary disclosure instead of the withholding tax by expressly authorizing the Swiss or Liechtenstein paying agent to disclose to the competent Austrian authority the income and capital gains; these subsequently have to be included in the income tax return.

Austrian Inheritance and Gift Tax

Austria does not levy inheritance or gift tax.

Certain gratuitous transfers of assets to private law foundations and comparable legal estates are subject to foundation transfer tax (*Stiftungseingangssteuer*) pursuant to the Austrian Foundation Transfer Tax Act (*Stiftungseingangssteuergesetz*). Such tax is triggered if the transferor and/or the transferee at the time of transfer have a domicile, their habitual abode, their legal seat or their place of effective management in Austria. Certain exemptions apply in cases of transfers *mortis causa* of financial assets within the meaning of sec. 27(3) and (4) of the Austrian Income Tax Act (except for participations in corporations) if income from such financial assets is subject to tax at the flat rate of 25% or 27.5%, respectively. The tax basis is the fair market value of the assets transferred minus any debts, calculated at the time of transfer. The tax rate is in general 2.5%, with a higher rate of 25% applying in special cases.

Special provisions apply to entities falling within the scope of the tax treaty between Austria and Liechtenstein. In addition, there is a special notification obligation for gifts of money, receivables, shares in corporations, participations in partnerships, businesses, movable tangible assets and intangibles if the donor and/or the donee have a domicile, their habitual abode, their legal seat or their place of effective management in Austria. Not all gifts are covered by it: in case of gifts to certain related parties, a threshold of EUR 50,000 per year applies; in all other cases, a notification is obligatory if the value of gifts made exceeds an amount of EUR 15,000 during a period of five years. Furthermore, gratuitous transfers to foundations falling under the Austrian Foundation Transfer Tax Act described above are also exempt from the notification obligation. Intentional violation of the notification obligation may trigger fines of up to 10% of the fair market value of the assets transferred.

Further, gratuitous transfers of the notes may trigger income tax at the level of the transferor pursuant to sec. 27(6)(1) of the Austrian Income Tax Act (see above).

Other Tax Considerations

The issuance of the notes will not be subject to Austrian capital contribution tax (*Gesellschaftsteuer*).

Brazilian Taxation

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

This summary does not address any tax issues that may affect solely the Issuer, such as the deductibility of expenses.

Payments on the Notes made by the Issuer

Generally, a holder that is a Non-Resident Holder is taxed in Brazil only when income is derived from Brazilian sources or gains are realized on the disposition of assets located in Brazil. Therefore, based on the fact that the Issuer is not domiciled in Brazil, any income (including interest and original issue discount, if any) paid by the Issuer in respect of the Notes to a Non-Resident Holder is generally not currently subject to withholding or deduction in respect of Brazilian income tax or any other taxes, duties, assessments or governmental charges in Brazil, provided that such payments are made with funds held by the Issuer outside of Brazil.

Payments made by the Guarantor

In the event the Issuer fails to timely pay principal, interest or any other amounts that may be due and payable in respect of the notes, the guarantor, which is considered, for purposes of Brazilian taxation, resident or domiciled in Brazil, will be required to pay such amount to the Non-Resident Holder. As there is no specific legal provision dealing with the imposition of the Brazilian income tax on payments made by Brazilian sources to non-resident beneficiaries under guarantees and no uniform decision from the Brazilian courts, there is a risk that the tax authorities will take the position that the general 15% rate of the Brazilian income tax should apply. In any event, we understand that there are arguments to sustain that (a) payments made under the guarantee should be subject to imposition of the Brazilian income tax according to the nature of the guaranteed payment, in which case only interest and fees should be subject to taxation at the rates of 15%, or 25% in cases of Non-Resident Holders located in a low tax jurisdiction (which is deemed to be a jurisdiction that does not impose any tax on income or which imposes such tax at a maximum effective rate lower than 20% (or 17%, provided that the requirements set forth by Normative Ruling No. 1,530 dated December 19, 2014 are met), or where the laws impose restrictions on the disclosure of ownership composition or securities ownership or do not allow for the identification of the effective beneficiary of the income attributed to non-residents); or (b) payments made under a guarantee by Brazilian sources to non-resident beneficiaries should not be subject to the imposition of the Brazilian income tax to the extent that they should qualify as a credit transaction between the Issuer and the guarantor. This is, however, a controversial issue, still not decided by the Brazilian courts.

On June 24, 2008, Law No. 11,727 was enacted with effect from January 1, 2009, establishing that a jurisdiction or country where local legislation imposes restrictions on disclosing the shareholding composition or the ownership of an investment is also considered a low tax jurisdiction. Law No. 11,727 also changed the scope of new transactions that would be subject to Brazilian transfer pricing rules, with the creation of the concept of a privileged tax regime. Pursuant to Law No. 11,727, a jurisdiction will be considered a privileged tax regime if it (i) does not tax income or taxes it at a maximum rate lower than 20% (or 17%, provided that the requirements set forth by Normative Ruling No. 1,530 dated December 19, 2014 are met); (ii) grants tax advantages to a non-resident entity or individual (a) without the need to carry out a substantial economic activity in the country or territory or (b) conditioned upon the non-exercise of a substantial economic activity in the country or territory; (iii) does not tax proceeds generated abroad or taxes them at a maximum rate lower than 20% (or 17%, provided that the requirements set forth by Normative Ruling No. 1,530 dated December 19, 2014 are met); or (iv) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about economic transactions carried out. In addition, on June 7, 2010, the Brazilian tax authorities enacted Ordinance No. 1,037, as amended, listing (i) the countries and jurisdictions considered low tax jurisdictions, and (ii) the privileged tax regimes. Although the interpretation of the current Brazilian tax legislation could lead to the conclusion that such concept of “privileged tax regime” shall be solely applied for purposes of the observance of transfer pricing and thin capitalization rules, it is still not clear whether this “privileged tax regime” concept will also be applied to interest payments made to Non-Resident Holders in respect of the notes, under the scenario reviewed above.

Another income tax rate may be provided for in an applicable tax treaty between Brazil and the country of residence of the Non-Resident Holder.

Gains on the Notes

According to Law No. 10,833/03, of December 30, 2003, gains assessed on the sale or other disposal of assets located in Brazil may be subject to tax in Brazil, regardless of whether the sale or disposal is made by a Non-Resident Holder to a resident or person domiciled in Brazil or to another non-resident. Based on the fact that the Notes are issued abroad by a non-resident issuer, we believe that gains on the sale or other disposal of the notes made outside Brazil by a Non-Resident Holder, other than a branch or a subsidiary of a Brazilian resident, would not fall within the definition of assets located in Brazil for the purpose of Law No. 10,833/03 and consequently would not be subject to Brazilian taxes.

Other Tax Considerations

Brazilian law imposes a Tax on Foreign Exchange Transactions (*Imposto sobre Operações de Câmbio*), or IOF/Exchange, on the conversion of Brazilian reais into foreign currency and on the conversion of foreign currency into Brazilian reais, including foreign exchange transactions in connection with payments made by a Brazilian

guarantor under the guarantee to Non-Resident Holders. Currently, the IOF/Exchange is 0.38% for most foreign exchange transactions, including foreign exchange transactions in connection with payments under the guarantee by a Brazilian guarantor to a Non-Resident Holder.

In any case, the Brazilian Federal Government may increase the current IOF/Exchange rate at any time, up to a maximum rate of 25%. Any such new rate would only apply to future foreign exchange transactions.

Stamp, Transfer and Other Similar Taxes

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

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

United States Federal Income Taxation

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

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

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

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

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

- tax consequences to persons holding the notes as part of a hedging, integrated, constructive sale or conversion transaction or a straddle;
- tax consequences to holders of the notes whose “functional currency” is not the United States dollar;
- the potential application of the Medicare tax on net investment income;
- alternative minimum tax consequences, if any; or
- any state, local or foreign tax consequences.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) holds the notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the notes, you should consult your tax advisors.

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

Payments of Interest

Stated interest on a note (including any Austrian or Brazilian tax withheld) will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for United States federal income tax purposes.

In addition to stated interest on the notes, you will be required to include in income any Additional Amounts (as described under “Description of the Notes—Additional Amounts”) paid in respect of any Austrian or Brazilian tax withheld. You may be entitled to deduct or credit any such withholding tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your foreign taxes for a particular tax year). Interest income (including any Additional Amounts) on a note generally will be considered foreign source income and, for purposes of the United States foreign tax credit, generally will be considered passive category income. You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Sale, Exchange and Retirement of Notes

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

Substitution of the Issuer

The issuer may, subject to certain conditions, be replaced and substituted by any direct or indirect subsidiary of the guarantor as principal debtor in respect of the notes (the “Substituted Issuer”) (see “Description of the

Notes• Substitution of the Issuer”). This substitution would generally be treated for United States federal income tax purposes as a deemed taxable exchange of the notes for new notes issued by the Substituted Issuer and thus may result in certain adverse tax consequences to you. In addition, if the Substituted Issuer is organized in a jurisdiction other than Austria or Brazil, the Substituted Issuer will have an obligation to indemnify each holder and beneficial owner of the notes against certain taxes or duties which may be incurred or levied against such holder or beneficial owner as a result of any substitution and which would not have been so incurred or levied had such substitution not been made. You should consult your own tax advisors regarding any potential adverse tax consequences to you that may result from a substitution of the issuer.

Backup Withholding and Information Reporting

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

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability, provided the required information is timely furnished to the Internal Revenue Service.

TRANSFER RESTRICTIONS

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

(1) You acknowledge that:

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

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

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

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

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

- (a) to the Issuer or BRF;
- (b) under a registration statement that has been declared effective under the Securities Act;
- (c) for so long as the notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;
- (d) through offers and sales that occur outside the United States in reliance upon Regulation S; or
- (e) under any other available exemption from the registration requirements of the Securities Act.

You also acknowledge that:

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

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

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

(5) You acknowledge that the Issuer, BRF, the initial purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of notes is no longer accurate, you will promptly notify the Issuer, BRF and the initial purchasers. If you are purchasing any notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

PLAN OF DISTRIBUTION

Subject to the terms and conditions in the purchase agreement among the Issuer, BRF and the initial purchasers, the Issuer has agreed to sell to the initial purchasers, and each of the initial purchasers has severally agreed to purchase from the Issuer the principal amount of notes set forth opposite its name in the table below.

Initial Purchasers	Principal Amount
BB Securities Ltd.....	U.S.\$ 100,000,000
Banco Bradesco BBI S.A.....	100,000,000
Itau BBA USA Securities, Inc.....	100,000,000
J.P. Morgan Securities LLC.....	100,000,000
Santander Investment Securities Inc.....	100,000,000
Total	<u>U.S.\$ 500,000,000</u>

BB Securities Ltd. is not a broker-dealer registered with the SEC, and therefore may not make sales of any notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that BB Securities Ltd. intends to effect sales of the notes in the United States, it will do so only through Banco do Brasil Securities LLC or one or more U.S. registered broker dealers, or otherwise as permitted by applicable U.S. law. BB Securities Asia Pte. Ltd. may be involved in the sales of the notes in Asia.

Banco Bradesco BBI S.A. is not a broker-dealer registered with the SEC and may not make sales of any notes in the United States or to U.S. persons. To the extent that Banco Bradesco BBI S.A. intends to effect sales of the notes in the United States, it will do so only through Bradesco Securities Inc., its affiliated broker-dealer registered with the SEC, as agent.

The obligations of the initial purchasers under the purchase agreement, including their agreement to purchase notes from the Issuer, are several and not joint. The purchase agreement provides that the initial purchasers will purchase all the notes if any of them are purchased.

The initial purchasers initially propose to offer the notes for resale at the issue price that appears on the cover of this offering memorandum. After the initial offering, the initial purchasers may change the offering price and any other selling terms. The initial purchasers may offer and sell notes through certain of their affiliates.

In the purchase agreement, the Issuer and BRF have agreed that:

- they will not offer or sell any of our debt securities (other than the notes) for a period of 30 days after the date of this offering memorandum without the prior consent of the initial purchasers; and
- they will indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or contribute to payments that the initial purchasers may be required to make in respect of those liabilities.

The notes have not been registered under the Securities Act or the securities laws of any other jurisdiction. In the purchase agreement, each initial purchaser has agreed that:

- the notes may not be offered or sold within the United States or to U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements; and
- during the initial distribution of the notes, it will offer or sell notes only to qualified institutional buyers in compliance with Rule 144A and outside the United States in compliance with Regulation S.

In addition, until 40 days following the commencement of this offering, an offer or sale of notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act.

The notes are a new issue of securities, and they are subject to certain restrictions on resale and transfer as described under “Transfer Restrictions.” We have applied to list the notes on the Luxembourg Stock Exchange for trading on the Euro MTF Market. The Issuer does not intend to apply for the notes to be listed on any securities exchange or to arrange for the notes to be quoted on any quotation system other than the Euro MTF Market. The initial purchasers have advised the Issuer and BRF that they intend to make a market in the notes, but they are not obligated to do so. The initial purchasers may discontinue any market making in the notes at any time in their sole discretion. Accordingly, the Issuer and BRF cannot assure you that a liquid trading market will develop for the notes, that you will be able to sell your notes at a particular time or that the prices that you receive when you sell will be favorable.

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchases of securities.

In connection with the offering of the notes, the initial purchasers may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the initial purchasers. Stabilizing transactions involve bids to purchase the notes in the open market for the purpose of pegging, fixing or maintaining the price of the notes. Syndicate covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the notes to be higher than it would otherwise be in the absence of those transactions. If the initial purchasers engage in stabilizing or syndicate covering transactions, they may discontinue them at any time.

The initial purchasers and/or their affiliates may enter into derivative and/or structured transactions with clients, at their request, in connection with the notes and the initial purchasers and/or their affiliates may also purchase some of the notes to hedge their risk exposure in connection with such transactions. Also, the initial purchasers and/or their affiliates may acquire the notes for their own propriety accounts. Such acquisitions may have an effect on demand for and the price of the notes.

Selling Restrictions

The notes are offered for sale only in those jurisdictions where it is lawful to make such offers.

The notes have not been offered, sold or delivered and will not be offered, sold or delivered, directly or indirectly, and this offering memorandum or any information incorporated by reference herein or any other offering material relating to the notes, has not been and will not be distributed in or from any jurisdiction except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us except as set forth in the purchase agreement.

Brazil

The notes have not been, and will not be, registered with the CVM. The notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or distribution under Brazilian laws and regulations.

European Economic Area (EEA)

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that relevant Member State (the “relevant implementation date”), an offer to the public of notes described in this offering memorandum may not be made in that Relevant Member State other than:

- to any legal entity that is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the joint bookrunners for any such offer; or

- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes shall require the issuer or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

United Kingdom

Each Initial Purchaser has represented, warranted and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not, if the Issuer were not an “authorised person,” apply to the Issuer; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Canada

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus supplement (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (“NI 33-105”), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Switzerland

The notes may not and will not be publicly offered, distributed or re-distributed in or from Switzerland and neither this offering memorandum nor any other solicitation for investments in the notes may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of Articles 652a and 1156 of the Swiss Code of Obligations. This offering memorandum may not be copied, reproduced, distributed or passed on to others without the prior written consent of the initial purchasers. This offering memorandum is not a prospectus within the meaning of Articles 652a and 1156 of the Swiss Code of Obligations or a listing prospectus according to the Listing Rules of the SIX Swiss Exchange and may not comply with the information standards required thereunder. We will not apply for a listing of the notes on any Swiss stock exchange or other Swiss

regulated market and this offering memorandum may not comply with the information required under the relevant listing rules.

Hong Kong

The notes may not be offered or sold by means of any document other than (1) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (2) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (3) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Japan

The notes offered in this offering memorandum have not been registered under the Securities and Exchange Law of Japan. The notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore, or the SFA, and accordingly, the notes may not be offered or be the subject of an invitation for subscription or purchase, nor will this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the notes, whether directly or indirectly, be circulated or distributed to any person in Singapore other than under exemptions provided in the SFA for offers made (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) or any person, pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

Each holder of the notes should note that any subsequent sale of the notes acquired pursuant to an offer in this offering memorandum made under exemptions (a) or (b) above within a period of six months from the date of initial acquisition is restricted to (1) institutional investors (as defined in Section 4A of the SFA), (2) relevant persons as defined in Section 275(2) of the SFA, and (3) persons pursuant to an offer referred to in Section 275(1A) of the SFA.

Where the notes are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, the shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of

shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than U.S.\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275 of the SFA; (2) where no consideration is or will be given for the transfer; or (3) where the transfer is by operation of law.

Relationships with Initial Purchasers

Certain of the initial purchasers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, BRF and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the initial purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. If any of the initial purchasers or their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

LEGAL MATTERS

The validity of the notes offered and sold in this offering will be passed upon for us, with respect to New York law by Simpson Thacher & Bartlett LLP, São Paulo, Brazil, and with respect to Brazilian law by Machado, Meyer, Sendacz e Opice Advogados, São Paulo, Brazil. The validity of the notes offered and sold in this offering will be passed upon for the initial purchasers, with respect to New York law by Davis Polk & Wardwell LLP, São Paulo, Brazil, and with respect to Brazilian law by Pinheiro Guimarães –Advogados, São Paulo, Brazil. Certain matters of Austrian law will be passed upon for us and BRF GmbH by Baker & McKenzie – Diwok Hermann Petsche Rechtsanwälte LLP & Co KG.

INDEPENDENT ACCOUNTANTS

The audited consolidated financial statements of BRF S.A. appearing in BRF S.A.'s Annual Report on Form 20-F for the year ended December 31, 2015 have been audited by Ernst & Young Auditores Independentes S.S., independent accountants, as set forth in their report included therein, and incorporated herein by reference.

With respect to our unaudited interim consolidated financial statements as of June 30, 2016 and for the six-month periods ended June 30, 2016 and 2015 included elsewhere in this offering memorandum, Ernst & Young Auditores Independentes S.S. have applied limited procedures in accordance with professional standards for a review of such information. However, their report dated July 28, 2016 appearing herein states that they did not audit and they do not express an opinion on these unaudited interim consolidated financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Ernst & Young Auditores Independentes S.S.'s principal executive offices are located at Avenida Presidente Juscelino Kubitschek, 1909, North Tower, 7th floor, Itaim-Bibi, 04543-011, São Paulo, SP, Brazil.

LISTING AND GENERAL INFORMATION

(1) The notes have been accepted for clearance and settlement through DTC. The CUSIP number, ISIN and Common Codes for the notes are as follows:

	Rule 144A Global Note	Regulation S Global Note
CUSIP	05583B AA7	A08163 AA4
ISIN	US05583BAA70	USA08163AA41
Common Codes.....	144179358	144179064

(2) Copies of our latest audited consolidated financial statements and unaudited interim consolidated financial information, if any, may be obtained free of charge at the offices of the Luxembourg paying agent. Copies of our bylaws, the indenture (including forms of notes) and this offering memorandum will be available free of charge at the offices of the Luxembourg paying agent. BRF publishes its consolidated financial statements on an annual and quarterly basis.

(3) Our current bylaws (*Estatuto Social*) are filed as Exhibit 1 to our 2016 Form 6-K. Copies of the Issuer's articles of association may be obtained free of charge at the offices of the Luxembourg paying agent.

(4) Except as disclosed in this offering memorandum, there has been no material adverse change in our financial position since June 30, 2016, the date of the latest unaudited interim consolidated financial statements included in this offering memorandum.

(5) Except as disclosed in this offering memorandum, we are not involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of this offering, nor so far as we are aware is any such litigation or arbitration pending or threatened.

(6) We have applied to list the notes on the Luxembourg Stock Exchange for trading on the Euro MTF Market.

(7) The issuance of the notes was authorized by shareholder's resolution of the Issuer on September 6, 2016 and by the board of directors of the guarantor on September 22, 2016.

INDEX TO FINANCIAL STATEMENTS

BRF S.A.

Unaudited Interim Consolidated Financial Statements

Report on Review of Interim Consolidated Financial Statements	F-2
Interim Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015.....	F-3
Interim Consolidated Statements of Income for the Six Month Periods Ended June 30, 2016 and 2015	F-5
Interim Consolidated Statements of Comprehensive Income for the Six Months Ended June 30, 2016 and 2015.....	F-6
Interim Consolidated Statements of Changes in Shareholders' Equity for the Six Months Ended June, 30, 2016 and 2015.....	F-7
Interim Consolidated Statements of Cash Flows for the Six Month Periods Ended June 30, 2016 and 2015	F-9
Notes to the Interim Consolidated Financial Statements.....	F-10

A free translation from Portuguese into English of Report on review of interim consolidated financial statements prepared in accordance with IAS 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board – IASB

Report on review of interim consolidated financial statements

The
Management and shareholders
BRF S.A.

Introduction

We have reviewed the accompanying interim consolidated financial statements of BRF S.A. and its subsidiaries (the “Company”) as of June 30, 2016, comprising of the interim consolidated balance sheet as of June 30, 2016 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 – Interim Financial Reporting (“IAS 34”). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standard on Review Engagements (NBC TR 2410 – *Revisão de Informações Intermediárias Executadas pelo Auditor da Entidade* and ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

São Paulo, July 28, 2016.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/F-6

Antonio Humberto Barros dos Santos
Accountant CRC-1SP161745/O-3

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.
INTERIM CONSOLIDATED BALANCE SHEETS
 June 30, 2016 (Unaudited) and December 31, 2015 (Audited)
 (Amounts expressed in millions of Brazilian Reais)

ASSETS	Note	06.30.16	12.31.15
CURRENT ASSETS			
Cash and cash equivalents	7	4,630.9	5,362.9
Marketable securities	8	671.8	734.7
Trade accounts receivable, net	9	3,377.8	3,876.3
Notes receivable	9	136.1	303.7
Inventories	10	4,724.9	4,032.9
Biological assets	11	1,646.5	1,329.9
Recoverable taxes	12	1,237.6	1,231.8
Other financial assets	23	525.8	129.4
Restricted cash	16	182.2	1,346.3
Assets held for sale		36.8	32.4
Other current assets		882.8	799.8
Total current assets		18,053.2	19,180.1
NON-CURRENT ASSETS			
Marketable securities	8	340.7	456.0
Trade accounts receivable, net	9	14.9	4.1
Notes receivable	9	191.7	230.8
Recoverable taxes	12	1,252.8	968.7
Deferred income and social contribution taxes	14	1,160.6	1,256.0
Judicial deposits	15	829.0	732.1
Biological assets	11	844.0	761.0
Restricted cash	16	459.9	479.8
Other non-current assets		178.7	206.8
Investments in associates and joint ventures	17	75.4	185.9
Property, plant and equipment, net	18	11,526.1	10,915.8
Intangibles	19	6,627.9	5,010.9
Total non-current assets		23,501.7	21,207.9
TOTAL ASSETS		41,554.9	40,388.0

See accompanying notes to the interim consolidated financial statements.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.
INTERIM CONSOLIDATED BALANCE SHEETS
 June 30, 2016 (Unaudited) and December 31, 2015 (Audited)
 (Amounts expressed in millions of Brazilian Reais)

LIABILITIES	Note	06.30.16	12.31.15
CURRENT LIABILITIES			
Short-term debt	20	3,748.3	2,628.2
Trade accounts payable	21	5,346.6	4,745.0
Supply chain finance	22	743.6	1,174.6
Payroll and related charges		671.7	477.8
Tax payable		535.1	353.3
Interest on shareholders' equity		438.8	518.5
Employee and management profit sharing		10.0	296.3
Other financial liabilities	23	892.2	666.6
Provision for tax, civil and labor risks	27	274.8	231.4
Pension and other post-employment plans	26	67.3	67.3
Other current liabilities		307.0	462.1
Total current liabilities		13,035.4	11,621.1
NON-CURRENT LIABILITIES			
Long-term debt	20	13,211.6	12,551.1
Tax payable		25.9	25.9
Provision for tax, civil and labor risks	27	1,047.5	974.5
Deferred income and social contribution taxes	14	176.1	188.3
Pension and other post-employment plans	26	251.4	231.8
Other non-current liabilities		945.8	959.3
Total non-current liabilities		15,658.3	14,930.9
SHAREHOLDERS' EQUITY			
Capital	28	12,460.5	12,460.5
Capital reserves		14.2	7.0
Income reserves		1,754.6	6,076.8
Retained earnings		19.0	-
Treasury shares		(723.9)	(3,947.9)
Other comprehensive loss		(965.7)	(1,079.5)
Equity attributable to interest of controlling shareholders		12,558.7	13,516.9
Equity attributable to non-controlling interest		302.5	319.1
Total shareholders' equity		12,861.2	13,836.0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		41,554.9	40,388.0

See accompanying notes to the interim consolidated financial statements.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

INTERIM CONSOLIDATED STATEMENTS OF INCOME

Six-month periods ended June 30, 2016 and 2015 (Unaudited)

(Amounts expressed in millions of Brazilian Reals, except earnings per share and share data)

	Note	06.30.16	06.30.15
CONTINUED OPERATIONS			
NET SALES	31	16,634.9	14,960.9
Cost of sales	35	(12,685.9)	(10,272.6)
GROSS PROFIT		3,949.0	4,688.3
OPERATING INCOME (EXPENSES)			
Selling expenses	35	(2,437.7)	(2,238.0)
General and administrative expenses	35	(276.1)	(222.4)
Other operating expenses, net	33	(68.1)	(462.1)
Income (loss) from associates and joint ventures	17	16.7	(67.1)
OPERATING INCOME		1,183.8	1,698.7
Financial expenses	34	(2,895.4)	(2,295.6)
Financial income	34	1,787.4	1,531.4
INCOME BEFORE TAXES		75.8	934.5
Current	14	(277.5)	(9.7)
Deferred	14	260.2	(90.6)
INCOME FROM CONTINUED OPERATIONS		58.5	834.2
DISCONTINUED OPERATIONS			
LOSS FROM DISCONTINUED OPERATIONS	13	-	(7.1)
NET PROFIT		58.5	827.1
Attributable to			
Controlling shareholders		69.6	819.0
Non-controlling interest		(11.1)	8.1
		58.5	827.1
EARNINGS PER SHARE			
Weighted average shares outstanding - basic		804,853,116	852,819,886
Earnings per share - basic	29	0.08656	0.96036
Weighted average shares outstanding - diluted		804,867,296	853,487,178
Earning per share - diluted	29	0.08656	0.95961
EARNINGS PER SHARE FROM CONTINUED OPERATIONS			
Weighted average shares outstanding - basic		804,853,116	852,819,886
Earnings per share - basic	29	0.08656	0.96865
Weighted average shares outstanding - diluted		804,867,296	853,487,178
Earning per share - diluted	29	0.08656	0.96789

See accompanying notes to the interim consolidated financial statements.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Six-month periods ended June 30, 2016 and 2015 (Unaudited)

(Amounts expressed in millions of Brazilian Reals)

	Note	06.30.16	06.30.15
Net Profit		58.5	827.1
Other comprehensive income			
Gain (loss) on foreign currency translation adjustments		(655.2)	111.3
Unrealized gain (loss) on available for sale marketable securities	8	(104.6)	18.2
Taxes on unrealized gain (loss) on available for sale marketable securities	8	40.0	(0.1)
Unrealized gain (loss) on cash flow hedge	4	1,250.3	(289.8)
Taxes on unrealized gain (loss) on cash flow hedge	4	(424.2)	99.3
Net other comprehensive income, to be reclassified to the statement of income in subsequent periods		106.3	(61.1)
Actuarial gains on pension and post-employment plans		11.4	13.6
Taxes on actuarial gains on pension and post-employment plans		(3.9)	(4.6)
Net other comprehensive income, with no impact into subsequent statement of income		7.5	9.0
Total comprehensive income		172.4	775.0
Attributable to			
Controlling shareholders		183.5	766.9
Non-controlling interest		(11.1)	8.1
		172.4	775.0

See accompanying notes to the interim consolidated financial statements.

BRF S.A.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Six-month periods ended June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reals, except Dividend – Interest on own equity per share data)

	Attributable to interest of controlling shareholders											Total shareholders' equity (consolidated)	
	Capital reserves			Income reserves				Other comprehensive income					
	Capital reserve	Treasury shares	Legal reserve	Reserve for expansion	Reserve for capital increases	Reserve for tax incentives	Reserve for currency translation adjustments	Available for sale marketable securities	Losses on cash flow hedge	Actual gains (losses)	Retained earnings (losses)		Total equity
BALANCES AT JANUARY 01, 2016	7.0	(3,847.9)	540.7	3,700.8	4,888.6	317.2	62.3	1,732.1	190	-	-	13,516.9	13,536.9
Comprehensive income	-	-	-	-	-	-	(655.3)	-	-	-	-	(655.3)	(655.3)
Loss on foreign currency translation adjustments	-	-	-	-	-	-	(655.3)	-	-	-	-	(655.3)	(655.3)
Unrealized loss in available-for-sale marketable securities	-	-	-	-	-	-	(64.6)	-	-	-	-	(64.6)	(64.6)
Unrealized gain in cash flow hedge	-	-	-	-	-	-	686.2	-	-	-	-	686.2	686.2
Actual gains (losses) on retention and post-employment plans	-	-	-	-	-	-	-	75	-	-	-	75	75
Net income	-	-	-	-	-	-	-	-	68.6	-	-	68.6	68.6
TOTAL COMPREHENSIVE INCOME	-	-	-	-	-	-	(655.3)	75	68.6	-	-	133.9	133.9
Appropriation of income (loss)	-	-	-	(60.2)	-	-	-	-	-	-	-	(60.2)	(60.2)
Dividend (R\$0.4923) per outstanding share at the end of period	-	-	-	(60.2)	-	-	-	-	-	-	-	(60.2)	(60.2)
Interest on shareholders' equity (R\$0.04234923) per outstanding share at the end of the period	-	-	-	(613.2)	-	-	-	-	-	-	-	(613.2)	(613.2)
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserve for expansion	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserve for capital increases	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserve for tax incentives	-	-	-	-	-	50.6	-	-	-	-	-	50.6	50.6
Reserve for income retention	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains on shares sold	(1.5)	-	-	-	-	-	-	-	-	-	-	-	(1.5)
Treasury shares canceled	-	3,761.4	-	-	-	-	-	-	-	-	-	-	3,761.4
Goodwill on the acquisition of non-controlling interest	-	-	-	(3,721.4)	-	-	-	-	-	-	-	-	(3,721.4)
Options granted	-	-	-	-	-	-	-	-	-	-	-	-	-
Options canceled	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares acquired	-	34.3	-	-	-	-	-	-	-	-	-	34.3	34.3
Treasury shares sold	(17.8)	-	-	-	-	-	-	-	-	-	-	(17.8)	(17.8)
Valuation of shares	-	(443.3)	-	-	-	-	-	-	-	-	-	(443.3)	(443.3)
Treasury shares sold	-	5.9	-	-	-	-	-	-	-	-	-	5.9	5.9
Valuation of shares	(17.6)	-	-	-	-	-	-	-	-	-	-	(17.6)	(17.6)
BALANCES AT JUNE 30, 2016	14.2	(723.9)	540.7	1,225.0	1,838.6	567.9	(623.0)	(73.1)	(257.0)	27.6	19.0	12,338.7	12,361.2

See accompanying notes to the interim consolidated financial statements.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 Six-month periods ended June 30, 2015 (Unaudited)

(Amounts expressed in millions of Brazilian Reals, except Dividend – Interest on own equity per share data)

	Attributable to interest of controlling shareholders										Total shareholders' equity (consolidated)				
	Capital reserves		Income reserves			Other comprehensive income									
	Paid-in capital	Capital reserve	Treasury shares	Legal reserve	Reserve for expansion	Reserve for capital increases	Reserve for tax incentives	Accumulated currency translation adjustments	Available for sale marketable securities	Losses on cash flow hedge	Actuarial gains (losses)	Retained earnings (losses)	Total equity	Non-controlling interest	Total shareholders' equity
BALANCES AT JANUARY 01, 2015	12,460.5	109.4	(304.9)	384.6	1,901.4	1,274.3	385.5	(152.6)	(17.3)	(448.3)	(1.7)	-	15,590.5	98.5	15,689.0
Comprehensive income	-	-	-	-	-	-	111.3	-	18.2	-	-	-	111.3	-	111.3
Gain on foreign currency translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unrealized gain in available for sale marketable securities	-	-	-	-	-	-	-	-	18.2	-	-	-	18.2	-	18.2
Unrealized loss in cash flow hedge	-	-	-	-	-	-	-	-	-	(190.5)	-	-	(190.5)	-	(190.5)
Actuarial gains on pension and post-employment plans	-	-	-	-	-	-	-	-	-	-	9.0	-	9.0	-	9.0
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	610.0	610.0	-	610.0
SUB-TOTAL COMPREHENSIVE INCOME	-	-	-	-	-	-	111.3	-	18.2	(190.5)	9.0	610.0	788.9	8.1	773.0
Appropriation of income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shareholders' equity - R\$1.086884475 per outstanding share at the end of period	-	-	-	-	-	-	-	-	-	-	-	(625.9)	(425.9)	-	(425.9)
Reserve for tax incentives	-	-	-	-	-	-	54.1	-	-	-	-	(54.1)	-	-	-
Gains on shares sold	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation of shares	-	(12.7)	-	-	-	-	-	-	-	-	-	-	(12.7)	-	(12.7)
Acquisition of non-controlling interest	-	(259.1)	-	-	-	-	-	-	-	-	-	-	(259.1)	-	(259.1)
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	161.3	161.3
Options granted	-	9.6	-	-	-	-	-	-	-	-	-	-	9.6	-	9.6
Treasury shares acquired	-	-	(1,292.3)	-	-	-	-	-	-	-	-	-	(1,292.3)	-	(1,292.3)
Treasury shares sold	-	-	40.1	-	-	-	-	-	-	-	-	-	40.1	-	40.1
BALANCES AT JUNE 30, 2015	12,460.5	(41.6)	(1,557.1)	384.6	1,901.4	1,274.3	439.6	(41.3)	0.9	(639.3)	7.3	339.0	14,528.4	268.9	14,797.2

See accompanying notes to the interim consolidated financial statements.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
Six-month periods ended June 30, 2016 and 2015 (Unaudited)
(Amounts expressed in millions of Brazilian Reals)

	<u>06.30.16</u>	<u>06.30.15</u>
OPERATING ACTIVITIES		
Net profit	69.6	826.1
Adjustments to reconcile net profit to net cash provided by (used in) operating activities		
Non-controlling interest	(11.1)	8.1
Depreciation and amortization	455.0	374.9
Depreciation and depletion of biological assets	318.7	265.6
Equity in income (loss) from associates and joint ventures	(16.7)	67.1
Gain on business combination (note 6.3)	(58.8)	-
Loss on disposal of property, plant and equipment	8.4	15.4
Deferred income tax	(260.2)	90.6
Provision for tax, civil and labor risks	134.6	40.8
Other provisions	(28.3)	230.9
Interes and exchange rate variations	(769.2)	1,120.5
Changes in operating assets and liabilities		
Investments in trading securities	(611.7)	(154.4)
Redemptions of trading securities	610.9	163.5
Interest received	(3.6)	-
Other financial assets and liabilities	1,079.6	(523.7)
Trade accounts receivable	947.7	112.3
Inventories	(355.4)	(495.1)
Biological assets - current assets	(298.8)	(115.6)
Trade accounts payable	316.7	705.1
Supply chain finance	(431.0)	-
Payment of tax, civil and labor provisions	(129.1)	(81.4)
Interest paid	(470.9)	(369.4)
Payment of income taxes	(2.1)	(3.9)
Interest on shareholders' equity received	11.6	14.8
Other operating assets and liabilities	(542.3)	(35.2)
Net cash provided by (used in) operating activities from continued operations	<u>(36.4)</u>	<u>2,257.0</u>
Net cash provided by operating activities from discontinued operations	-	2.4
Net cash provided by (used in) operating activities	<u>(36.4)</u>	<u>2,259.4</u>
INVESTING ACTIVITIES		
Investments in available for sale securities	-	(1.1)
Redemptions of available for sale securities	-	72.7
Redemptions (Investments) in restricted cash	1,184.0	(11.9)
Business combination, net of cash	(2,762.0)	(74.3)
Investments in associates and joint ventures	(0.6)	(60.7)
Additions to property, plant and equipment	(922.5)	(579.4)
Additions to biological assets - non-current assets	(380.1)	(276.5)
Proceeds from disposals of property, plant and equipment	79.7	82.3
Additions to intangible assets	(50.0)	(24.4)
Cash invested in the discontinued operations	-	(10.2)
Net cash used in investing activities from continued operations	<u>(2,851.5)</u>	<u>(883.5)</u>
Net cash used in Investing activities from discontinued operations	-	(12.3)
Net cash used in investing activities	<u>(2,851.5)</u>	<u>(895.8)</u>
FINANCING ACTIVITIES		
Proceeds from debt issuance	5,019.1	3,197.7
Repayment of debt	(1,261.6)	(4,657.6)
Treasury shares acquired	(543.3)	(1,292.3)
Treasury shares disposal	4.5	27.4
Payments of dividends and interest on shareholders' equity	(663.0)	(463.3)
Net cash provided by (used in) financing activities	<u>2,555.7</u>	<u>(3,188.1)</u>
EFFECT ON EXCHANGE RATE VARIATION ON CASH AND CASH EQUIVALENTS	<u>(399.8)</u>	<u>452.7</u>
Net decrease in cash and cash equivalents	<u>(732.0)</u>	<u>(1,371.8)</u>
At the beginning of the period	5,362.9	6,006.9
At the end of the period	<u>4,630.9</u>	<u>4,635.1</u>

See accompanying notes to the interim consolidated financial statements.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

1. COMPANY'S OPERATIONS

BRF S.A. ("BRF") and its subsidiaries (collectively the "Company") is a multinational Brazilian company, which owns a comprehensive and diverse portfolio of products and it is one of the world's largest producers of foods. With a focus on raising, producing and slaughtering of poultry and pork for processing, production and sale of fresh meat, processed products, pasta, sauce, mayonnaise, frozen vegetables and soybean by-products, among which the following are highlighted:

- Whole chickens and frozen cuts of chicken, turkey and pork;
- Ham products, bologna, sausages, frankfurters and other smoked products;
- Hamburgers, breaded meat products and meatballs;
- Lasagnas, pizzas, cheese breads, pies and frozen vegetables;
- Margarine, sauces and mayonnaise; and
- Soy meal and refined soy flour, as well as animal feed.

BRF is a public company, listed on the New Market of Brazilian Securities, Commodities & Futures Exchange ("BM&FBOVESPA"), under the ticker BRFS3, and listed on the New York Stock Exchange ("NYSE"), under the ticker BRFS. Its headquarters are located at 475, Rua Jorge Tzachel in the City of Itajaí, State of Santa Catarina.

The Company's business model is by means of a vertical and integrated production system, which are distributed through an extensive distribution network, reaching the 5 continents, to meet the demand of supermarkets, retail stores, wholesalers, restaurants and other institutional customers. In addition, our facilities are strategically located near to their raw material suppliers or its main consumption centers.

The Company has as main brands *Sadia*, *Perdigão*, *Qualy*, *Chester®*, *Perdix* and *Paty* that are highly recognized, especially in Brazil, Argentina and the Middle East.

In 2016, the Company's activities are organized into 7 operating segments, due to the importance and growth potential of Africa region, which now has the same autonomy and organizational structure of other regions. Thus, the segments are as follows: Brazil, Latin America ("LATAM"), Europe, Middle East and North of Africa ("MENA"), Asia, Africa and Other Segments (note 5).

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.
Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)
(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

1.1. Interest in subsidiaries

Entity	Main activity	Country	Participation	Accounting method	% equity interest	
					06.30.16	12.31.15
Avipal Centro-Oeste S.A.	(a) Industrialization and commercialization of milk	Brazil	Direct	Consolidated	100.00%	100.00%
BRF GmbH	Holding	Austria	Direct	Consolidated	100.00%	100.00%
Al Khan Foodstuff LLC ("AKF")	(b) Import, commercialization and distribution of products	Oman	Indirect	Consolidated	70.00%	40.00%
Al-Wafi Food Products Factory LLC	(f) Industrialization and commercialization of products	United Arab Emirates	Indirect	Consolidated	49.00%	49.00%
Alimentos Calchaqui Productos 7 S.A.	(f) Industrialization and commercialization of products	Argentina	Indirect	Consolidated	95.00%	-
Badl Ltd.	Holding	United Arab Emirates	Indirect	Consolidated	100.00%	100.00%
Al-Wafi Al-Takamol International for Foods Products	Import and commercialization of products	Saudi Arabia	Indirect	Consolidated	75.00%	75.00%
BRF Al Yasra Food K.S.C.C. ("BRF AFC")	Import, commercialization and distribution of products	Kuwait	Indirect	Consolidated	75.00%	75.00%
BRF Foods GmbH	Industrialization, import and commercialization of products	Austria	Direct	Consolidated	100.00%	100.00%
BRF Foods LLC	Import and commercialization of products	Russia	Indirect	Consolidated	90.00%	90.00%
BRF France SARL	Marketing and logistics services	France	Indirect	Consolidated	100.00%	100.00%
BRF Global Company Nigeria Ltd.	Marketing and logistics services	Nigeria	Indirect	Consolidated	99.00%	99.00%
BRF Global Company South Africa Proprietary Ltd.	Import and commercialization of products	South Africa	Indirect	Consolidated	100.00%	100.00%
BRF Global Company Nigeria Ltd.	Marketing and logistics services	Nigeria	Indirect	Consolidated	1.00%	1.00%
BRF Global GmbH	(b) Holding and trading	Austria	Indirect	Consolidated	100.00%	100.00%
Qualy 5201 B.V.	(b) Import, commercialization of products and holding	The Netherlands	Indirect	Consolidated	100.00%	100.00%
Xamol Consultores Serviços Ltda.	Import and commercialization of products	Portugal	Indirect	Consolidated	100.00%	100.00%
BRF Japan KK	Marketing and logistics services	Japan	Indirect	Consolidated	100.00%	100.00%
BRF Korea LLC	Marketing and logistics services	Korea	Indirect	Consolidated	100.00%	100.00%
BRF Malaysia Sdn Bhd	(i) Marketing and logistics services	Malaysia	Indirect	Consolidated	100.00%	-
BRF Shanghai Management Consulting Co. Ltd.	Advisory and related services	China	Indirect	Consolidated	100.00%	100.00%
BRF Shanghai Trading Co. Ltd.	Commercialization and distribution of products	China	Indirect	Consolidated	100.00%	100.00%
BRF Singapore PTE Ltd.	Marketing and logistics services	Singapore	Indirect	Consolidated	100.00%	100.00%
BRF Germany GmbH	Import and commercialization of products	Germany	Indirect	Consolidated	100.00%	100.00%
BRF Holland B.V.	Import and commercialization of products	The Netherlands	Indirect	Consolidated	100.00%	100.00%
Alimentos Calchaqui Productos S.A.	(f) Industrialization and commercialization of products	Argentina	Indirect	Consolidated	5.00%	-
BRF B.V.	Industrialization, import and commercialization of products	The Netherlands	Indirect	Consolidated	100.00%	100.00%
BRF Hungary LLC	Import and commercialization of products	Hungary	Indirect	Consolidated	100.00%	100.00%
BRF Iberia Alimentos SL	Import and commercialization of products	Spain	Indirect	Consolidated	100.00%	100.00%
BRF Invicta Ltd.	Import, commercialization and distribution of products	England	Indirect	Consolidated	62.00%	62.00%
Invicta Food Products Ltd.	Import and commercialization of products	England	Indirect	Consolidated	100.00%	100.00%
BRF Wrexham Ltd.	Industrialization, import and commercialization of products	England	Indirect	Consolidated	100.00%	100.00%
Invicta Food Group Ltd.	(b) Import, commercialization and distribution of products	England	Indirect	Consolidated	100.00%	100.00%
Invicta Foods Ltd.	Import, commercialization and distribution of products	England	Indirect	Consolidated	100.00%	100.00%
Invicta Foodservice Ltd.	Import, commercialization and distribution of products	England	Indirect	Consolidated	100.00%	100.00%
Universal Meats (UK) Ltd.	(b) (e) Import, industrialization, commercialization and distribution of products	England	Indirect	Consolidated	100.00%	-
BRF Italia SPA	Import and commercialization of products	Italy	Indirect	Consolidated	67.00%	67.00%
Compañía Paraguaya Comercial S.A.	(f) Import and commercialization of products	Paraguay	Indirect	Consolidated	99.00%	-
Eclipse Holding Cooperativ U.A.	(h) Holding	Argentina	Indirect	Consolidated	50.00%	-
Buenos Aires Fortune S.A.	(h) Holding	Argentina	Indirect	Consolidated	5.00%	-
Cabaña San Nestor S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	43.33%	-
Eporpan S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	13.32%	-
Campo Austral S.A.	(h) Industrialization and commercialization of products	Argentina	Indirect	Consolidated	65.50%	-
Degesa Argentina S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	4.99%	-
Itega S.A.	(h) Holding	Argentina	Indirect	Consolidated	96.00%	-
Porcinos Cordobeses S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	51.04%	-
Eclipse Latam Holdings	(h) Holding	Argentina	Indirect	Consolidated	100.00%	-
Buenos Aires Fortune S.A.	(h) Holding	Argentina	Indirect	Consolidated	95.00%	-
Cabaña San Nestor S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	2.76%	-
Campo Austral S.A.	(h) Industrialization and commercialization of products	Argentina	Indirect	Consolidated	34.50%	-
Degesa Argentina S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	95.01%	-
Eporpan S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	51.07%	-
Híbridos Argentinos S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	95.00%	-
Industria Frigorífico Expork S.A.	(h) Slaughtering	Argentina	Indirect	Consolidated	78.52%	-
Itega S.A.	(h) Holding	Argentina	Indirect	Consolidated	4.00%	-
Porcinos Cordobeses S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	14.34%	-
Porcinos Cordobeses S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	5.88%	-
Eporpan S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	35.61%	-
Cabaña San Nestor S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	53.91%	-
Híbridos Argentinos S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	5.00%	-
Porcinos Cordobeses S.A.	(h) Rearing and fattening of porks	Argentina	Indirect	Consolidated	28.74%	-
Industria Frigorífico Expork S.A.	(h) Slaughtering	Argentina	Indirect	Consolidated	21.48%	-
Federal Foods LLC	(c) Import, commercialization and distribution of products	United Arab Emirates	Indirect	Consolidated	49.00%	49.00%
Federal Foods Omã	(c) Import, commercialization and distribution of products	Oman	Indirect	Consolidated	49.00%	49.00%
Federal Foods Qatar	(c) Import, commercialization and distribution of products	Qatar	Indirect	Consolidated	49.00%	49.00%
Golden Foods Poultry Limited	(d) Holding	Thailand	Indirect	Consolidated	48.52%	-
Golden Poultry Siam Limited	(d) Holding	Thailand	Indirect	Consolidated	51.84%	-
Golden Poultry Siam Limited	(d) Holding	Thailand	Indirect	Consolidated	48.16%	-
BRF Thailand Limited	(d) Import, industrialization, commercialization and distribution of products	Thailand	Indirect	Consolidated	100.00%	-
BRF Feed Thailand Limited	(d) Import, industrialization, commercialization and distribution of products	Thailand	Indirect	Consolidated	100.00%	-
Golden Foods Sales (Europe) Limited	(d) Holding e trading	Thailand	Indirect	Consolidated	100.00%	-
Golden Quality Foods Europe BV	(d) Import, commercialization and distribution of products	Thailand	Indirect	Consolidated	100.00%	-
Golden Quality Foods Netherlands BV	(d) Import, commercialization and distribution of products	Thailand	Indirect	Consolidated	100.00%	-
Golden Foods Siam Europe Limited	(b) (d) Import, commercialization and distribution of products	Thailand	Indirect	Consolidated	100.00%	-
Perdigão Europe Lda.	(b) Import and commercialization of products	Portugal	Indirect	Consolidated	100.00%	100.00%
Perdigão International Ltd.	(b) Import and commercialization of products	Cayman Island	Indirect	Consolidated	100.00%	100.00%
BFF International Ltd.	(b) Financial fundraising	Cayman Island	Indirect	Consolidated	100.00%	100.00%
Higilme International	(a) Import and commercialization of products	Chile	Indirect	Consolidated	40.00%	40.00%
Sadia Chile S.A.	(a) Import and commercialization of products	Germany	Indirect	Consolidated	100.00%	100.00%
Sadia Foods GmbH	(a) Import and commercialization of products	Russia	Indirect	Consolidated	10.00%	10.00%
BRF Foods LLC	(a) Import and commercialization of products	Singapore	Joint venture	Equity pick-up	49.00%	49.00%
SATS BRF Food PTE Ltd.	(a) Import, industrialization, commercialization and distribution of products	Singapore	Joint venture	Equity pick-up	49.00%	49.00%
Wellax Food Logistics C.P.A.S.U. Lda.	(a) Import and commercialization of products	Portugal	Indirect	Consolidated	100.00%	100.00%
Establecimiento Levino Zaccardi y Cia. S.A.	(a) Industrialization and commercializations of dairy products	Argentina	Direct	Consolidated	98.26%	98.26%
K&S Alimentos S.A.	(a) Industrialization and commercialization of products	Brazil	Affiliate	Consolidated	100.00%	49.00%
PP-BIO Administração de bem próprio S.A.	(a) Management of assets	Brazil	Affiliate	Equity pick-up	33.33%	33.33%
PSA Laboratório Veterinário Ltda.	(a) Veterinary activities	Brazil	Direct	Consolidated	99.99%	99.99%
Sino dos Alpes Alimentos Ltda.	(a) Industrialization and commercialization of products	Brazil	Indirect	Consolidated	99.99%	99.99%
PR-SAD Administração de bem próprio S.A.	(a) Management of assets	Brazil	Affiliate	Equity pick-up	33.33%	33.33%

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

Entity	Main activity	Country	Participation	Accounting method	% equity interest	
					06.30.16	12.31.15
Quickfood S.A.	Industrialization and commercialization of products	Argentina	Direct	Consolidated	90.05%	90.05%
Sadia Alimentos S.A.	Holding	Argentina	Direct	Consolidated	43.10%	43.10%
Avex S.A.	Industrialization and commercialization of products	Argentina	Indirect	Consolidated	33.98%	33.98%
Sadia International Ltd.	Import and commercialization of products	Cayman Island	Direct	Consolidated	100.00%	100.00%
Sadia Chile S.A.	Import and commercialization of products	Chile	Indirect	Consolidated	60.00%	60.00%
Sadia Uruguay S.A.	Import and commercialization of products	Uruguay	Indirect	Consolidated	5.10%	5.10%
Avex S.A.	Industrialization and commercialization of products	Argentina	Indirect	Consolidated	66.02%	66.02%
Compañía Paraguaya Comercial S.A.	(f) Import and commercialization of products	Paraguay	Indirect	Consolidated	1.00%	-
Sadia Alimentos S.A.	Holding	Argentina	Indirect	Consolidated	56.90%	56.90%
Sadia Overseas Ltd.	Financial fundraising	Cayman Island	Direct	Consolidated	100.00%	100.00%
Sadia Uruguay S.A.	Import and commercialization of products	Uruguay	Direct	Consolidated	94.90%	94.90%
UP Alimentos Ltda.	Industrialization and commercialization of products	Brazil	Affiliate	Equity pick-up	50.00%	50.00%
Vip S.A. Emp. Part. Imobiliárias	Commercialization of own real estate	Brazil	Direct	Consolidated	100.00%	100.00%
Establecimiento Levino Zaccardi y Cia. S.A.	(a) Industrialization and commercialization of dairy products	Argentina	Indirect	Consolidated	1.74%	1.74%
PSA Laboratório Veterinário Ltda.	Veterinary activities	Brazil	Indirect	Consolidated	0.01%	0.01%
Sino dos Alpes Alimentos Ltda.	(g) Industrialization and commercialization of products	Brazil	Indirect	Consolidated	0.01%	0.01%

- (a) Dormant subsidiaries.
- (b) The wholly-owned subsidiary BRF Global GmbH operates as a trading in the European market and owns 101 direct subsidiaries in Madeira, Portugal, with an investment of R\$6.5 as of June 30, 2016 (R\$4.0 as of December 31, 2015) and a direct subsidiary in Den Bosch, The Netherlands, denominated Qualy 20 with an investment of R\$6.0 as of June 30, 2016 (R\$8.2 as of December 31, 2015). The wholly-owned subsidiary Qualy 5201 B.V. owns 212 subsidiaries in Den Bosh, The Netherlands, being the amount of this investment of R\$22.3 as of June 30, 2016 (R\$22.3 as of December 31, 2015). The indirect subsidiary Invicta Food Group Ltd. owns 120 direct subsidiaries in Ashford, England, with an investment of R\$118.2 as of June 30, 2016 (R\$161.2 as of December 31, 2015). The indirect subsidiary Universal Meats (UK) Ltd. owns 99 direct subsidiaries in Ashford, England, with an investment of R\$39.4 as of June 30, 2016. The indirect subsidiary Golden Foods Siam Europe Ltd. (GFE) owns 32 direct subsidiaries in Aberford, England, with an investment of R\$107.5 as of June 30, 2016. The purpose of those subsidiaries is to operate in the European market to increase the Company's market share, which is regulated by a system of poultry and turkey meat import quotas.
- (c) The Company owns 49% of equity interest with rights for 60% of the dividends as permitted by the Federal Law 8/1984, which is effective in the United Arab Emirates. According to the shareholder's agreement, the Company holds 100% of the economic interest.
- (d) On January 26, 2016, acquisition of 48.52% of equity interest in Golden Foods Poultry Limited and 48.16% of equity interest in Golden Poultry Siam Limited. The Company, according to the shareholder's agreement, owns substantial part of the economic rights of such entities. In addition, on January 26, 2016, acquisition of 100% of equity interest in Golden Foods Sales (Europe) Limited and Golden Foods Siam Europe Limited.
- (e) On February 01, 2016, acquisition of 100% of equity interest in Universal Meats (UK) Ltd.
- (f) On February 25, 2016, acquisition of 100% of equity interest in Compañía Paraguaya Comercial S.A.
- (g) On March 18, 2016, the Company acquired the remaining equity interest and thus holds 100% of equity interest in K&S Alimentos S.A.
- (h) On April 13, 2016, acquisition of 50% of equity interest in Eclipse Holding Coöperatief UA and its subsidiaries.
- (i) On May 10, 2016, acquisition of 100% of equity interest in Alimentos Calchaquí Productos 7 S.A..
- (j) On June 10, 2016, establishment of BRF Malaysia Snd Bhd with 100% of equity interest.
- (k) On June 20, 2016, acquisition of 30% of equity interest, becoming the holder of 70% of equity interest with rights for 99% of the dividends as permitted by the Federal Law, which is effective in the Sultanate of Oman. According to the shareholder's agreement, the Company holds 100% of the economic interest.
- (l) The Company owns 49% of equity interest with rights for 90% of the dividends as permitted by the Federal Law 8/1984, which is effective in the United Arab Emirates. According to the shareholder's agreement, the Company holds 100% of the economic interest.

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

1.2. Step acquisition – Al Khan Foodstuff LLC. (“AKF”)

On July 03, 2014, BRF acquired 40% of equity interest on AKF, classifying the investment as a joint venture.

On June 20, 2016, the Company concluded the acquisition of the control of AKF, becoming the beneficiary of 100% of its economic interest. The transaction amount totaled US\$32.6 (equivalent to R\$110.3) (note 6.3).

1.3. Business combination with Alimentos Calchaquí Productos 7 S.A. (“Calchaquí”)

On March 22, 2016, BRF announced to the market that it has signed, through its wholly-owned subsidiaries BRF GmbH and BRF Holland B.V., an agreement for the acquisition of the total shares issued by Calchaquí (“transaction”), a traditional Argentinean company, which is a leader in the region’s cold cuts market and owner of leading brands such as *Calchaquí* and *Bocatti*.

The transaction was concluded for US\$104.7 (equivalent to R\$364.1) (note 6.2).

1.4. Shares purchase agreement with Globosuínos Agropecuária S.A. (“Globosuínos”)

On April 08, 2016, BRF announced to the market that it has signed an agreement for the acquisition of the total shares of a limited company to be constituted by Globosuínos (“transaction”), which, on the transaction closing date, will hold certain assets currently held by Globosuínos.

Subject to the satisfaction of the conditions precedent set forth in the agreement, which includes the approval from the Administrative Council for Economic Defense (“CADE”), the parties will execute the documents providing for the acquisition in the total amount of R\$20.2.

1.5. Step acquisition – Eclipse Holding Cöoperatief UA S.A. (“Eclipse”)

On April 14, 2016, the conditions precedent were fulfilled, and BRF concluded the first step of the transaction, acquiring 50% of equity interest for US\$39.7 (equivalent to R\$139.6), paid in cash (note 6.1).

1.6. Seasonality

In Brazil and LATAM operating segments, in the months of November and December of each year, the Company is impacted by seasonality due to Christmas and New Year Celebrations, being the best-selling products in this period: turkey, Chester, ham and pork loins.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

In MENA operating segment, seasonality is due to Ramadan, which is the holy month of the Muslim calendar. The start of Ramadan depends on the beginning of the moon cycle and therefore can vary each year.

2. MANAGEMENT'S STATEMENT AND BASIS OF PREPARATION AND PRESENTATION OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Company's interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for interim financial reporting in accordance with IAS 34 – Interim Financial Reporting ("IAS 34").

The Company's interim consolidated financial statements are expressed in millions of Brazilian Reais ("R\$"), as well as the amounts of other currencies disclosed, when applicable, were also expressed in thousands.

The preparation of the Company's interim consolidated financial statements requires Management to make judgments, use estimates and adopt assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, as well as the disclosures of contingent liabilities. However, the uncertainty inherent to these judgments, assumptions and estimates could result in material adjustments to the carrying amounts of the affected assets and liabilities in future periods.

The Company reviews its judgments, estimates and assumptions on a quarterly basis.

The interim consolidated financial statements were prepared on the historical cost, except for the following relevant items recognized in the balance sheet:

- (i) derivative and non-derivative financial instruments measured at fair value;
- (ii) available for sale financial assets measured at fair value;
- (iii) marketable securities classified as cash and cash equivalents measured at fair value;
- (iv) share-based payments and employee benefits measured at fair value, and
- (v) biological assets measured at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial information have been prepared according to IAS 34, which establishes the minimum content of interim financial statement and the principles for measurement and recognition of a full or condensed set of financial statements for an interim period.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

The interim consolidated financial statements aim to provide updated information based on the last consolidated financial statements disclosed by the Company. Therefore, the interim consolidated financial statements focus on new activities, events and circumstances and do not duplicate the information previously disclosed, except in the case where Management judged that the maintenance of the information was relevant.

The interim consolidated financial statements were consistently prepared based on the accounting policies and estimates calculation methodology adopted in the preparation of the consolidated financial statements for the year ended December 31, 2015 (note 3).

There were no changes on such policies and estimates calculation methodology. As allowed by IAS 34, Management decided not to disclose again the details of the accounting policies adopted by the Company. Hence, the interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2015 in order to allow the users of this financial information to further understand the Company's capacity of profit and future cash flows generation as well as its financial condition and liquidity.

The exchange rates in Brazilian Reais that are effective at the balance sheet dates are as follows:

Exchange rate at the balance sheet date	06.30.16	12.31.15
U.S. Dollar (US\$ or USD)	3.2098	3.9048
Euro (€ or EUR)	3.5414	4.2504
Pound Sterling (£ or GBP)	4.2511	5.7881
Argentine Peso (\$) or ARS)	0.2148	0.3017
Omani Riyal (OMR)	8.3371	10.1529
Dirham (AED)	0.8740	1.0631
Saudi Riyal (SAR)	0.8564	1.0406
Bath (THB)	0.0913	0.1083
Qatar Riyal (QAR)	0.8815	1.0725
Kwanza (AOA)	0.0195	0.0290
Average rates		
U.S. Dollar (US\$ or USD)	3.7099	2.9678
Euro (€ or EUR)	4.1371	3.3084
Pound Sterling (£ or GBP)	5.3162	4.5241
Argentine Peso (\$) or ARS)	0.2593	0.3364
Omani Riyal (OMR)	9.6437	7.7097
Dirham (AED)	1.0102	0.8080
Saudi Riyal (SAR)	0.9894	0.7912
Bath (THB)	0.1046	0.0901
Qatar Riyal (QAR)	1.0190	0.8152
Kwanza (AOA)	0.0231	0.0274

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

4.1. Overview

In the normal course of its business, the Company is exposed to credit, liquidity and market risks, which are actively managed in conformity to the Financial Risk and Strategic Documents Management Policy (“Risk Policy”) and internal guidelines subject to such policy. The policy and guidelines, as well as the monitoring process, evaluation and approval processes of risk management were disclosed in details in the consolidated financial statements for the year ended December 31, 2015 (note 4) and there were no changes in the six-month period ended June 30, 2016.

a. Credit risk management

The Company is subject to the credit risk related to trade accounts receivable, financial investments and derivative contracts.

Credit risk associated with trade accounts receivable is actively managed by dedicated team, through specific systems. Furthermore, it should be noted that the diversification of the customer portfolio and the concession of credit to customers with good financial and operational conditions. The Company does not usually require collateral for sales to customer, and it has contracted credit insurance policy for specific markets.

Credit risk associated with financial investments and derivative contracts is mitigated by the Company’s policy of working with prime institutions.

On June 30, 2016, the Company had financial investments over R\$100.0 at the following financial institutions: Banco BNP, Banco Bradesco, Banco do Brasil, Banco Itaú, Banco Santander, Caixa Econômica Federal, Deutsche Bank and Standard Chartered.

The Company also held derivative contracts with the following financial institutions: Banco BNP, Banco Bradesco, Banco do Brasil, Banco HSBC, Banco Itaú, Banco Safra, Banco Santander, Banco Votorantim, Citibank, Deutsche Bank, Ing Bank, Merrill Lynch, Morgan Stanley and Rabobank.

b. Liquidity risk management

Liquidity risk management aims to reduce the impacts caused by events that may impact the Company’s cash flow. Thus, the Company utilizes the following metrics:

- Cash Flow at Risk (“CFaR”), which aims to statistically estimates the cash flows for the next twelve months and the Company’s liquidity exposure. The Company determined that the minimum cash available should be equivalent mainly to the average monthly billing and EBITDA for the last twelve-month period; and

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

- Value at Risk ("VaR") is used for derivative transactions that require payments of periodic adjustments. Currently, the Company holds only BM&FBOVESPA operations with daily adjustments and in order to monitor them, such methodology is utilized, which statistically measures potential maximum adjustments to be paid at intervals of 1 to 21 days.

The Company maintains its leverage levels in order to avoid any impact to its ability to settle commitments and obligations. As a guideline, the majority of the debt should be in long-term. On June 30, 2016, the long-term debt portion accounted for 77.9% (82.7% as of December 31, 2015) of the total outstanding debt with an average term greater than 5 years.

The table below summarizes the commitments and contractual obligations that may impact the Company's liquidity:

	06.30.16							
	Book value	Cash flow contracted	Up to 6 months	2017	2018	2019	2020	After 5 years
Non derivative financial liabilities								
Loans and financing	9,311.6	16,862.1	2,543.9	4,605.2	3,474.6	5,643.9	574.3	20.3
BRF bonds	6,716.2	11,828.7	176.7	415.8	1,377.1	338.3	338.3	9,182.5
BFF bonds	392.6	642.4	18.1	36.1	36.1	36.1	516.0	-
Sadia bonds	364.4	507.3	16.3	491.0	-	-	-	-
Quickfood bonds	175.0	151.0	24.8	37.0	27.4	19.0	42.8	-
Trade accounts payable	5,346.6	5,346.6	5,346.6	-	-	-	-	-
Supply chain finance	743.6	743.6	743.6	-	-	-	-	-
Financial lease	190.8	294.5	38.2	53.1	42.0	33.6	18.7	109.0
Operational lease	-	404.5	172.9	145.5	46.0	14.5	5.8	19.8
Derivative financial liabilities								
Financial instruments designated as cash flow hedge								
Interest rate and exchange rate derivatives	217.8	233.9	6.0	20.8	206.1	0.9	-	-
Deliverable forwards contracts	0.1	0.1	0.1	-	-	-	-	-
Currency derivatives (options)	35.0	19.1	19.1	-	-	-	-	-
Commodities derivatives (NDF)	3.0	74.8	74.8	-	-	-	-	-
Financial instruments not designated as cash flow hedge								
Currency derivatives (NDF)	35.6	30.9	30.9	-	-	-	-	-
Currency derivatives (Future)	2.5	2.5	2.5	-	-	-	-	-
Interest rate and exchange rate derivatives	594.9	493.9	323.3	170.5	0.2	-	-	-
Commodities derivatives (Future)	3.3	3.3	3.3	-	-	-	-	-

c. Interest rate risk management

Interest rate risk is the one the Company incurs in economic losses resulting from changes in these rates, which could affect its assets and liabilities.

The Company's Risk Policy does not restrict exposure to different interest rates, neither establishes limits for fixed or floating rates. However, the Company periodically monitors the market interest rates, in order to evaluate any need to enter into hedging transaction to protect from the exposure to fluctuation of such rates and manage the mismatch between its financial investments and debts. In these transactions, the Company enters into contracts that exchange floating rate for fixed rate or vice-versa. Such transactions were designated by the Company as cash flow hedge.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

The Company's indebtedness is essentially tied to the London Interbank Offered rate ("LIBOR"), fixed coupon ("R\$ and USD"), Long Term Interest Rate ("TJLP") and Monetary Unit of the Bank National Economic and Social Development ("UMBNDDES") rates. In case of adverse changes in the market that result in LIBOR, TJLP and UMBNDDES rise, the cost of the floating indebtedness rises and on the other hand, the cost of the fixed indebtedness decreases in relative terms.

With regards to the Company's marketable securities, the main index is the Interbank Deposit Certificate ("CDI") for investments in the domestic market and fixed coupon ("USD") for investments in the foreign market.

d. Foreign exchange risk management

Foreign exchange risk is the one related to variations of foreign exchange rates that may cause the Company to incur unexpected losses, leading to a reduction of assets or an increase in liabilities.

The Risk Policy is intended to protect the Company's results from these variations, in order to:

- Protect operating revenues and costs that are related to transactions arising from commercial activities, such as estimated exports and purchases of raw materials, utilizing hedging instruments, that is, to protect its future cash flow denominated in foreign currency; and
- Manage assets and liabilities denominated in foreign currencies in order to protect the balance sheet of the Company, through the use of over-the counter and futures transactions.

The Company's consolidated financial statements are mainly impacted by the following currencies: U.S. Dollar, Euro, Iene, Pound Sterling, Baht and Argentine Peso.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

Assets and liabilities denominated in foreign currency are as follows:

	06.30.16	12.31.15
	Total exposure	
Cash and cash equivalents and marketable securities	3,015.5	5,323.0
Trade accounts receivable	2,114.9	2,146.0
Accounts receivable from subsidiaries (unconsolidated)	110.3	250.8
Restricted cash	124.2	1,346.3
Future dollar agreements	272.8	741.8
Dollar purchase agreement (Regular Hedge)	643.0	-
Inventories	-	0.2
Exchange rate contracts (Swap)	2,426.7	968.8
Loans and financing	(10,044.9)	(11,359.7)
Bonds designated as cash flow hedge	962.9	1,171.4
Export prepayments designated as cash flow hedge	962.9	1,171.4
Trade accounts payable	(1,566.6)	(1,496.8)
Supply chain finance	(418.3)	(489.0)
Other assets and liabilities, net	165.6	(232.1)
	(1,231.0)	(457.9)
Foreign exchange exposure (in US\$) liabilities	(383.5)	(117.3)
Foreign exchange exposure impacting the statement of income (in US\$) liabilities	(202.4)	(39.8)
Foreign exchange exposure included in other comprehensive income (in US\$) liabilities	(181.1)	(77.5)
Foreign exchange exposure (in US\$) liabilities	(383.5)	(117.3)

The Company's net foreign exchange exposure as of June 30, 2016 is within the limit set by the Company's Risk Policy.

e. Commodity price risk management

In the normal course of its operations, the Company purchases commodities, mainly corn, soymeal, oil and live hogs, which are some of the individual components of production cost.

Corn, soymeal and oil prices are subject to volatility resulting from weather conditions, crop yield, transportation and storage costs, government's agricultural policy, foreign exchange rates and the prices of these commodities on the international market, among others factors. The prices of hogs acquired from third parties are subject to market conditions and are influenced by internal availability and levels of demand in the international market, among other aspects.

The Risk Policy establishes limits for hedging the corn and soymeal purchase flow, aiming to reduce the impact resulting from a price increase of these raw materials, and may utilize derivative instruments or inventory management for this purpose. Currently, the management of inventory levels is used as a hedging instrument. Since June 2015, the Company began using derivative financial instruments to protect against fluctuations in corn purchase prices.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

f. Capital management

The Company's definition of the adequate capital structure is essentially associated with (i) cash strength as a tolerance factor to liquidity volatility, (ii) financial leverage and (iii) maximization of the opportunity cost of capital.

The cash and liquidity strategy takes into consideration the historical scenarios of volatility of results as well as simulations of sectorial and systemic crises and is based on permitting the resilience in scenarios of restricted access to capital.

Financial leverage aims the balance between the different sources of funding and their conditions of allocation in order to maximize the opportunity cost to BRF in its business expansion initiatives. Moreover, the objective of maintaining the investment grade disciplines the weighting of using own and third party capital.

The Company monitors levels of debt and net debt, which are shown below:

	06.30.16			12.31.15
	Current	Non-current	Total	Total
Foreign currency debt	(2,198.8)	(7,846.1)	(10,044.9)	(11,359.7)
Local currency debt	(1,549.5)	(5,365.5)	(6,915.0)	(3,819.6)
Other financial liabilities	(892.2)	-	(892.2)	(666.6)
Gross debt	(4,640.5)	(13,211.6)	(17,852.1)	(15,845.9)
Marketable securities and cash and cash equivalents	5,302.7	340.7	5,643.4	6,553.7
Other financial assets	525.8	-	525.8	129.4
Restricted cash	182.2	459.9	642.1	1,826.1
Net debt	1,370.2	(12,411.0)	(11,040.8)	(7,336.7)

4.2. Derivative and non-derivative financial instruments designated as cash flow hedge

As established by IAS 39, the Company applies cash flow hedge to its derivative instruments classified as cash flow hedge, in accordance with the Risk Policy. The cash flow hedge consists of hedging the exposure to variations of the cash flow and firm commitment, which is attributable to a particular risk associated with a recognized asset or liability, or a highly probable transaction that could affect profit and loss. The firm commitment hedge is a protection against fluctuations of a specific type of risk associated to a firm agreement to exchange a determined quantity for a determined price in a specific date, or in future determined dates.

The Risk Policy has also the purpose of determining parameters of use of financial instruments, including derivatives, which are designed to protect the operating and financial assets and liabilities, which are exposed to the variations of foreign exchange rates, the fluctuation of the interest rates and changes to the commodity prices.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

The Company, within its cash flow hedge strategy, utilizes the following financial instruments:

- Currency non-deliverable forwards – NDF;
- Commodities non-deliverable forwards – NDF;
- Interest rate and currency swap;
- Fixed exchange rate;
- Options;
- Export prepayments – PPEs; and
- Senior unsecured notes – Bonds

4.2.1 Breakdown of the balances of derivative financial instruments

The positions of outstanding derivative financial instruments are follows:

Instrument	Hedge object	Reference currency (notional)	Reference value (notional)	06.30.16	12.31.15		
				Fair value (1)	Reference value (notional)	Fair value (1)	
Financial instruments designated as cash flow hedge							
NDF - Dollar sale	Currency	US\$	-	-	44.0	(17.9)	
NDF - Euro sale	Currency	EUR	33.0	10.8	31.8	(5.5)	
NDF - Pound Sterling sale	Currency	GBP	-	-	11.0	(1.6)	
NDF - Iene sale	Currency	JPY	-	-	6,800.0	(39.6)	
Currency swap - US\$	Currency	BRL	250.0	(154.4)	250.0	(248.5)	
Interest rate swap - US\$	Interest	US\$	200.0	(24.3)	200.0	(31.8)	
Fixed exchange rate - US\$	Currency	US\$	76.0	70.0	201.0	(33.8)	
Options (Collar) - US\$	Currency	US\$	932.0	356.8	1,227.0	(124.5)	
Options (Collar) - Euro	Currency	EUR	67.0	25.1	31.0	3.5	
NDF - Corn purchase	Commodities	Ton/US\$	123.2	(1.4)	633.6	(11.7)	
Interest rate swap - US\$	Interest	US\$	200.0	(39.0)	200.0	(46.4)	
Fixed exchange rate - US\$	Currency	US\$	10.4	-	-	-	
Fixed exchange rate - Euro	Currency	EUR	3.3	0.1	-	-	
Fixed exchange rate - Pound Sterling	Currency	GBP	7.6	3.2	-	-	
				246.9		(557.8)	
Financial instruments not designated as cash flow hedge							
NDF - Iene sale	Currency	JPY	-	-	6,451.4	(1.2)	
NDF - Purchase of US\$	Currency	US\$	200.0	(35.4)	50.0	(2.4)	
Currency swap - US\$	Currency	US\$	650.5	(567.1)	250.0	(1.0)	
Currency swap - Euro	Currency	EUR	27.5	(27.5)	-	-	
Interest rate - R\$	Interest	BRL	50.0	(0.1)	50.0	(2.3)	
NDF - Corn purchase	Commodities	Ton/US\$	309.6	20.5	54.8	2.2	
Future - BM&FBovespa	Currency	US\$	85.0	(2.5)	190.0	14.6	
Future - BM&FBovespa	Commodities	Ton/US\$	0.2	(3.3)	-	-	
NDF - Purchase of Euro	Currency	EUR	50.0	(0.2)	150.0	1.3	
NDF - Pound Sterling sale	Currency	GBP	15.0	2.4	20.0	1.1	
NDF - Argentine Peso sale	Currency	US\$	5.0	0.1	10.0	8.0	
				(613.1)		20.3	
				(366.2)		(537.5)	

(1) The market value determination method used by the Company consists of calculating the future value based on the contracted conditions and determining the present value based on market curves, obtained from the database of Bloomberg and BM&FBovespa.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

a. Non-deliverable forwards – NDF

i. Currency non-deliverable forwards - NDF

The position of the currency non-deliverable forward – NDF, by maturity, as well as the weighted average exchange rates and the fair value, are presented as follows:

				06.30.16
PUT				R\$ x EUR
Maturities	Notional (EUR)	Average rate	Fair value	
Financial instruments designated as cash flow hedge				
July 2016	13.0	4.0851	6.6	
August 2016	20.0	3.8348	4.2	
	33.0	3.9334	10.8	

PUT				US\$ x GBP		ARS x US\$
Maturities	Notional (GBP)	Average rate	Fair value	Notional (US\$)	Average rate	Fair value
Financial instruments not designated as cash flow hedge						
August 2016	-	-	-	5.0	14.2000	0.1
September 2016	15.0	1.3753	2.4	-	-	-
	15.0	1.3753	2.4	5.0	14.2000	0.1

CALL				US\$ x R\$		US\$ x EUR
Maturities	Notional (US\$)	Average rate	Fair value	Notional (EUR)	Average rate	Fair value
Financial instruments not designated as cash flow hedge						
September 2016	200.0	3.4808	(35.4)	50.0	1.1119	(0.2)
	200.0	3.4808	(35.4)	50.0	1.1119	(0.2)

ii. Commodities non-deliverable forwards - NDF

The position of the commodities non-deliverable forwards – NDF, by maturity, as well as weighted average exchange rates and fair value, are presented as follows:

				06.30.16
Call	Quantity	Average rate	Fair value	
Maturities	Ton	US\$/Ton	Fair value	
Designated as cash flow hedge				
August 2016	59.2	157.44	-	
September 2016	17.0	150.15	(0.2)	
October 2016	42.0	153.71	(1.0)	
November 2016	5.0	156.13	(0.2)	
	123.2	155.11	(1.4)	

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

PUT	Quantity	Average rate	Fair
Maturities	Ton	US\$/Ton	value
<u>Not designated as cash flow hedge</u>			
August 2016	239.6	168.44	18.9
September 2016	70.0	153.40	1.6
	309.6	165.04	20.5

b. Interest rate and currency swaps

The position of interest rate and currency swaps is presented as follows:

06.30.16					
Instrument	Maturity	Assets (Hedged object)	Liabilities (Protected risk)	Notional	Fair value
<u>Financial instruments designated as cash flow hedge</u>					
Interest rate	01.22.18	LIBOR 6M + 2.82% p.a.	5.86% p.a.	100.0	(10.7)
Interest rate	06.18.18	LIBOR 3M + 2.60% p.a.	5.47% p.a.	100.0	(13.6)
Interest rate	02.01.19	LIBOR 6M + 2.70% p.a.	5.90% p.a.	100.0	(19.6)
Interest rate	02.01.19	LIBOR 6M + 2.70% p.a.	5.88% p.a.	100.0	(19.4)
					(63.3)
Currency swap	05.22.18	R\$ + 7.75%	US\$ + 1.60%	250.0	(154.4)
					(217.7)
<u>Financial instruments not designated as cash flow hedge</u>					
Interest rate - Bond	05.22.18	R\$ (Fixed rate of 7.75% p.a.)	68.84% CDI	50.0	(0.1)
					(0.1)
Currency swap	10.28.16	US\$ + 1,76 % p.a	86,60% CDI	100.0	(112.8)
Currency swap	11.23.16	US\$ + 2,37 % p.a	91,00% CDI	50.0	(53.2)
Currency swap	12.02.16	US\$ + L3M + 0,90 % p.a	85,95% CDI	50.0	(33.6)
Currency swap	12.16.16	US\$ + L3M + 1,10 % p.a	88,95% CDI	50.0	(33.7)
Currency swap	12.23.16	US\$ + 2,41 % p.a	90,50% CDI	50.0	(43.4)
Currency swap	12.29.16	US\$ + 2,43% p.a.	90,80% CDI	50.0	(47.4)
Currency swap	02.16.17	US\$ + 2,30% p.a.	92,80% CDI	50.0	(46.5)
Currency swap	03.03.17	US\$ + 2,70% p.a.	94,35% CDI	14.0	(7.5)
Currency swap	05.22.17	US\$	72,20% CDI	54.4	(42.9)
Currency swap	05.22.17	US\$	73,76% CDI	29.6	(24.2)
Currency swap	05.24.17	US\$	70,75% CDI	124.4	(97.7)
Currency swap	06.06.17	US\$	73,00% CDI	15.2	(12.3)
Currency swap	07.28.17	US\$	72,30% CDI	12.9	(11.9)
				650.5	(567.1)
Currency swap	06.05.17	EURO	83,03% CDI	27.5	(27.5)
					(27.5)
					(594.7)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
 June 30, 2016 (Unaudited)
 (Amounts expressed in millions of Brazilian Reals, unless otherwise stated)

c. Fixed exchange rate

The position of fixed exchange rate designated as cash flow hedge is presented as follows:

Maturities	R\$ x US\$			THB x US\$			THB x EUR			06.30.16 THB x GBP		
	Notional US\$	Average US\$	Fair value	Notional US\$	Average US\$	Fair value	Notional EUR	Average EUR	Fair value	Notional GBP	Average GBP	Fair value
Designated as cash flow hedge												
July 2016	19.0	4.1867	18.3	-	-	-	-	-	-	-	-	-
August 2016	57.0	4.1668	51.7	-	-	-	-	-	-	-	-	-
October 2016	-	-	-	-	-	-	-	-	-	2.3	56.1328	1.6
December 2016	-	-	-	10.3	35.3088	-	-	-	-	4.5	51.0185	1.4
March 2017	-	-	-	0.1	35.2027	-	1.5	39.2700	-	0.8	50.3800	0.2
April 2017	-	-	-	-	-	-	1.8	40.3100	0.1	-	-	-
	76.0	4.1733	70.0	10.4	35.3078	-	3.3	38.8296	0.1	7.6	52.2034	3.2
CALL												
	06.30.16											
Maturities	THB x US\$											
	Notional US\$	Average US\$	Fair value									
Not designated as cash flow hedge												
July 2016	-	-	-	35.3350								
	-	-	-	35.3350								

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

d. Options

The Company designates as a cash flow hedge only the variation in the intrinsic value of its options, recognizing the time value of the premium in the financial result. If the hedge is not effective and the option is not exercised due to devaluation of the Brazilian Real, the losses related to the options will be recognized as financial expenses in the statement of income.

The Company has designated transactions involving options denominated collar which is a purchase of a put option ("PUT") and a sale of a call option ("CALL").

When the market price of any of the options is not available in an active market, the fair value is based on an option pricing model (Black-Scholes or Binomial).

					06.30.16
					R\$ x US\$
	Type	Maturities	Notional (US\$)	Average US\$	Fair value
<u>Designated as cash flow hedge</u>					
Collar - Call (Sale)		July 2016	(229.0)	4.0636	-
Collar - Put (Purchase)		July 2016	229.0	3.6547	97.1
Collar - Call (Sale)		August 2016	(209.0)	4.0701	(0.9)
Collar - Put (Purchase)		August 2016	209.0	3.6143	75.9
Collar - Call (Sale)		September 2016	(199.0)	4.2014	(4.4)
Collar - Put (Purchase)		September 2016	199.0	3.6355	71.4
Collar - Call (Sale)		October 2016	(115.0)	4.4232	(0.9)
Collar - Put (Purchase)		October 2016	115.0	3.7383	50.0
Collar - Call (Sale)		November 2016	(95.0)	4.5422	(1.1)
Collar - Put (Purchase)		November 2016	95.0	3.7116	37.5
Collar - Call (Sale)		December 2016	(65.0)	4.7255	(0.9)
Collar - Put (Purchase)		December 2016	65.0	3.8154	30.8
Collar - Call (Sale)		January 2017	(10.0)	3.7680	(0.7)
Collar - Put (Purchase)		January 2017	10.0	3.4400	1.9
Collar - Call (Sale)		February 2017	(10.0)	3.8650	(0.7)
Collar - Put (Purchase)		February 2017	10.0	3.4350	1.8
					356.8

					06.30.16
					R\$ x EUR
	Type	Maturities	Notional (EUR)	Average EUR	Fair value
<u>Designated as cash flow hedge</u>					
Collar - Call (Sale)		July 2016	(37.0)	4.3804	-
Collar - Put (Purchase)		July 2016	37.0	4.0108	15.6
Collar - Call (Sale)		August 2016	(20.0)	4.4100	-
Collar - Put (Purchase)		August 2016	20.0	4.0000	7.8
Collar - Call (Sale)		January 2017	(10.0)	4.5350	(0.5)
Collar - Put (Purchase)		January 2017	10.0	3.8600	2.2
					25.1

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

4.2.2 Breakdown of the balances of non-derivative financial instruments

The position of non-derivative financial instruments is presented as follows:

Hedge Instrument	Hedge object	Reference currency (notional)	06.30.16		12.31.15	
			Value (notional)	Fair value (1)	Value (notional)	Fair value (1)
Designated as cash flow hedge						
Export prepayment - PPEs	Exchange	USD	300.0	962.9	300.0	1,171.4
Senior unsecured notes - Bonds	Exchange	USD	300.0	962.9	300.0	1,171.4
			600.0	1,925.8	600.0	2,342.8

(1) Notional converted by Ptax rate in effect at year-end.

a. Export prepayments – PPEs

The position of PPEs is presented as follows:

Hedge Instrument	Type of risk hedged	Maturities	06.30.16		
			Notional (US\$)	Average rate	Fair value
Export prepayment - PPE	US\$ (E.R.)	02.2017 to 02.2019	300.0	1.7796	962.9

b. Senior unsecured notes – Bonds

The position of bonds designated as cash flow hedges is presented as follows:

Hedge Instrument	Type of risk hedged	Maturities	06.30.16		
			Notional (US\$)	Average rate	Fair value
BRF SA BRFSBZ5	US\$ (E.R.)	06.2022	150.0	2.0213	481.5
BRF SA BRFSBZ3	US\$ (E.R.)	05.2023	150.0	2.0387	481.5
			300.0	2.0300	963.0

4.3. Gains and losses of derivative and non-derivative financial instruments

The unrealized gains and losses of derivative and non-derivative financial instruments designated as cash flow hedges are recorded as a component of other comprehensive income, as set forth below:

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

	Shareholders' Equity	
	06.30.16	12.31.15
Derivatives designated as cash flow hedge		
Foreign exchange risks	391.6	(420.6)
Interest risks	(54.9)	(66.6)
Commodity risks	13.8	3.6
	350.5	(483.6)
Non derivatives designated as cash flow hedge		
Foreign exchange risks	(783.0)	(1,200.0)
Gross losses	(432.5)	(1,683.6)
Deferred taxes on losses	136.1	560.4
Losses, net of taxes	(296.4)	(1,123.2)
Change in gross losses	1,251.2	(1,020.8)
Income tax	(424.4)	346.4
Impact in other comprehensive income	826.8	(674.4)

On June 30, 2016, the realized transactions with derivative and non-derivative financial instruments designated as cash flow hedge resulted in a gain of R\$168.9 (loss of R\$155.6 as of June 30, 2015), composed by a net gain amounting to R\$158,890 (loss of R\$139.0 as of June 30, 2015) recorded as gross revenues and a net gain of R\$10.0 (loss of R\$16.6 as of June 30, 2015) recorded in the financial result.

4.4. Breakdown of financial instruments by category – except derivatives

						06.30.16
	Loans and receivables	Available for sale	Trading securities	Held to maturity	Financial liabilities	Total
Assets						
Amortized cost						
Marketable securities	-	-	-	75.1	-	75.1
Restricted cash	-	-	124.2	517.9	-	642.1
Trade accounts receivable	3,392.6	-	-	-	-	3,392.6
Notes receivables	327.9	-	-	-	-	327.9
Other receivables	133.4	-	-	-	-	133.4
Fair value						
Marketable securities	-	574.0	363.4	-	-	937.5
Liabilities						
Amortized cost						
Trade accounts payable	-	-	-	-	(5,346.6)	(5,346.6)
Supply chain finance	-	-	-	-	(743.6)	(743.6)
Loans and financing						
Local currency	-	-	-	-	(6,915.0)	(6,915.0)
Foreign currency	-	-	-	-	(10,044.9)	(10,044.9)
Finance lease	-	-	-	-	(190.7)	(190.7)
	3,853.9	574.0	487.6	593.0	(23,240.8)	(17,732.2)

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

						12.31.15
	Loans and receivables	Available for sale	Trading securities	Held to maturity	Financial liabilities	Total
Assets						
Amortized cost						
Marketable securities	-	-	-	70.3	-	70.3
Restricted cash	-	-	-	1,826.1	-	1,826.1
Trade accounts receivable	3,880.4	-	-	-	-	3,880.4
Notes receivables	534.4	-	-	-	-	534.5
Other receivables	153.0	-	-	-	-	153.0
Fair value						
Marketable securities	-	744.9	375.6	-	-	1,120.4
Liabilities						
Amortized cost						
Trade accounts payable	-	-	-	-	(4,745.0)	(4,745.0)
Supply chain finance	-	-	-	-	(1,174.6)	(1,174.6)
Loans and financing						
Local currency	-	-	-	-	(3,819.6)	(3,819.6)
Foreign currency	-	-	-	-	(11,359.7)	(11,359.7)
Finance lease	-	-	-	-	(186.6)	(186.6)
	<u>4,567.8</u>	<u>744.9</u>	<u>375.6</u>	<u>1,896.4</u>	<u>(21,285.5)</u>	<u>(13,700.8)</u>

4.5. Determination of the fair value of financial instruments

The Company discloses its financial assets and liabilities at fair value, based on the appropriate accounting standards, which refer to concepts of valuation and disclosure requirements.

Particularly related to the disclosure, the Company applies the hierarchy requirements set out in IFRS 13, which involves the following aspects:

- The fair value is the price that an asset could be exchanged and a liability could be settled, between knowledgeable willing parties in an arm's length transaction; and
- Hierarchy on three levels for measurement of the fair value, according to observable inputs for the valuation of an asset or liability on the date of its measurement.

The fair value measurement is based on 3 levels of hierarchy which considers observable and non-observable inputs. Observable inputs reflect market data obtained from independent sources, while non-observable inputs reflect the Company's valuation methodology. These 2 types of inputs create the hierarchy of fair value set forth below:

- Level 1 – Prices quoted (unadjusted) for identical instruments in active markets. Investments in Credit linked notes, Brazilian foreign debt securities, Financial Treasury Bills ("LFT") and stocks are classified at Level 1 of the fair value hierarchy.
- Level 2 – Prices quoted in active markets for similar instruments, prices quoted for identical or similar instruments in non-active markets and evaluation models for which inputs are observable. Investments in Bank Deposit Certificates ("CDB") are classified at Level 2, since the

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

determination of fair value is based on the price quotation of similar financial instruments in non-active markets. Readily observable market inputs are used, such as interest rate forecasts, volatility factors and foreign currency rates.

- Level 3 – Instruments whose significant inputs are non-observable.

The table below presents the overall classification of financial assets and liabilities according to the valuation hierarchy. During the six-month period ended June 30, 2016, there were no changes between the 3 levels of hierarchy.

				06.30.16
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets				
Available for sale				
Credit linked notes	252.1	-	-	252.1
Brazilian foreign debt securities	56.3	-	-	56.3
Stocks	265.6	-	-	265.6
Held for trading				
Bank deposit certificates	-	45.4	-	45.4
Financial treasury bills	252.5	-	-	252.5
Investment funds	65.5	-	-	65.5
Other financial assets				
Derivatives designed as cash flow hedge	-	502.7	-	502.7
Derivatives not designated as cash flow hedge	-	23.1	-	23.1
	892.0	571.2	-	1,463.2
Liabilities				
Financial liabilities				
Other financial liabilities				
Derivatives designed as cash flow hedge	-	(256.0)	-	(256.0)
Derivatives not designated as cash flow hedge	-	(636.2)	-	(636.3)
	-	(892.2)	-	(892.3)
				12.31.15
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets				
Available for sale				
Credit linked notes	293.3	-	-	293.3
Brazilian foreign debt securities	65.9	-	-	65.9
Stocks	385.7	-	-	385.7
Held for trading				
Bank deposit certificates	-	42.5	-	42.5
Financial treasury bills	155.3	-	-	155.3
Investment funds	177.8	-	-	177.8
Other financial assets				
Derivatives designed as cash flow hedge	-	98.4	-	98.4
Derivatives not designated as cash flow hedge	-	31.0	-	31.0
	1,078.0	171.9	-	1,249.9
Liabilities				
Financial liabilities				
Other financial liabilities				
Derivatives designed as cash flow hedge	-	(656.0)	-	(656.0)
Derivatives not designated as cash flow hedge	-	(10.6)	-	(10.6)
	-	(666.6)	-	(666.6)

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

4.6. Comparison between book value and fair value of financial instruments

Except for the items presented below, the book value of all other financial instruments approximate fair value. The fair value of financial instruments presented below was based on prices observed in active markets, level 1 of the hierarchy for fair value measurement.

	Maturity	06.30.16		12.31.15	
		Book value	Fair value	Book value	Fair value
BRF bonds					
BRF SA BRFSBZ5	2022	(535.4)	(595.2)	(656.1)	(695.2)
BRF SA BRFSBZ4	2024	(2,384.7)	(2,436.3)	(2,906.4)	(2,718.6)
BRF SA BRFSBZ3	2023	(1,537.9)	(1,576.0)	(1,881.6)	(1,781.2)
BRF SA BRFSBZ7	2018	(502.5)	(460.0)	(502.1)	(427.0)
BRF SA BRFSBZ2	2022	(1,755.6)	(1,750.1)	(2,139.5)	(1,990.8)
BFF bonds					
Sadia Overseas BRFSBZ7	2020	(392.6)	(431.9)	(475.3)	(499.7)
Sadia bonds					
Sadia Overseas BRFSBZ6	2017	(364.4)	(374.1)	(443.3)	(462.0)
Quickfood bonds					
Quickfood	2016	(175.0)	(175.0)	(285.7)	(285.7)
		(7,648.2)	(7,798.6)	(9,290.0)	(8,860.2)

4.7. Table of sensitivity analysis

In preparation of the sensitivity analysis, Management considered the derivative financial instruments used to mitigate the currency risk and commodities as relevant risks and could affect the Company's results. The Management believes that fluctuations in interest rates do not significantly affect its financial results, since have opted for fixing through derivative financial instruments (interest rate swap), a considerable part of its post-fixed debt.

The table below presents the possible impacts of derivative and non-derivative financial instruments considering scenarios of appreciation and depreciation of the main traded currencies by the Company with respect to its functional currency (Brazilian Real) and changes in corn prices on the Chicago Board of Trade ("CBOT"). The amount of exports utilized corresponds to notional value of derivative financial instruments entered into in order to hedge highly probable transaction.

Quantitative and qualitative information used in preparing these analyzes are based on the position for the period ended June 30, 2016. Future results to be measured may differ significantly from those estimates amounts, if the reality becomes different from the assumptions used.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

		3.2098	2.8888	2.4074	4.0123	4.8147
Parity - Brazilian Reais x U.S. Dollar		Current	Scenario I	Scenario II	Scenario III	Scenario IV
Transaction/Instrument	Risk	Scenario	10% appreciation	25% appreciation	25% devaluation	50% devaluation
Designated as cash flow hedge						
Fixed exchange rate	Devaluation of R\$	73.2	97.6	134.2	12.2	(48.8)
Options - currencies	Devaluation of R\$	423.5	722.6	1,171.4	-	546.3
Export prepayments	Devaluation of R\$	(429.1)	(332.8)	(188.3)	(669.8)	(910.5)
Bonds	Devaluation of R\$	(353.9)	(257.6)	(113.2)	(594.7)	(835.4)
Swaps	Devaluation of R\$	(145.7)	(106.1)	(46.8)	(244.6)	(343.6)
Exports	Appreciation of R\$	(437.1)	(774.0)	(1,279.4)	80.8	(371.1)
Not designated as cash flow hedge						
NDF - Purchase	Appreciation of R\$	(54.2)	(118.4)	(214.7)	106.3	266.8
Dollar Future sales - BM&FBovespa	Devaluation of R\$	-	27.3	68.2	(68.2)	(136.4)
Net effect		(923.3)	(741.4)	(468.6)	(1,378.0)	(1,832.7)
Shareholders' equity		(928.7)	(636.5)	(348.3)	(1,509.1)	(2,089.5)
Statement of income		5.4	(44.9)	(120.3)	131.1	256.8
		3.5414	3.1873	2.6561	4.4268	5.3121
Parity - Brazilian Reais x Euro						
Transaction/Instrument	Risk	Current	Scenario I	Scenario II	Scenario III	Scenario IV
		Scenario	10% appreciation	25% appreciation	25% devaluation	50% devaluation
Designated as cash flow hedge						
Non-deliverable forward	Devaluation of R\$	12.9	24.6	42.2	(16.3)	(45.5)
Currency options	Devaluation of R\$	29.7	53.5	89.0	1.0	60.3
Exports	Appreciation of R\$	(42.7)	(78.1)	(131.2)	15.3	(14.8)
Not designated as cash flow hedge						
Non-deliverable forward	Devaluation of R\$	(1.4)	(19.1)	(45.6)	42.9	87.2
Net effect		(1.5)	(19.1)	(45.6)	42.9	87.2
Statement of income		(1.4)	(19.1)	(45.6)	42.9	87.2
		4.2511	3.8260	3.1883	5.3139	6.3767
Parity - Brazilian Reais x GBP						
Transaction/Instrument	Risk	Current	Scenario I	Scenario II	Scenario III	Scenario IV
		Scenario	10% appreciation	25% appreciation	25% devaluation	50% devaluation
Not designated as cash flow hedge						
Non-deliverable forward	Devaluation of R\$	(2.4)	(8.8)	(18.4)	13.5	29.4
Net effect		(2.4)	(8.8)	(18.4)	13.5	29.4
Statement of income		(2.4)	(8.8)	(18.4)	13.5	29.4
		145.70	131.13	109.27	182.12	218.55
Price parity CBOT - US\$/Ton						
Transaction/Instrument	Risk	Current	Scenario I	Scenario II	Scenario III	Scenario IV
		Scenario	Decrease 10%	Decrease 25%	Increase 25%	Increase 50%
Designated as cash flow hedge						
Non-deliverable forward	Increase in the price of corn	(2.2)	(5.9)	(11.6)	7.2	16.6
Not designated as cash flow hedge						
NDF - Corn purchase	Increase in the price of corn	19.2	33.7	55.4	(17.0)	(53.2)
Net effect		17.0	27.8	43.8	(9.8)	(36.6)
Shareholders' equity		(2.2)	(5.9)	(11.6)	7.2	16.6
Statement of income		19.2	33.7	55.4	(17.0)	(53.2)

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

5. SEGMENT INFORMATION

The operating segments are reported consistently with the management reports provided to the Chief Decision Maker (“CDM”) for assessing the performance of each segment and allocating resources.

As disclosed in note 1, in order to reflect the management structure changes the segment information of 2016 and 2015 were prepared considering the 7 operating segments, as follows: Brazil, Latin America (“LATAM”), Europe, Middle East and North of Africa (“MENA”), Africa, Asia and Other Segments, which primarily observe the geographical structure of the Company. The segment information for the period ended June 30, 2015 was prepared in order to be comparable to the information as of June 30, 2016.

These segments are disclosed according to the nature of products as described below:

- Poultry: involves the production and sale of whole poultry and in-natura cuts.
- Pork and other: involves the production and sale of in-natura cuts.
- Processed foods: involves the production and sale of frozen and processed products derived from poultry, pork and beef and other processed foods such as margarine, vegetable and soybean-based products.
- Other sales: involves the sale of flour for food service and others.

Other segments includes sale of in-natura beef cuts, agricultural products and animal feed.

The net sales for each operating segment are presented below:

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

Net sales	06.30.16	06.30.15
Brazil		
In-natura	1,475.2	1,480.3
Poultry	1,112.3	1,087.7
Pork and other	362.9	392.6
Processed foods	5,585.2	5,898.6
Other sales	46.0	10.5
	7,106.4	7,389.4
Europe		
In-natura	902.7	617.1
Poultry	521.3	293.8
Pork and other	381.4	323.3
Processed foods	1,074.5	851.2
	1,977.3	1,468.3
MENA		
In-natura	2,865.5	2,736.1
Poultry	2,845.3	2,721.8
Other	20.1	14.2
Processed foods	318.3	186.3
	3,183.8	2,922.4
Africa		
In-natura	297.4	263.9
Poultry	241.9	215.0
Pork and other	55.5	48.9
Processed foods	77.9	64.8
	375.3	328.7
Asia		
In-natura	2,005.3	1,604.9
Poultry	1,734.7	1,449.4
Pork and other	270.6	155.5
Processed foods	243.7	38.4
Other sales	83.2	-
	2,332.2	1,643.3
LATAM		
In-natura	317.5	302.7
Poultry	261.7	175.7
Pork and other	55.8	127.1
Processed foods	623.1	521.0
Other sales	7.9	27.3
	948.5	851.0
Other segments	711.4	357.8
	16,634.9	14,960.9

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

The operating income for each operating segment is presented below:

	06.30.16	06.30.15
Brazil	536.3	781.9
Europe	70.4	208.8
MENA	259.7	475.6
Africa	27.9	49.5
Asia	273.4	419.0
LATAM	34.9	11.2
Other segments	45.8	17.4
Sub total	1,248.4	1,963.4
Corporate	(64.6)	(264.7)
	1,183.8	1,698.7

The Corporate amounts presented above refer to extraordinary events not attributable to the operating segments, which are recognized as other operating income (expense). The main events of 2016 are related to losses with tax contingencies. For the six-month period ended June 30, 2015, the main events were: R\$86.5 of equity pick-up of Minerva, R\$83.6 of tax contingencies losses and R\$41.7 of losses with the strike led by truck drivers.

No customer was individually or in aggregate responsible for more than 5% of net sales for the six-month period ended June 30, 2016 and 2015.

The goodwill and intangible assets with indefinite useful life (trademarks) arising from business combination were allocated to the reportable operating segments, considering the nature of the products manufactured in each segment (cash-generating unit), as presented below:

	Goodwill		Trademarks		Total	
	06.30.16	12.31.15	06.30.16	12.31.15	06.30.16	12.31.15
Brazil	1,151.5	1,151.5	982.5	982.5	2,134.0	2,134.0
Europe	681.3	481.7	20.1	20.1	701.4	501.8
MENA	1,405.8	834.3	170.4	170.4	1,576.3	1,004.8
Asia	749.9	78.3	-	-	749.9	78.3
LATAM	612.9	232.3	141.7	199.0	754.6	431.3
	4,601.4	2,778.1	1,314.7	1,372.0	5,916.2	4,150.2

Information referring to the total assets by operating segments is not being disclosed, as it is not included in the set of information made available to the CDM, which take investment decisions and determine allocation of assets on a consolidated basis.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reals, unless otherwise stated)

6. BUSINESS COMBINATION

6.1. Business combination with Eclipse Holding Cöoperatief UA. (“Eclipse”)

On December 01, 2015, BRF signed a binding offer with Pampa Agribusiness Fund L.P. and Pampa Agribusiness Follow-on Fund L.P. for the acquisition of the total shares issued by Eclipse (“transaction”), a Dutch entity that controls Campo Austral, a group of companies with commercial operations fully integrated in the Argentinian pork’s market, including the cold market.

On April 14, 2016 the conditions precedent were fulfilled, and BRF concluded the first step of the transaction, acquiring 50% of equity interest for US\$39.7 (equivalent to R\$139.6), paid in cash. The amount should be further adjusted according to certain conditions set out in the agreement.

On the same date, the amount of US\$34.5 was deposited in an escrow account, which will be released to the seller in the second step of the transaction, when BRF will acquire the remaining equity interest through December 29, 2016.

A preliminary goodwill of R\$143.1 was determined in the transaction.

In order to comply with the requirements of IFRS 3, BRF will prepare a fair value report of the acquired assets and assumed liabilities in order to allocate the purchase price.

6.2. Business combination with Alimentos Calchaquí Productos 7 S.A. (“Calchaquí”)

On March 22, 2016, BRF signed, through its controlled subsidiaries BRF GmbH and BRF Holland B.V., an agreement for the acquisition of the total shares issued by Calchaquí (“transaction”), a traditional Argentinean company, which is a leader in the region’s cold cuts market, and owner of leading brands such as *Calchaquí* and *Bocatti*.

On May 10, 2016, the condition precedent were fulfilled and the transaction was concluded for US\$104.7 (equivalent to R\$364.1), which should be further adjusted according to certain conditions set out in the agreement. From the total amount of the transaction, US\$100.5 (equivalent to R\$349.5) was paid in cash, and US\$4.2 was transferred to an escrow account which will be released to the seller if certain conditions set out in the agreement are fulfilled.

A preliminary goodwill of R\$346.0 was determined in the transaction.

In order to comply with the requirements of IFRS 3, BRF will prepare a fair value report of the acquired assets and assumed liabilities in order to allocate the purchase price. Management expects to complete this report in 2016, when the final purchase price allocation will be determined as well as its accounting impacts.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

6.3. Step acquisition – Al Khan Foodstuff LLC (“AKF”)

On July 03, 14, BRF acquired 40% of equity interest of AKF, classifying the investment as a joint venture.

On June 20, 2016, the Company concluded the acquisition of the control of AKF, becoming the beneficiary of 99% of its economic interest. The acquisition of the additional 59% of economic interest in AKF totaled US\$32.6 (equivalent to R\$110.3).

Such transaction, in compliance with IFRS 3, in their paragraphs 41 and 42, was accounted for as step acquisition. Thus, the carrying amount of the investment prior to this acquisition was measured at fair value generating a gain of R\$58.8 recorded as other operating income.

The total of the acquired net assets before the purchase price allocation in order to determine the preliminary goodwill is demonstrated below:

Cash - consideration paid for acquiring the control	110.3
Carrying amount of former equity interest of 40%	58.0
Gain generated on the remeasurement of the former equity interest (40%) at fair value	58.8
Fair value of consideration paid at the acquisition date	227.1
Acquired net assets	56.1
Preliminary goodwill	171.0

In order to comply with the requirements IFRS 03, BRF will prepare a fair value report of the acquired assets and assumed liabilities in order to allocate the purchase price. Management expects to complete this report in 2016, when the final purchase price allocation will be determined as well as its accounting impacts.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

7. CASH AND CASH EQUIVALENTS

	Average rate	06.30.16	12.31.15
Cash and bank accounts			
U.S. Dollar	-	592.6	665.6
Brazilian Reais	-	95.3	65.3
Euro	-	386.5	556.4
Other currencies	-	343.6	330.9
		1,418.0	1,618.2
Cash equivalents			
In Brazilian Reais			
Investment funds	13.93%	18.1	14.6
Savings account	5.65%	2.6	11.0
Bank deposit certificates	14.18%	1,873.3	486.0
		1,894.0	511.6
In U.S. Dollar			
Term deposit	1.51%	1,083.3	2,785.9
Overnight	0.16%	196.2	430.5
Other currencies			
Term deposit	5.30%	39.4	16.7
		1,318.9	3,233.1
		4,630.9	5,362.9

8. MARKETABLE SECURITIES

	WATM ⁽¹⁾	Currency	Average interest rate (p.a.)	06.30.16	12.31.15
Available for sale					
Credit linked note ^(a)	3.89	US\$	3.98%	252.1	293.3
Brazilian foreign debt securities ^(b)	1.84	US\$	2.98%	56.3	65.9
Stocks ^(c)	-	R\$	-	265.6	385.7
				574.0	744.9
Held for trading					
Bank deposit certificates ^(d)	4.91	R\$	13.96%	45.4	42.5
Financial treasury bills ^(e)	4.13	R\$	14.15%	252.5	155.3
Investment funds ^(f)	1.00	ARS	19.00%	65.5	177.8
				363.4	375.6
Held to maturity					
Financial treasury bills ^(e)	1.31	R\$	14.15%	75.1	70.3
				75.1	70.3
				1,012.5	1,190.8
Current				671.8	734.7
Non-current				340.7	456.0

⁽¹⁾ Weighted average maturity in years.

⁽²⁾ Maturity within up to September 07, 2017.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

- (a) The credit linked note is a structured operation with a first-class financial institution that bears periodic interest (LIBOR + spread) and corresponds to a credit note that contemplates the Company's risk.
- (b) Brazilian foreign debt securities are denominated in U.S. Dollars and remunerated at floating or fixed rate.
- (c) The stock balance comprises the market value of 29,000,000 stocks from Minerva (BEEF3).
- (d) Bank Deposit Certificate ("CDB") investments are denominated in Brazilian Reais and remunerated at rates varying from 98% to 100% of the Interbank Deposit Certificate ("CDI").
- (e) Financial Treasury Bills ("LFT") are remunerated at the rate of the Special System for Settlement and Custody ("SELIC").
- (f) The fund in foreign currency is basically represented by public and private securities.

There were no changes in the characteristics of the marketable securities disclosed above as compared to the information disclosed in the consolidated financial statements for the year ended December 31, 2015 (note 8).

The unrealized loss from the change in fair value of the available for sale securities, recorded in other comprehensive income, corresponds to an accumulated loss of R\$73.1 net of income tax of R\$38.0 as of June 30, 2016 (loss of R\$8.5 net of income tax of R\$2.0 as of December 31, 2015).

Additionally, on June 30, 2016, of the total of marketable securities, R\$61.5 (R\$99.3 as of December 31, 2015) were pledged as collateral (without restriction for use) for operations with future contracts denominated in U.S. Dollars and future contracts of corn, traded on the Futures and Commodities Exchange ("BM&FBOVESPA").

The Company has also restricted cash of R\$642.1 on June 30, 2016 (R\$1,826.1 on December 31, 2015) (note 16).

The Company conducted an analysis of sensitivity to foreign exchange rate (note 4.7).

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

9. TRADE ACCOUNTS RECEIVABLE, NET AND NOTES RECEIVABLE

	06.30.16	12.31.15
Trade accounts receivable, net		
Domestic customers	1,581.2	1,925.8
Domestic related parties	1.7	3.0
Foreign customers	2,114.9	2,146.0
Foreign related parties	110.3	250.8
	3,808.0	4,325.6
(-) Adjustment to present value	(9.6)	(13.2)
(-) Allowance for doubtful accounts	(405.8)	(432.0)
	3,392.6	3,880.4
Current	3,377.8	3,876.3
Non-current	14.9	4.1
 Notes receivables	 360.1	 569.8
(-) Adjustment to present value	(0.3)	(3.0)
(-) Allowance for doubtful accounts	(31.9)	(32.4)
	327.9	534.4
Current	136.1	303.7
Non-current ⁽¹⁾	191.7	230.8

(1) Weighted average maturity of 3.18 years.

On June 30, 2016, notes receivable are comprised mainly by receivables from the (i) sale of Ana Rech assets to JBS, of R\$76.9 and (ii) disposal of various other assets and farms, R\$231.5.

The trade accounts receivable from related parties refers to transactions carried out with associate UP! in the domestic market and with joint venture SATS BRF in the foreign market.

The rollforward of allowance for doubtful accounts is presented below:

	06.30.16	12.31.15
Beginning balance	432.0	107.8
Additions	92.8	301.4
Business combination ⁽¹⁾	13.6	-
Reversals	(59.8)	(65.8)
Write-offs	(14.6)	(30.9)
Exchange rate variation	(58.2)	119.5
Ending balance	405.8	432.0

⁽¹⁾ Balance arising from the business combinations with Eclipse Holding C operat ief UA and GFS Group.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

The aging of trade accounts receivable is as follows:

	06.30.16	12.31.15
Current	3,063.6	3,483.4
Overdue		
01 to 60 days	316.4	343.2
61 to 90 days	25.2	30.3
91 to 120 days	6.1	37.7
121 to 180 days	20.1	7.0
181 to 360 days	22.9	70.8
More than 361 days	353.7	353.2
(-) Adjustment to present value	(9.6)	(13.2)
(-) Allowance for doubtful accounts	(405.8)	(432.0)
	3,392.6	3,880.4

10. INVENTORIES

	06.30.16	12.31.15
Finished goods	3,162.1	2,601.1
Work in process	201.0	157.8
Raw materials	817.5	620.7
Packaging materials	79.9	83.6
Secondary materials	288.9	341.7
Warehouse	186.9	173.1
Imports in transit	108.7	154.8
Other	9.3	14.8
(-) Provision for adjustment to realizable value	(47.5)	(19.9)
(-) Provision for deterioration	(34.5)	(49.6)
(-) Provision for obsolescence	(8.0)	(12.2)
(-) Adjustment to present value	(39.4)	(32.9)
	4,724.9	4,032.9

The write-offs of products sold from inventories to cost of sales during the six-month period ended June 30, 2016 totaled R\$12,685.9 (R\$10,272.6 as of June 30, 2015). Such amounts include the additions and reversals of inventory provisions presented in the table below:

	Provision for adjustment to realizable value	Provision for deterioration	Provision for obsolescence	Total
				06.30.16
Beginning balance	(19.9)	(49.6)	(12.2)	(81.7)
Additions	(39.5)	(14.9)	(1.0)	(55.4)
Reversals	10.5	-	-	10.5
Write-offs	-	33.6	3.0	36.6
Exchange rate variation	1.4	(3.6)	2.2	-
Ending balance	(47.5)	(34.5)	(8.0)	(90.0)

On June 30, 2016 and 2015, there were no inventory items pledged as collateral for rural credit operations.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

11. BIOLOGICAL ASSETS

The current and non-current balances of biological assets are presented below:

	06.30.16	12.31.15
Live animals	1,646.5	1,329.9
Total current	1,646.5	1,329.9
Live animals	608.8	530.8
Forests	235.2	230.2
Total non-current	844.0	761.0
	2,490.5	2,090.9

Live animals are represented by poultry and pork and separated into consumable and for production. There were no changes in classification of nature of biological assets as compared to the information disclosed in the consolidated financial statements for the year ended December 31, 2015 (note 11).

The rollforward of biological assets for the period is presented below:

	Current			Non-current			
	Live animals			Live animals		Forests	Total
	Poultry	Pork	Total	Poultry	Pork		
			06.30.16				06.30.16
Beginning balance	595.5	734.4	1,329.9	294.8	236.0	230.2	761.0
Acquisition / Transfer	121.0	788.1	909.2	22.6	89.0	20.3 ⁽³⁾	131.9
Business combination ⁽¹⁾	-	17.9	17.9	24.0	5.8	-	29.8
Fair value measurement ⁽²⁾	877.1	105.2	982.3	38.6	(30.9)	-	7.7
Harvest	-	-	-	-	-	(15.2)	(15.2)
Write-off	-	-	-	-	-	(0.1)	(0.1)
Transfer between current and non-current	31.6	32.8	64.4	(31.6)	(32.8)	-	(64.4)
Transfer to sale	-	-	-	(2.1)	-	-	(2.1)
Transfer to inventories	(864.2)	(791.0)	(1,655.2)	-	-	-	-
Exchange variation	(2.9)	1.1	(1.8)	(5.0)	0.3	-	(4.7)
Ending balance	758.1	888.5	1,646.5	341.3	267.4	235.2	844.0

⁽¹⁾ Balance arising from the business combination with Eclipse Holding Cooperatief UA (pork) and GFS Group (poultry)

⁽²⁾ The fair value variance of biological assets includes depreciation of breeding stock in the amount of R\$318.7 (R\$265.6 for the six-month period ended June 30, 2016).

⁽³⁾ Transfer from property, plant and equipment.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

The quantities and balances per category of live animals are presented below:

	06.30.16		12.31.15	
	Quantity (thousand of heads)	Value	Quantity (thousand of heads)	Value
Consumable biological assets				
Immature poultry	186,376.0	758.1	179,990.0	595.5
Immature pork	3,739.0	888.5	3,545.0	734.4
Total current	190,115.0	1,646.5	183,535.0	1,329.9
Production biological assets				
Immature poultry	6,793.0	123.7	6,658.0	108.8
Mature poultry	11,810.0	217.7	11,418.0	186.1
Immature pork	181.0	58.6	184.0	51.2
Mature pork	403.0	208.8	385.0	184.8
Total non-current	19,187.0	608.8	18,645.0	530.9
	209,302.0	2,255.3	202,180.0	1,860.8

12. RECOVERABLE TAXES

	06.30.16	12.31.15
State ICMS ("VAT")	1,470.0	1,219.7
PIS and COFINS ("Federal Taxes to Social Fund Programs")	355.6	397.8
Income and social contribution tax ("IR/CS")	414.6	416.6
IPI ("Federal VAT")	59.5	60.1
INSS ("Brazilian Social Security")	258.4	146.2
Other	115.7	131.5
(-) Provision for losses	(183.4)	(171.4)
	2,490.4	2,200.5
Current	1,237.6	1,231.8
Non-current	1,252.8	968.7

The rollforward of the provision for losses is presented below:

	06.30.16					
	State ICMS ("VAT")	PIS and COFINS ("Federal Taxes to Social Fund Programs")	Income and social contribution tax	IPI ("Federal VAT")	Other	Total
Beginning balance	(113.9)	(25.1)	(9.0)	(14.7)	(8.7)	(171.4)
Additions	(19.4)	(0.2)	-	-	(0.2)	(19.8)
Write-offs	4.9	0.9	-	-	0.2	6.0
Exchange rate variation	-	-	-	-	1.9	1.8
Ending balance	(128.4)	(24.4)	(9.0)	(14.7)	(6.8)	(183.4)

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

13. DISCONTINUED OPERATIONS

On July 01, 2015, BRF concluded with Lactalis (“buyer”), the disposal of its manufacturing facilities of dairy segment, being such segment classified as discontinued until the date of transaction conclusion.

The statements of income and cash flows from discontinued operations that represent the performance of dairy segment in the six-month period ended June 30, 2015 are disclosed as follows:

STATEMENT OF OPERATIONS

	<u>06.30.15</u>
Net sales	1,122.8
Cost of sales	<u>(905.8)</u>
Gross profit	217.0
Operating income (expenses)	
Selling	(188.2)
General and administrative	(13.5)
Other operating expenses, net	(20.7)
Equity in income of associates	<u>(1.9)</u>
Loss before financial results	<u>(7.3)</u>
Financial expenses	<u>(0.3)</u>
Loss before taxes	<u>(7.6)</u>
Income and social contribution taxes expenses	(8.5)
Deferred income tax	<u>8.9</u>
Loss from discontinued operations	<u>(7.1)</u>

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

STATEMENT OF CASH FLOWS

	<u>06.30.15</u>
Loss from discontinued operations	(7.1)
Adjustments to reconcile loss to net cash provided by discontinued operations	
Depreciation and amortization	4.0
Equity pick-up	1.9
Deferred income tax	(8.9)
Trade accounts receivable	81.6
Inventories	(67.5)
Trade accounts payable	(54.6)
Other operating assets and liabilities	53.0
Net cash provided by discontinued operating activities	<u>2.4</u>
Investing activities from discontinued operations	
Additions to property, plant and equipment	(12.3)
Net cash used in investing activities from discontinued operations	<u>(12.3)</u>
Proceeds from debt issuance	10.0
Advance for future capital increase	10.0
Net cash provided by financing activities from discontinued operations	<u>20.0</u>
Net increase in cash and cash equivalents	<u>10.2</u>
At the end of period	<u>10.2</u>

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

14. INCOME AND SOCIAL CONTRIBUTION TAXES

14.1. Deferred income and social contribution taxes

	<u>06.30.16</u>	<u>12.31.15</u>
Assets		
Tax loss carryforwards (corporate income tax)	1,007.4	1,077.7
Negative calculation basis (social contribution tax)	369.0	400.1
Temporary differences		
Provisions for tax, civil and labor risks	244.2	220.0
Suspended collection taxes	21.0	63.0
Allowance for doubtful accounts	100.0	113.1
Provision for property, plant and equipment losses	6.6	5.5
Provision for losses on tax credits	57.6	52.8
Provision for other obligations	62.9	93.7
Employees' profit sharing	2.3	87.3
Provision for inventory losses	20.2	20.0
Employees' benefits plan	108.4	101.7
Business combination - Sadia ⁽¹⁾	390.1	451.2
Unrealized losses on derivatives financial instruments	221.6	105.4
Provision for losses - notes receivable	11.8	11.3
Estimated annual effective tax rate - IAS 34	258.4	-
Other temporary differences	97.5	85.1
	<u>2,979.0</u>	<u>2,887.9</u>
Liabilities		
Temporary differences		
Business combination - Sadia ⁽¹⁾	(710.2)	(719.4)
Business combination - other companies ⁽²⁾	(50.8)	(21.6)
Unrealized gains on fair value	(5.3)	(28.0)
Difference between tax basis and accounting basis of goodwill amortization	(230.5)	(206.8)
Difference between tax depreciation rate and accounting depreciation rate (useful life)	(651.1)	(601.0)
Other temporary differences	(170.5)	(55.1)
	<u>(1,818.4)</u>	<u>(1,631.9)</u>
Total net deferred tax assets	<u>1,160.6</u>	<u>1,256.0</u>
Business combination - Dánica and Avex	(8.0)	(12.5)
Business combination - AFC	(35.7)	(45.2)
Business combination - AKF	(4.6)	(5.9)
Business combination - Federal Foods	(7.9)	(10.2)
Business combination - Invicta	(32.9)	(50.1)
Other - exchange rate variation	(87.0)	(64.4)
	<u>(176.1)</u>	<u>(188.3)</u>
Total deferred tax	<u>984.5</u>	<u>1,067.7</u>

⁽¹⁾ The deferred tax asset on the business combination with Sadia is mainly computed on the difference between the accounting and tax basis of goodwill determined in the purchase price allocation. Deferred tax liabilities on business combinations Sadia are substantially represented by the fair value of property, plant and equipment, trademarks and contingent liabilities.

⁽²⁾ Deferred tax asset related to the business combinations with Quickfood (trademarks, customer relationship, fair value of property, plant and equipment) and AFC (customer relationship).

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

The rollforward of deferred tax is set forth below:

	<u>06.30.16</u>	12.31.15
Beginning balance	1,067.7	623.8
Deferred income and social contribution taxes recognized in the statement of income	260.2	406.6
Deferred income and social contribution taxes - write-off dairy business	-	(200.6)
Deferred income and social contribution taxes recognized in other comprehensive income	(388.0)	328.1
Deferred income and social contribution taxes recognized in business combination	(4.7)	(39.2)
Exchange variation over deferred income and social contribution taxes related to business combination	41.0	(30.3)
Other	8.3	(20.7)
Ending balance	<u>984.5</u>	<u>1,067.7</u>

Certain subsidiaries of the Company have tax loss carryforwards and negative basis of social contribution of R\$16.4 and R\$16.2, respectively, (R\$16.4 and R\$16.2 as of December 31, 2015), for which no deferred tax asset was recorded. If there was an expectation that such deferred tax assets would be realized the amount to be recognized in the balance sheet would be R\$5.5 (R\$5.5 as of December 31, 2015).

14.2. Estimated time of realization

Deferred tax arising from temporary differences that will be realized as they are settled or realized. The period of the settlement or realization of such differences would not be properly estimated and is subject to several factors that are not under control of Management.

When assessing the likelihood of the realization of deferred tax assets on income tax loss carryforward and negative calculation bases of social contribution tax, Management considers the Company's budget, strategic plan and projected taxable income. Based on this estimate, Management believes that it is probable that the deferred tax will be realized, as shown below:

	<u>06.30.16</u>
2016	160.5
2017	236.1
2018	310.1
2019	358.0
2020 onwards	311.6
	<u>1,376.3</u>

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

14.3. Income and social contribution taxes reconciliation

	<u>06.30.16</u>	<u>06.30.15</u>
Income before taxes from continued operations	75.8	934.5
Nominal tax rate	34%	34%
Expected tax expense at nominal tax rate	(25.8)	(317.7)
Reconciling items:		
Equity interest in income of associates and joint venture	5.7	(24.1)
Exchange rate variation on net foreign assets	(215.6)	119.6
Difference of tax rates on results of foreign subsidiaries	(235.3)	324.5
Interest on shareholders' equity	174.5	144.8
Penalties	(1.5)	(2.2)
Investment grant	17.2	18.4
Estimated annual effective tax rate - IAS 34	258.4	(349.6)
Other permanent differences	5.1	(13.9)
	<u>(17.3)</u>	<u>(100.3)</u>
Current income tax	(277.5)	(9.7)
Deferred income tax	260.2	(90.6)

The taxable income, current and deferred income tax from foreign subsidiaries is presented below:

	<u>06.30.16</u>	<u>06.30.15</u>
Taxable income (loss) from foreign subsidiaries	(680.3)	1,038.7
Current income tax credit (expense) from foreign subsidiaries	(32.0)	(12.6)
Deferred income tax from foreign subsidiaries	1.0	0.1

The Company has determined that the earnings recorded by the holdings of its wholly owned subsidiaries located abroad will not be redistributed.

Such resources will be used for investments in the subsidiaries, and thus no deferred income tax was recognized. The total of undistributed earnings corresponds to R\$3,561.4 as of June 30, 2016 (R\$4,950.0 as of December 31, 2015).

Brazilian income taxes are subject to review for a 5-year period, during which the tax authorities might audit and assess the Company for additional taxes and penalties. The subsidiaries located abroad are taxed in their respective jurisdictions, according to local regulations.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

15. JUDICIAL DEPOSITS

The rollforward of the judicial deposits is presented below:

	Tax	Labor	Civil, commercial and other	Total
				06.30.16
Beginning balance	376.7	311.3	44.1	732.1
Additions	26.3	69.2	3.6	99.1
Business combination ⁽¹⁾	0.1	-	-	0.1
Reversals	(0.8)	(7.3)	(2.8)	(10.9)
Write-offs	-	(26.8)	(3.9)	(30.7)
Price index update	20.3	18.7	2.2	41.2
Exchange rate variation	-	(2.1)	-	(1.9)
Ending balance	422.6	363.0	43.2	829.0

⁽¹⁾ Balance arising from the business combination with Eclipse Holding Coöpertief UA.

16. RESTRICTED CASH

	Maturity ⁽¹⁾	Currency	Average interest rate (p.a.)	06.30.16	12.31.15
Bank deposit certificates ⁽²⁾	0.99	R\$	13.96%	359.7	337.0
National treasury certificates ⁽³⁾	3.72	R\$	24.22%	158.2	142.8
Bank deposit ⁽⁴⁾	-	US\$	-	124.2	1,346.3
				642.1	1,826.1
Current				182.2	1,346.3
Non-current				459.9	479.8

⁽¹⁾ Weighted average maturity in years.

⁽²⁾ Deposit with maturity in 2017, which was pledged as collateral in the disposal of the dairy segment to Groupe Lactalis ("Pamalat").

⁽³⁾ The national treasury certificates, which mature on 2020, are pledged as collateral for the loan obtained through the Special Program Asset Restructuring ("PESA") (note 20).

⁽⁴⁾ Deposit related to the business combination with Alimentos Calchaquí Productos 7 S.A. and Eclipse Holding Coöperatief UA (note 6).

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

17.1. Investments breakdown

	<u>06.30.16</u>	<u>12.31.15</u>
Investment in associates and joint ventures	68.1	102.5
Goodwill SATS BRF	5.9	6.8
Goodwill AKF	-	75.1
	<u>74.0</u>	<u>184.4</u>
Other	1.4	1.5
	<u>75.4</u>	<u>185.9</u>

On June 30, 2016, these associates and joint ventures do not have any significant restriction to transfer dividends or repay their loans or advances to the Company.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

17.3. Summary of financial information of joint venture

	AKF ⁽¹⁾		SATS BRF		Total	
	06.30.16	12.31.15	06.30.16	12.31.15	06.30.16	12.31.15
Assets						
Current	-	138.2	184.6	253.5		
Cash and cash equivalents	-	27.5	42.6	84.1		
Prepaid expenses	-	1.6	2.1	0.4		
Other current assets	-	109.0	140.0	168.9		
Non-current	-	9.1	11.3	14.4		
Liabilities	-	-	-	-		
Current	-	(105.3)	(93.8)	(145.5)		
Trade accounts payable	-	(4.5)	(60.5)	(126.9)		
Tax payable	-	(6.0)	-	-		
Other current liabilities	-	(94.8)	(33.3)	(18.6)		
Non-current	-	(3.2)	-	-		
Deferred taxes	-	(3.2)	-	-		
Shareholder's equity	-	38.8	102.1	122.4		
% of equity interest	-	40.00%	49.00%	49.00%		
Book value of investment	-	15.5	50.0	59.9	50.0	75.4

	AKF		SATS BRF		Total	
	06.30.16	06.30.15	06.30.16	06.30.15	06.30.16	06.30.15
Net sales	223.6	148.5	343.8	-		
Depreciation and amortization	(0.7)	(0.7)	(0.9)	-		
Financial expense	-	(0.3)	(0.9)	-		
Income before taxes	9.0	7.2	(3.1)	-		
Net income (loss)	9.0	7.2	(3.1)	-		
% of equity interest	40.00%	40.00%	49.00%			
Equity pick-up	3.6	2.8	(1.5)	-	2.0	2.8

(1) On June 20, 2016, the Company acquired control, being treated as indirect subsidiary and consolidated since that date.

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reals, unless otherwise stated)

18. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment rollforward is presented below:

Cost	Weighted average depreciation rate (p.a.)	12.31.15	Additions	Business combinations ⁽²⁾	Disposals	Reversals	Transfers ⁽¹⁾	Exchange rate variation	06.30.16
Land	-	584.7	-	33.2	(0.1)	-	(3.8)	(11.7)	602.3
Buildings and improvements	-	5,437.9	17.5	164.4	(4.9)	-	85.6	(92.3)	5,608.2
Machinery and equipment	-	7,027.1	87.9	290.4	(50.0)	-	359.4	(159.6)	7,555.2
Facilities	-	1,854.5	0.3	53.2	(2.0)	-	121.7	(34.4)	1,993.3
Furniture	-	137.9	2.0	11.9	(1.3)	-	4.5	(4.5)	150.5
Vehicles	-	20.3	-	10.6	(2.0)	-	0.3	(0.8)	28.4
Construction in progress	-	789.8	848.6	4.7	-	-	(624.3)	(42.0)	976.8
Advances to suppliers	-	18.8	28.7	0.2	-	-	(20.1)	(0.7)	26.9
		15,871.0	985.0	568.6	(60.3)	-	(76.7)	(346.0)	16,941.6
Depreciation									
Buildings and improvements	3.04%	(1,525.9)	(82.1)	(76.0)	1.1	-	6.3	26.9	(1,649.7)
Machinery and equipment	5.86%	(2,786.0)	(223.4)	(155.5)	42.7	-	(1.3)	72.6	(3,050.9)
Facilities	3.79%	(549.9)	(41.0)	(29.3)	1.3	-	(0.4)	7.6	(611.7)
Furniture	7.97%	(64.7)	(5.9)	(8.3)	1.2	-	0.2	7.7	(69.8)
Vehicles	20.06%	(9.0)	(1.4)	(8.6)	1.5	-	2.5	1.1	(13.9)
		(4,935.5)	(353.8)	(277.7)	47.8	-	7.3	115.9	(5,396.0)
Provision for losses		(19.7)	-	-	-	0.2	-	-	(19.5)
		10,915.8	631.2	290.9	(12.5)	0.2	(69.4)	(230.1)	11,526.1

(1) Refers to the transfer of R\$87.8 to intangible assets, R\$20.3 to biological assets (forests) and R\$17.0 to assets held for sale

(2) Balance arising from business combinations with AKF, Alimentos Calchaqui Productos 7 S.A., Eclipse Holding Cooperatief UA, GFS Group, K&S and Universal Meats (UK).

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

The Company has fully depreciated items that are still operating, which are set forth below:

	<u>06.30.16</u>	<u>12.31.15</u>
Cost		
Buildings and improvements	119.3	170.0
Machinery and equipment	665.0	752.5
Facilities	72.8	102.0
Furniture	21.2	19.3
Vehicles	4.8	4.2
Others	52.3	56.2
	<u>935.4</u>	<u>1,104.2</u>

During the six-month period ended June 30, 2016, the Company capitalized interest of R\$18.9 (R\$9.6 in June 30, 2015). The weighted average interest rate utilized to determine the capitalized amount was 5.86% p.a. (6.06% p.a. in June 30, 2015).

On June 30, 2016, except for the built to suit agreement mentioned in note 24.2, the Company had no commitments assumed related to acquisition or construction of property, plant and equipment items.

The property, plant and equipment items that are pledged as collateral for various transactions are presented below:

		<u>06.30.16</u>	<u>12.31.15</u>
	Type of collateral	Book value of the collateral	Book value of the collateral
Land	Financial/Tax	280.7	217.4
Buildings and improvements	Financial/Tax	1,727.8	1,522.5
Machinery and equipment	Financial/Labor/Tax/Civil	2,527.1	1,774.8
Facilities	Financial/Tax	762.6	493.1
Furniture	Financial/Tax	26.4	27.0
Vehicles	Financial/Tax	0.8	2.3
Others	Financial/Tax	83.5	70.1
		<u>5,408.9</u>	<u>4,107.2</u>

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

19. INTANGIBLES

The rollforward is set forth below:

	Weighted average amortization rate (p.a.)						Exchange rate variation	06.30.16
		12.31.15	Additions	Disposals	Business combination ⁽¹⁾	Transfers		
Cost								
Non-compete agreement	-	15.7	10.4	(0.3)	-	-	(4.5)	21.3
Goodwill	-	2,778.1	-	-	2,358.1	42.4	(577.2)	4,601.4
AKF	-	-	-	-	128.6	42.4	-	171.0
Alimentos Calchaquí	-	-	-	-	346.0	-	(35.7)	310.3
Ava	-	49.4	-	-	-	-	-	49.4
Avex	-	27.6	-	-	-	-	(7.9)	19.7
BRF AFC	-	196.1	-	-	-	-	(34.0)	162.1
BRF Invicta	-	170.8	-	-	-	-	(45.3)	125.5
Dânica	-	7.0	-	-	-	-	(2.0)	5.0
Eclipse Holding Cooperatief	-	-	-	-	143.1	-	(14.8)	128.3
Eleva Alimentos	-	808.1	-	-	-	-	-	808.1
Federal Foods	-	84.4	-	-	-	-	(15.0)	69.4
GFS Group	-	-	-	-	1,079.4	-	(230.1)	849.3
GQFE - Golden Quality Foods Europe	-	-	-	-	3.1	-	(0.6)	2.5
Incubatório Paraíso	-	0.7	-	-	-	-	-	0.7
Invicta Food Group	-	0.9	-	-	-	-	(0.2)	0.7
Paraíso Agroindustrial	-	16.8	-	-	-	-	-	16.8
Perdigão Mato Grosso	-	7.6	-	-	-	-	-	7.6
Plusfood	-	27.8	-	-	-	-	(4.6)	23.2
Quickfood	-	167.0	-	-	-	-	(48.1)	118.9
Sadia	-	1,214.0	-	-	-	-	-	1,214.0
Qatar National Import and Export Co	-	-	-	-	564.2	-	(114.8)	449.4
Universal Meats Ltd.	-	-	-	-	93.7	-	(23.9)	69.8
Import quotas	-	62.2	-	-	-	-	(16.5)	45.7
Outgrowers relationship	-	14.2	0.5	-	-	-	-	14.7
Trademarks	-	1,372.0	-	-	-	-	(57.3)	1,314.7
Patents	-	4.9	2.3	-	-	-	(0.1)	7.1
Customer relationship	-	620.9	-	-	-	18.4	(136.8)	502.5
Supplier relationship	-	9.7	-	(6.5)	-	-	(1.2)	2.0
Software	-	462.8	36.9	(28.6)	5.7	30.1	(14.6)	492.3
		5,340.5	50.1	(35.4)	2,363.8	90.9	(808.2)	7,001.7
Amortization								
Non-compete agreement	30.07%	(0.8)	(3.2)	0.3	-	-	0.5	(3.2)
Import quotas	9.76%	-	(14.4)	-	-	-	2.9	(11.5)
Outgrowers relationship	12.50%	(5.8)	(0.9)	-	-	-	-	(6.7)
Patents	18.16%	(3.0)	(0.8)	-	-	-	0.1	(3.7)
Customer relationship	7.71%	(49.8)	(25.3)	-	-	(2.7)	15.5	(62.5)
Supplier relationship	42.00%	(9.7)	-	6.5	-	-	1.2	(2.0)
Software	20.00%	(260.5)	(55.7)	28.6	(3.2)	(0.4)	7.0	(284.2)
		(329.6)	(100.3)	35.4	(3.2)	(3.1)	27.2	(373.8)
		5,010.9	(50.2)	-	2,360.6	87.8	(781.0)	6,627.9

⁽¹⁾ Balance arising from business combinations with Alimentos Calchaquí Productos 7 S.A., Eclipse Holding Cöoperatief UA, Federal Foods Qatar, GFS Group and Universal Meats (UK).

For the six-month period ended June 30, 2015, Management did not identify any event that could indicate an impairment of such assets.

BRF S.A.

Notes to the Interim Consolidated Financial Statements

June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reals, unless otherwise stated)

20. LOANS AND FINANCING

	Charges (p.a.)	Weighted average interest rate (p.a.)	WAMT ⁽¹⁾	Current	Non-current	06.30.16	Current	Non-current	12.31.15
Local currency									
Working capital	8.75% (7.24% on 12.31.15)	8.75% (7.24% on 12.31.15)	0.8	1,109.6	-	1,109.6	1,168.6	-	1,169.6
Securitization of agribusiness receivables	96.70% of CDI (96.90% of CDI) on 12.31.15) Fixed rate / Selic / TLP + 0.76%	13.66% (13.67% on 12.31.15) 5.35%	2.6	15.8	1,985.5	2,001.3	33.1	992.2	1,025.3
Development bank credit lines	(Fixed rate/Selic / TLP + 1.00% on 12.31.15) 7.75% (7.75% on 12.31.15)	(4.57% on 12.31.15) 7.75% (7.75% on 12.31.15)	1.5	306.9	677.1	984.0	217.4	508.9	726.3
Bonds	14.18% (0.00% on 12.31.15)	14.18% (0.00% on 12.31.15)	1.9	4.1	498.4	502.5	4.1	487.9	502.0
Export credit facility	Fixed rate / ICPM + 4.90% (Fixed rate / ICPM + 4.90% on 12.31.15)	17.11% (15.44% on 12.31.15)	2.7	64.4	1,850.0	1,914.4	-	-	-
Special program asset restructuring	8.50% (8.14% on 12.31.15) 2.40%	8.50% (8.14% on 12.31.15) 2.40%	3.7	1.8	242.3	244.1	3.3	231.5	234.8
Other secured debts	(2.40% on 12.31.15)	(2.40% on 12.31.15)	2.4	32.4	112.2	144.6	32.6	127.1	159.7
Fiscal incentives			0.1	14.5	-	14.5	1.9	-	1.9
				1,549.5	5,365.5	6,915.0	1,462.0	2,357.6	3,819.6
Foreign currency									
Bonds	5.11% (5.23% on 12.31.15) + er. US\$, EUR and ARS	5.11% (5.23% on 12.31.15) + er. US\$, EUR and ARS	6.4	447.7	6,698.0	7,145.7	159.4	8,628.4	8,787.8
Export credit facility	LIBOR + 1.82% (LIBOR + 2.15% on 12.31.15) + er. US\$	2.98% (2.89% on 12.31.15) + er. US\$	1.3	953.4	1,142.8	2,096.2	598.8	1,553.5	2,152.3
Advances for foreign exchange rate contracts	2.00% (1.76% on 12.31.15) + er. US\$ LIBNDES + 2.20%	2.00% (1.76% on 12.31.15) + er. US\$ 6.30%	0.5	531.4	-	531.4	391.1	-	391.1
Development bank credit lines	(LIBNDES + 2.26% on 12.31.15) + er. US\$ and other currencies 15.02% (15.09% on 12.31.15) + er. ARS	(6.34% on 12.31.15) + er. US\$ and other currencies 15.02% (15.09% on 12.31.15) + er. ARS	1.0	9.5	5.3	14.8	12.6	11.6	24.2
Other secured debts	19.37% (22.00% on 12.31.15) + er. US\$ and ARS / 2.48% + er. OMR/THB	19.37% (22.00% on 12.31.15) + er. US\$ and ARS / 2.48% + er. OMR/THB	0.4	0.9	-	0.9	3.6	-	3.6
Working capital			0.5	255.9	-	255.9	0.7	-	0.7
				2,198.8	7,846.1	10,044.9	1,166.2	10,193.5	11,359.7
				3,748.3	13,211.6	16,959.9	2,628.2	12,551.1	15,179.3

⁽¹⁾ Weighted average maturity in years.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

The main characteristics of loan and financing agreements entered into by the Company were disclosed in note 20 of the consolidated financial statements for the year ended December 31, 2015.

20.1. Certificates of Agrobusiness Receivables (“CRA”)

On April 20, 2016, BRF concluded the CRA issuance related to the public distribution of the 1st series of 9rd Issue by Octante Securitizadora S.A. (“Securitization Company”), in the amount of R\$1,000.0 net of interest, which will mature on April 19, 2019, and were issued with a coupon of 96.90% p.a. of the DI rate, payable every each 9 months.

20.2. Loans and financing maturity schedule

The maturity schedule of the loans and financing is as follows:

	06.30.16
2016	1,894.1
2017	2,225.9
2018	2,698.2
2019	3,179.8
2020 onwards	6,961.9
	16,959.9

20.3. Guarantees

	06.30.16	12.31.15
Total of loans and financing	16,959.9	15,179.3
Mortgage guarantees	1,157.9	912.0
Related to FINEM-BNDES	855.6	583.4
Related to FNE-BNB	144.5	159.6
Related to tax incentives and other	157.8	169.0

The Company is the guarantor of a loan obtained by Instituto Sadia de Sustentabilidade from Bank National Economic and Social Development (“BNDES”). The loan was obtained with the purpose of allowing the implementation of biodigesters in the farms of the outgrowers, which take part in the Company’s integration system, targeting the reduction of the emission of Greenhouse Gases. The value of these guarantees on June 30, 2016 totaled R\$33.8 (R\$39.1 as of December 31, 2015).

The Company is the guarantor of loans related to a special program, which aimed the local development of outgrowers in the central region of Brazil. The proceeds of such loans are utilized by the outgrowers to improve farm conditions and will be paid by them in 10 years, taking as collateral the land and equipment acquired by the outgrowers through this program. The guarantee totaled R\$168.0 as of June 30, 2016 (R\$208.8 as of

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

December 31, 2015).

On June 30, 2016, the Company contracted bank guarantees for R\$1,987.3 (R\$2,086.6 as of December 31, 2015). These bank guarantees were offered mainly in litigations involving the Company's use of tax credits. These guarantees have an average cost of 0.89% p.a. (0.91% p.a. as of December 31, 2015).

20.4. Commitments

In the normal course of the business, the Company enters into agreements with third parties, which are mainly related to the purchases of raw materials, such as corn and soymeal, where the agreed prices can be fixed or to be fixed. The Company enters into other agreements, such as electricity, packaging supplies and manufacturing activities. The amounts of these agreements at the date of these financial statements are set forth below:

	06.30.16
2016	4,932.0
2017	1,745.7
2018	305.3
2019	294.5
2020 onwards	510.1
	7,787.6

21. TRADE ACCOUNTS PAYABLE

Domestic suppliers	06.30.16	12.31.15
Third parties	3,813.6	3,263.2
Related parties	11.1	23.4
	3,824.7	3,286.6
Foreign suppliers		
Third parties	1,566.6	1,496.8
	1,566.6	1,496.8
(-) Adjustment to present value	(44.7)	(38.4)
	5,346.6	4,745.0

During the six-month period ended on June 30, 2016, the average payment term to suppliers is 78 days.

Of the suppliers balance as of June 30, 2016, R\$1,220.8 (R\$1,070.6 as of December 31,

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

2015) corresponds to the supply chain finance transactions on which there were no changes in the payment terms and prices negotiated with the suppliers.

The information on accounts payable involving related parties is presented in note 30. The trade accounts payable to related parties refer to transactions with associates UP! in the domestic market.

22. SUPPLY CHAIN FINANCE

	06.30.16	12.31.15
National suppliers	325.3	685.6
Foreign suppliers	418.3	489.0
	743.6	1,174.6

The Company has entered into supply chain finance transactions with first-class financial institutions in order to extend the payment terms of its purchases of raw material, machinery and equipment and other inputs from domestic and foreign suppliers. As such, these transactions are presented in as specific line of the operating cash flow for the period ended June 30, 2016.

On June 30, 2016, the discount rates applied to these transactions in the domestic market range from 1.15% to 1.36% p.m. (1.10% to 1.34% p.m. on December 31, 2015) and foreign market range from 1.57% to 2.56% p.a. (1.50% to 2.51% p.a. of December 31, 2015).

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

23. OTHER FINANCIAL ASSETS AND LIABILITIES

	06.30.16	12.31.15
Derivatives designated as cash flow hedges		
Assets		
Non-deliverable forward (NDF)	10.9	2.3
Commodities (soy meal) non-deliverable forward (NDF)	1.7	-
Currency option contracts	416.8	96.2
Deliverable forwards contracts	73.3	-
	502.7	98.5
Liabilities		
Non-deliverable forward of currency (NDF)	-	(66.7)
Commodities (soy meal) non-deliverable forward (NDF)	(0.8)	-
Currency option contracts	(35.0)	(217.1)
Deliverable forwards contracts	(0.1)	(33.8)
Commodities (corn) non-deliverable forward (NDF)	(2.2)	(11.7)
Exchange rate contracts currency (Swap)	(217.8)	(326.7)
	(256.0)	(656.0)
Non derivatives designated as cash flow hedges		
Assets		
Non-deliverable forward of currency (NDF)	2.6	10.7
Non-deliverable forward of commodities (NDF)	20.5	2.2
Exchange rate contracts currency (Swap)	-	3.5
Dollar future contracts - BM&FBOVESPA	-	14.6
	23.1	31.0
Liabilities		
Non-deliverable forward of currency (NDF)	(35.6)	(3.9)
Exchange rate contracts currency (Swap)	(594.9)	(6.8)
Dollar future contracts - BM&FBOVESPA	(2.5)	-
Com / soy meal future contracts - BM&FBOVESPA	(3.2)	0.1
	(636.2)	(10.6)
Current assets	525.8	129.4
Current liabilities	(892.2)	(666.6)

The collateral given in the transactions presented above are disclosed in note 8.

24. LEASES

The Company is lessee in several contracts, which are classified as operating or finance leases.

24.1. Operating lease

The minimum future payments of non-cancellable operating lease are presented below:

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

	06.30.16
2016	172.9
2017	145.5
2018	46.0
2019	14.5
2020 onwards	25.6
	404.5

The payments of operating lease agreements recognized as expense in the six-month period ended June 30, 2016 amounted to R\$168.5 (R\$153.2 as of June 30, 2015).

24.2. Finance lease

The Company enters into finance leases mainly for the acquisitions of machinery, equipment, vehicles, software and buildings, as presented below:

	Weighted average interest rate (p.a.) ⁽¹⁾	06.30.16	12.31.15
		06.30.16	12.31.15
Cost			
Machinery and equipment		35.7	37.1
Software		78.7	73.0
Vehicles		0.5	-
Buildings		141.8	128.9
		256.7	239.0
Accumulated depreciation			
Machinery and equipment	13.84%	(10.4)	(13.2)
Software	52.38%	(42.9)	(51.0)
Vehicles	20.00%	(0.2)	-
Buildings	7.41%	(38.1)	(32.1)
		(91.6)	(96.3)
		165.1	142.7

⁽¹⁾ The period of depreciation of leased assets corresponds to the lowest between the term of the contract and the useful life of the asset, as determined by IAS 17.

The minimum future payments required for these finance leases are demonstrated as follows, and were recorded as current and non-current liabilities:

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

			06.30.16
	Present value of minimum payments	Interest	Minimum future payments
2016	28.1	10.1	38.2
2017	35.3	17.7	53.0
2018	26.7	15.2	41.9
2019	21.0	12.6	33.6
2020 onwards	79.6	48.1	127.7
	190.7	103.7	294.4

The contract terms for both modalities, with respect to renewal, adjustment and purchase option, are according to market practices. In addition, there are no clauses of contingent payments or restrictions on dividends distribution, payments of interest on shareholders' equity or obtaining debt.

The Company also has commitments regarding financial leases, related to a "built to suit" agreement for the construction of office facilities by third parties. The agreement term will be 15 years from the signing date as well as the charge of rent expenses. If the Company defaults on its obligations, it will be subject to fines and/or acceleration of rent outstanding installments falling due, according to the term of each contract.

The estimated schedule of future payments related to this agreement is set forth below:

	06.30.16
2016	7.9
2017	8.4
2018	8.9
2019	9.4
2020 onwards	149.1
	183.7

25. SHARE BASED PAYMENT

The rules of the stock options plan granted to executives were disclosed in the consolidated financial statements for the year ended December 31, 2015 (note 24) and are unchanged for this period.

According to the ordinary meeting of the Board of Directors held on April 28, 2016 and May 31, 2016, were approved the granting of 8,724,733 and 3,351,220 shares, respectively.

The breakdown of the outstanding granted options is presented as follows:

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

Grant date	Beginning of the year	Date End of the year	Quantity		Grant ⁽¹⁾ Fair value of the option	Price of converted share ⁽¹⁾	
			Options granted	Outstanding options		Granting date	Updated IPCA
Plan I							
05.02.11	05.01.12	05.01.16	2,463,525	-	11.36	30.85	43.72
05.02.12	05.01.13	05.01.17	3,708,071	324,788	7.82	34.95	47.12
05.02.13	05.01.14	05.01.18	3,490,201	769,668	11.88	46.86	59.33
04.04.14	04.03.15	04.03.19	1,552,564	710,525	12.56	44.48	53.34
05.02.14	05.01.15	05.01.19	1,610,450	930,383	14.11	47.98	57.16
12.18.14	12.17.15	12.17.19	5,702,714	4,741,515	14.58	63.49	73.68
			<u>18,527,525</u>	<u>7,476,879</u>			
Plan II							
10.01.15	10.01.16	10.01.21	37,570	27,410	20.64	70.09	74.98
04.26.16	04.30.17	04.30.21	8,724,733	8,724,733	9.21	56.00	56.44
05.31.16	05.31.17	05.31.20	3,351,220	3,351,220	10.97	46.68	46.68
			<u>12,113,523</u>	<u>12,103,363</u>			
			<u>30,641,048</u>	<u>19,580,242</u>			

⁽¹⁾ Values expressed in Brazilian Reais

The rollforward of the outstanding granted options for the six-month period ended June 30, 2016 is presented as follows:

Outstanding options as of December 31, 2015	17,360,870
Granted in 2016	
April 2016	8,724,733
May 2016	3,351,220
Exercised:	
Grant of 2012	(6,410)
Grant of 2011	(96,874)
Cancelled:	
Grant of 2015	(8,729,813)
Grant of 2014	(908,703)
Grant of 2013	(52,665)
Grant of 2011	(62,116)
Outstanding options as of June 30, 2016	19,580,242

The weighted average exercise prices of the outstanding options conditioned to services is R\$58.84 (fifty-eight Brazilian Reais and eighty-four cents), and the weighted average of the remaining contractual term is 49 months.

The Company records as capital reserve in shareholders' equity the fair value of the options for R\$194.6 (R\$160.3 as of December 31, 2015). During the six-month period ended June 30, 2016 the amount recognized as expense was R\$34.3 (R\$9.6 as of June 30, 2015).

During the six-month period ended June 30, 2016 the Company's executives exercised

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

103,284 shares, with an average price of R\$43.33 (forty-three Brazilian Reais and thirty-three cents), totaling R\$4.5. In order to comply with this commitment, the Company utilized treasury shares with an acquisition cost of R\$57.64 (fifty-seven Brazilian Reais and sixty-four cents), totaling R\$6.0, recording a loss of R\$1.5 as capital reserve.

The fair value of the granted stock options was measured using the Black-Scholes pricing model, as disclosed in the consolidated financial statements for the year ended December 31, 2015 (note 24). There is no change in the methodology adopted during the six-month period ended June 30, 2016.

26. PENSION AND OTHER POST-EMPLOYMENT PLANS

The Company offers pension and other post-employment plans to the employees. The characteristics of such benefits were disclosed in the consolidated financial statements for the year ended December 31, 2015 (note 25) and have not been changed during this period.

The actuarial liabilities and the related effects in the statement of income are presented below:

	Liabilities	
	06.30.16	12.31.15
Medical assistance	137.8	130.0
F.G.T.S. Penalty ⁽¹⁾	112.6	105.1
Award for length of service	44.3	41.5
Other	24.0	22.5
	318.7	299.1
Current	67.3	67.3
Non-current	251.4	231.8

⁽¹⁾ FGTS – Government Severance Indemnity Fund for Employees

The Company estimated costs for the year 2016, according to an appraisal report prepared in 2015 by an actuarial expert and recorded an expense of R\$11.4 (expense of R\$13.6 on June 30, 2015) related to other post-employment plans. Regarding other employee benefits, the Company recorded an expense of R\$19.6 (R\$9.5 on June 30, 2015).

27. PROVISION FOR TAX, CIVIL AND LABOR RISKS

The Company and its subsidiaries are involved in certain legal proceedings arising from the normal course of business, which include civil, administrative, tax, social security and labor claims.

The Company classifies the risk of unfavorable decisions in the legal proceedings as

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

“probable”, “possible” or “remote”. The provisions recorded relating to such proceedings is determined by the Company’s Management based on legal advice and reasonably reflect the estimated probable losses.

The Company’s management believes that its provision for tax, civil and labor risks, accounted for according to IAS 37 is sufficient to cover estimated losses related to its legal proceedings, as presented below:

27.1. Contingencies for probable losses

The rollforward of the provisions for tax, civil and labor risks is summarized below:

	Tax	Labor	Civil, commercial and other	Contingent liabilities	06.30.16
Beginning balance	240.5	377.0	65.7	522.6	1,205.8
Additions	6.5	169.0	39.9	-	215.4
Business combination ⁽¹⁾	28.7	17.8	4.5	-	51.0
Reversals	(9.2)	(66.1)	(5.6)	-	(80.9)
Payments	(2.6)	(94.1)	(32.4)	-	(129.1)
Price index update	10.6	40.1	15.7	-	66.4
Exchange rate variation	1.4	(6.1)	-	(1.6)	(6.3)
Ending balance	275.9	437.6	87.8	521.0	1,322.3
Current					274.8
Non-current					1,047.5

⁽¹⁾ Balance arising from business combinations with Alimentos Calchaquí Productos 7 S.A. and Eclipse Holding Cooperatief UA.

27.2. Contingencies classified as a risk of possible loss

The Company is involved in other tax, civil, labor and social security contingencies, for which losses have been assessed as possible by management with the support from legal counsel and therefore no provision was recorded. On June 30, 2016 the total amount of the possible contingencies was R\$12,829.7 (R\$11,707.3 as of December 31, 2015, from which R\$521.0 (R\$522.6 as of December 31, 2015) were recorded at the estimated fair value resulting from business combinations with Sadia, Avex and Dánica as determined by paragraph 23 of IFRS 3 as disclosed in the table above. The details of these contingencies were properly disclosed in the consolidated financial statements for the year ended December 31, 2015 (note 26.2).

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

28. SHAREHOLDERS' EQUITY

28.1. Capital stock

On June 30, 2016, the capital subscribed and paid by the Company is R\$12,553.4, which is composed of 812,473,246 book-entry shares of common stock without par value. The value of the capital stock is net of the public offering expenses of R\$92.9.

On February 25, 2016 the Board of Directors approved the cancellation of 60,000,000 (sixty million) common shares held in treasury by the Company, without any reduction in the capital stock. On April 7, 2016, the cancellation was ratified in the Shareholders Ordinary Meeting.

The Company is authorized to increase the capital stock, irrespective of amendment to the bylaws, up to the limit of 1,000,000,000 common shares, in book-entry form without par value.

28.2. Interest on shareholders' equity and dividends

On February 12, 2016, the payment of R\$473.4 was made related to the interest on shareholders' equity and R\$91.4 related to dividends approved by the Management on December 17, 2015 and ratified in the Shareholders Ordinary Meeting on April 7, 2016.

On February 25, 2016, the Board of Directors approved the payment of R\$98.2 as complimentary dividends for the year ended December 31, 2015, settled on April 01, 2016.

On June 30, 2016, the Board of Directors approved the payment of R\$513.2, related to interest on shareholder's equity will be settled on August 15, 2016.

28.3. Breakdown of capital stock

	<u>06.30.16</u>	<u>12.31.15</u>
Common shares	812,473,246	872,473,246
Treasury shares	(13,505,317)	(62,501,001)
Outstanding shares	<u>798,967,929</u>	<u>809,972,245</u>

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

28.4. Rollforward of outstanding shares

	Quantity of outstanding of shares	
	06.30.16	12.31.15
Shares at the beginning of the period	809,972,245	867,284,349
Purchase of treasury shares	(11,107,600)	(59,247,400)
Sale of treasury shares	103,284	1,935,296
Shares at the end of the period	798,967,929	809,972,245

28.5. Treasury shares

The Company has 13,505,317 shares in treasury, with an average cost of R\$53.60 (fifty-three Brazilian Reais and sixty cents) per share, with a market value corresponding to R\$609.5.

On February 26, 2016, in a special meeting of Board of Directors it was approved a "Repurchase Program" of the Company's shares up to 20,000,000 (twenty million) shares.

During the six-month period ended June 30, 2016, as authorized by the Board of Directors, the Company acquired 11,107,600 of its own shares at a cost of R\$543.3, with the objective of maintaining treasury shares to comply with the provisions of stock option plans, both approved by special meetings of Board of Directors held on November 09, 2015 and February 26, 2016.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

29. EARNINGS PER SHARE

	06.30.16	06.30.15
Basic numerator		
Net profit for the period attributable to controlling shareholders	69.6	819.0
Basic denominator		
Common shares	812,473,246	872,473,246
Weighted average number of outstanding shares - basic (except treasury shares)	804,853,116	852,819,886
Earnings per share basic - R\$	0.08656	0.96036
Diluted numerator		
Net profit for the period attributable to controlling shareholders	69.6	819.0
Diluted denominator		
Weighted average number of outstanding shares - basic (except treasury shares)	804,853,116	852,819,886
Number of potential shares (stock options)	14,180	667,292
Weighted average number of outstanding shares - diluted	804,867,296	853,487,178
Earnings per share diluted - R\$	0.08656	0.95961
Continued operations	06.30.16	06.30.15
Basic numerator		
Net profit for the period from continued operations attributable to controlling shareholders	69.6	826.1
Basic denominator		
Common shares	812,473,246	872,473,246
Weighted average number of outstanding shares - basic (except treasury shares)	804,853,116	852,819,886
Earnings per share basic - R\$	0.08656	0.96865
Diluted numerator		
Net profit for the period from continued operations attributable to controlling shareholders	69.6	826.1
Diluted denominator		
Weighted average number of outstanding shares - basic (except treasury shares)	804,853,116	852,819,886
Number of potential shares (stock options)	14,180	667,292
Weighted average number of outstanding shares - diluted	804,867,296	853,487,178
Earnings per share diluted - R\$	0.08656	0.96789

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

Discontinued operations	06.30.16	06.30.15
Basic numerator		
Net profit for the period from discontinued operations attributable to controlling shareholders	-	(7.1)
Basic denominator		
Common shares	812,473,246	872,473,246
Weighted average number of outstanding shares - basic (except treasury shares)	804,853,116	852,819,886
Net earnings per share basic - R\$	-	(0.00829)
Diluted numerator		
Net profit for the period from discontinued operations attributable to controlling shareholders	-	(7.1)
Diluted denominator		
Weighted average number of outstanding shares - basic (except treasury shares)	804,853,116	852,819,886
Number of potential shares (stock options)	14,180	667,292
Weighted average number of outstanding shares - diluted	804,867,296	853,487,178
Net earnings per share diluted - R\$	-	(0.00829)

On June 30, 2016, from the total of 19,580,242 stock options outstanding (10,295,963 as of June 30, 2015) granted to executives of the Company, 19,255,454 options (5,702,714 as of June 30, 2015) were not considered in the calculation of the diluted earnings per share due to the fact that the exercise price is higher than the average market price of the common shares during the period, so that they did not cause any dilution effect.

30. RELATED PARTIES

As part of the Company's operations, rights and obligations arise between related parties, resulting from transactions of purchase and sale of products, loans based on prices and conditions agreed upon by the parties.

All the relationships between the Company and its subsidiaries were disclosed irrespective of the existence of the transactions between these parties.

All the transactions and balances among the companies were eliminated in the consolidation and refer to commercial and/or financial transactions.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

All companies disclosed in note 1.1 are controlled by BRF, except for UP! Alimentos, PP-BIO, PR-SAD, AKF and SATS BRF, which are associates or joint ventures.

The Company also recorded a liability for R\$7.3 (R\$8.5 as of December 31, 2015) related to the fair value of the guarantees offered to BNDES concerning a loan made by the Instituto Sadia de Sustentabilidade.

Due to the acquisition of biodigesters from Instituto Sadia de Sustentabilidade, the Company has recorded a payable to this entity of R\$26.5 included in other liabilities as of June 30, 2016 (R\$30.6 as of December 31, 2015).

The Company entered into loan agreements with its subsidiaries. Below is a summary of the balances and rates charged for the transactions at the balance sheet date:

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

Counterparty		Currency	Balance 06.30.16	Interest rate (p.a.)
Creditor	Debtor			
Campo Austral S.A.	Degesa Argentina S.A.	ARS	4,510.2	20.0%
Campo Austral S.A.	Buenos Aires Fortune S.A.	ARS	1,136.3	20.0%
Campo Austral S.A.	Cabaña San Nestor S.A.	ARS	766.0	20.0%
BRF GmbH	Federal Foods Qatar	US\$	519.8	2.5%
Campo Austral S.A.	Eporpam S.A.	ARS	366.3	20.0%
Sadia Overseas Ltd.	BRF Global GmbH	US\$	289.9	7.0%
Hibridos Argentinos S.A.	Eporpam S.A.	ARS	284.9	20.0%
BRF Global GmbH	BFF International Ltd.	US\$	228.3	1.5%
Hibridos Argentinos S.A.	Cabaña San Nestor S.A.	ARS	222.5	20.0%
Industria Frigorífica Expork S.A.	Degesa Argentina S.A.	ARS	200.9	20.0%
BRF GmbH	BRF Foods GmbH	US\$	192.4	1.2%
Hibridos Argentinos S.A.	Porcinos Cordobeses S.A.	ARS	184.8	20.0%
Sadia International Ltd.	Wellax Food Logistics	US\$	181.9	1.5%
Campo Austral S.A.	Hibridos Argentinos S.A.	ARS	175.2	20.0%
BRF GmbH	BRF Invicta	GBP	154.9	3.0%
Degesa Argentina S.A.	Cabaña San Nestor S.A.	ARS	130.2	20.0%
Perdigão International Ltd.	BRF Global GmbH	US\$	121.4	0.9%
Campo Austral S.A.	Itega S.A.	ARS	94.0	20.0%
Industria Frigorífica Expork S.A.	Eporpam S.A.	ARS	83.5	20.0%
BRF GmbH	BRF Holland B.V.	EUR	81.7	3.0%
Industria Frigorífica Expork S.A.	Cabaña San Nestor S.A.	ARS	75.0	20.0%
BRF GmbH	BRF Foods LLC	US\$	62.0	2.5%
Degesa Argentina S.A.	Eporpam S.A.	ARS	56.9	20.0%
Industria Frigorífica Expork S.A.	Hibridos Argentinos S.A.	ARS	49.5	20.0%
Industria Frigorífica Expork S.A.	Porcinos Cordobeses S.A.	ARS	43.9	20.0%
BRF Holland B.V.	BRF B.V. (NL)	EUR	41.9	3.0%
Industria Frigorífica Expork S.A.	Campo Austral S.A.	ARS	33.2	20.0%
Perdigão International Ltd.	BRF S.A.	US\$	26.6	0.8%
BRF Holland B.V.	BRF GmbH	EUR	14.5	1.5%
BRF GmbH	AL Wafi	US\$	9.5	1.2%
BRF GmbH	BRF Singapore	SGD	4.8	1.5%
Perdigão International Ltd.	BRF Foods LLC	US\$	3.9	1.0%
BRF Holland B.V.	BRF Wrexam	GBP	2.4	3.0%
BRF GmbH	BRF Foods LLC	US\$	2.3	1.6%
Wellax Food Logistics	BRF Foods LLC	US\$	2.0	7.0%
BRF Holland B.V.	BRF Iberia	EUR	1.6	3.0%

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

The Company has entered into transactions with companies that are owned by members of its Board of Directors as demonstrated below:

Companies	Type of transactions	Amounts of revenues (expenses)	
		06.30.16	06.30.15
Corall Consultoria Ltda ⁽¹⁾	Corall provided consulting services to BRF	(0.9)	-
Hortigil Hortifruti S.A. ("Hortigil") ⁽²⁾	BRF sells products to Hortigil	3.5	7.2
Instituto de Desenvolvimento Gerencial S.A. ("Instituto") ⁽¹⁾	Instituto provided consulting services to BRF	(3.8)	(3.6)

⁽¹⁾ Entities on which BRF has no equity interest, but have relationship with the Board of Directors. Instituto de Desenvolvimento Gerencial S.A. provided advisory services related to strategic management and organizational restructuring. Corall Consultoria Ltda, provided organizational development consulting services.

⁽²⁾ Since April 8, 2016, the entity is no longer considered related party, as the Board Member has ended its relationship with Hortigil Hortifruti S.A.

30.1. Other Related Parties

The Company has leased properties owned by FAF. For the six-month period ended June 30, 2016, the total amount paid as rent was R\$7.3 (R\$3.6 as of June 30, 2015). The rent value was set based on market conditions.

30.2. Granted guarantees

All granted guarantees on behalf of related parties are disclosed in note 20.3.

30.3. Management compensation

The management key personnel include the directors and officers, members of the Board of Directors and the head of internal audit. As of June 30, 2016, there were 23 professionals (27 professionals as of December 31, 2015).

The total compensation and benefits paid to these professionals are demonstrated below:

	06.30.16	06.30.15
Salary and profit sharing	14.2	20.5
Short term benefits ⁽¹⁾	0.3	0.4
Pension plan	0.4	0.3
Post-employment benefits	0.1	0.1
Termination benefits	1.9	21.5
Share based payment	7.5	5.5
	24.4	48.3

⁽¹⁾ Comprises: Medical assistance, educational expenses and others.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

31. NET SALES

	<u>06.30.16</u>	<u>06.30.15</u>
Gross sales		
Brazil	8,835.1	9,083.0
Europe	2,119.0	1,574.6
MENA	3,534.6	3,137.3
Africa	378.9	340.4
Asia	2,374.6	1,662.2
LATAM	1,132.8	952.6
Other segments	769.2	388.9
	<u>19,144.2</u>	<u>17,139.0</u>
Sales deductions		
Brazil	(1,728.7)	(1,693.6)
Europe	(141.7)	(106.3)
MENA	(350.8)	(214.9)
Africa	(3.6)	(11.7)
Asia	(42.4)	(18.9)
LATAM	(184.3)	(101.6)
Other segments	(57.8)	(31.1)
	<u>(2,509.3)</u>	<u>(2,178.1)</u>
Net sales		
Brazil	7,106.4	7,389.4
Europe	1,977.3	1,468.3
MENA	3,183.8	2,922.4
Africa	375.3	328.7
Asia	2,332.2	1,643.3
LATAM	948.5	851.0
Other segments	711.4	357.8
	<u>16,634.9</u>	<u>14,960.9</u>

32. RESEARCH AND DEVELOPMENT COSTS

Consist of expenditures on internal research and development of new products, which are recognized when incurred. The expenditures amounted to R\$23.2 for the six-month period ended June 30, 2016 (R\$34.3 as of June 30, 2015).

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

33. OTHER OPERATING INCOME (EXPENSES), NET

	06.30.16	06.30.15
Income		
Gain on business combination ⁽¹⁾	58.8	-
Recovery of expenses ⁽²⁾	34.3	18.3
Provision reversal	14.4	-
Other	28.4	26.8
	135.9	45.1
Expenses		
Provision for civil, labor and tax risks	(48.1)	(25.2)
Other employees benefits	(31.7)	(34.8)
Idleness costs ⁽³⁾	(30.6)	(56.3)
Insurance claims costs	(17.0)	(23.0)
Stock options plan	(16.5)	(9.6)
Employees profit sharing	(9.0)	(172.1)
Net loss on the disposals of property, plant and equipment	(8.4)	(15.4)
Management profit sharing	(3.5)	(15.7)
Restructuring charges	-	(57.9)
Other	(39.2)	(97.2)
	(204.0)	(507.2)
	(68.1)	(462.1)

⁽¹⁾ Gain on the remeasurement of the carrying amount of investment in AKF (note 6.3).

⁽²⁾ Refer mainly to extemporaneous tax credits of R\$19.5.

⁽³⁾ Idleness cost includes depreciation charge in the amount of R\$7.6 (R\$11.5 for the six-month period ended June 30, 2015)

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

34. FINANCIAL INCOME (EXPENSES)

	06.30.16	06.30.15
Financial income		
Exchange rate variation on loans and financing	1,453.3	-
Interest on assets	160.6	139.3
Interest on cash and cash equivalents	109.0	71.4
Interests on financial assets classified as		
Held to maturity	41.9	15.6
Held for trading	22.6	16.8
Available for sale	-	6.5
Exchange rate variation on other assets	-	515.5
Gains from derivative transactions, net	-	173.7
Financial income on accounts payable	-	6.6
Exchange rate variation on net foreign assets ⁽¹⁾	-	351.6
Exchange rate variation on marketable securities	-	228.4
Other	-	6.0
	1,787.4	1,531.4
Financial expenses		
Losses on derivative transactions, net	(996.2)	-
Exchange rate variation on net foreign assets ⁽¹⁾	(634.2)	-
Interest on loans and financing	(546.6)	(371.1)
Adjustment to present value	(159.7)	(98.3)
Interest on liabilities	(124.4)	(79.7)
Exchange rate variation on other liabilities	(98.4)	(549.7)
Exchange rate variation on assets	(96.1)	-
Financial expenses on accounts payable	(79.6)	-
Exchange rate variation on marketable securities	(34.9)	-
Exchange rate variation on loans and financing	-	(767.5)
Premium paid for the repurchase of bonds (Tender Offer)	-	(310.3)
Other	(125.3)	(119.0)
	(2,895.4)	(2,295.6)
	(1,108.0)	(764.2)

⁽¹⁾ Refers to the gains and losses on the translation of assets and liabilities reported by the Company's subsidiaries whose functional currency is Real.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

35. STATEMENT OF INCOME BY NATURE

The Company has chosen to disclose its statement of income by function and thus presents below the details by nature:

	06.30.16	06.30.15
Costs of sales		
Costs of goods	9,129.3	6,939.8
Depreciation	622.8	534.6
Amortization	3.0	2.0
Salaries and employees benefits	1,796.1	1,561.2
Others	1,134.7	1,235.0
	12,685.9	10,272.6
Sales expenses		
Depreciation	30.8	29.8
Amortization	7.9	5.8
Salaries and employees benefits	578.3	512.2
Indirect and direct logistics expenses	1,088.6	1,074.0
Others	732.1	616.2
	2,437.7	2,238.0
Administrative expenses		
Depreciation	10.5	11.0
Amortization	91.3	57.3
Salaries and employees benefits	128.5	139.3
Fees	14.9	13.1
Others	30.9	1.7
	276.1	222.4
Other operating expenses ⁽¹⁾		
Depreciation	7.6	11.5
Others	196.4	495.8
	204.0	507.2

⁽¹⁾ The details of other operating expenses are disclosed in note 33.

36. RECENTLY ADOPTED AND NOT YET ADOPTED ACCOUNTING PRONOUNCEMENTS

During the six-month period ended June 30, 2016, the Company has not been required to adopt new accounting standards and pronouncements. Therefore, it is necessary to read this interim consolidated financial statements in conjunction with the consolidated financial statements for the year ended December 31, 2015 in order to obtain the details of recently adopted or not yet adopted accounting pronouncements.

(A FREE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

BRF S.A.

Notes to the Interim Consolidated Financial Statements
June 30, 2016 (Unaudited)

(Amounts expressed in millions of Brazilian Reais, unless otherwise stated)

37. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors approved the interim consolidated financial statements on July 28, 2016.

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