**Marfrig Alimentos S.A.**

# Independent auditor's review report on interim financial statements as of March 31, 2011

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# Independent auditor's review report on interim financial statements

To
The Board of Directors and Shareholders of
Marfrig Alimentos S.A.
São Paulo - SP

## Introduction

We have reviewed the Company and Consolidated interim financial statements of Marfrig Alimentos S.A. ("Company") for the quarter ended March 31, 2011, comprising the balance sheet and the related statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the quarter then ended, including a summary of the significant accounting practices and other explanatory information.

Management is responsible for the preparation of the Company interim financial statements in accordance with the Brazilian Accounting Pronouncements Committee (CPC) Technical Pronouncement 21 and the Consolidated interim financial statements in accordance with the CPC 21 and with the Accounting Standard (IAS) 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), and for the presentation of these interim financial statements in accordance with the standards issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the Quarterly Information. Our responsibility is to express a conclusion on the interim financial statements based on our review.

## Scope of the review

We conducted our review in accordance with Brazilian and international standards for reviewing interim financial information (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). An interim review consists of applying analytical and other review procedures, and making enquiries of and having discussions with persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit conducted in accordance with auditing standards. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



KPMG Auditores Associados, uma sociedade simples brasileira e firma-membro da rede KPMG de firmas-membro independentes e afiliadas à KPMG International Cooperative ("KPMG International"), uma entidade suíça.

*KPMG Auditores Associados, a Brazilian entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.*

**Conclusion about the Company ínterim financial statements**

Based on our review, we are not aware of any fact that leads us to believe that the Company interim financial statements included in the quarterly information referred to above have not been prepared, in all material respects, in accordance with CPC 21 applicable to Quarterly Information and presented in accordance with the standards issued by the Brazilian Securities and Exchange Commission.

**Conclusion about the Consolidated interim financial statements**

Based on our review, we are not aware of any fact that leads us to believe that the Consolidated interim financial statements included in the quarterly information referred to above have not been prepared, in all material respects, in accordance with CPC 21 and IAS 34 applicable to Quarterly Information and presented in accordance with the standards issued by the Brazilian Securities and Exchange Commission.

**Other issues**

***Interim statement of value added***

We have also reviewed the Company and Consolidated interim statement of value added for the quarter ended March 31, 2011, whose disclosure in the interim financial statements is required in accordance with the standards issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of the Quarterly Information and considered as supplemental information by the international accounting standards (IFRS), which do not require the disclosure of the statement of value added. These statements was submitted to the same review procedures previously described and based on our review, we are not aware of any fact that would lead us to believe that they have not been fairly stated, in all material respects, in relation to the Company and Consolidated interim financial statements taken as a whole.

***Audit and review of the prior year and period amounts***

On April 4, 2011 BDO Auditores Independentes, a legal entity established in Brazil which held the legal right to use the BDO trademark, became part of the KPMG network of professional service firms under the new corporate name of KPMG Auditores Associados. BDO Auditores Independentes reviewed and audited the interim financial statements and the financial statements for the period and year ended March 31, 2010 and December 31, 2010, respectively, while it still held the right to use BDO trademark, and issued reports dated April 30, 2010 and March 28, 2011, which had no changes.

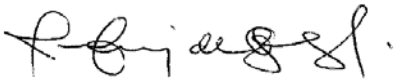
The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Ribeirão Preto, May 13, 2011

KPMG Auditores Associados (nova denominação social da BDO Auditores Independentes)
CRC 2SP013439/O-5



José Luiz Sanches
Contador CRC 1SP124579/O-0



José Luiz de Souza Gurgel
Contador CRC 1RJ087339/O-4 “S” SP

# MARFRIG ALIMENTOS S.A.

## INDIVIDUAL AND CONSOLIDATED
## INTERIM FINANCIAL STATEMENTS FOR THE PERIODS ENDED
## MARCH 31, 2011 AND 2010
## AND INDEPENDENT AUDITOR'S REVIEW REPORT

**MARFRIG ALIMENTOS S.A.**

**INDIVIDUAL AND CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIODS ENDED MARCH 31, 2011 AND 2010 AND INDEPENDENT AUDITOR'S REVIEW REPORT**

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**EXHIBIT 1**
**MARFRIG ALIMENTOS S.A.**

**BALANCE SHEETS AS OF MARCH 31, 2011 AND DECEMBER 31, 2010**
**(In thousands of Brazilian reais - R$)**

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| ASSETS | Note | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Current assets | | | | | |
| Cash and cash equivalents | 4 | 1,608,480 | 2,254,020 | 3,163,195 | 3,876,356 |
| Trade accounts receivable - domestic | 5 | 223,422 | 237,948 | 1,067,896 | 1,109,851 |
| Trade accounts receivable - foreign | 5 | 137,670 | 154,172 | 322,315 | 252,094 |
| Inventories of goods and merchandise | 6 | 675,807 | 576,124 | 2,452,281 | 2,249,314 |
| Biological assets | 7 | 118,829 | 118,058 | 733,445 | 693,040 |
| Recoverable taxes | 8 | 528,830 | 439,610 | 1,024,504 | 868,638 |
| Prepaid expenses | | 7,387 | 7,178 | 78,194 | 68,008 |
| Notes receivable | 9 | 143,474 | 110,753 | 92,233 | 2,877 |
| Advances to suppliers | | 60,012 | 57,616 | 89,709 | 64,909 |
| Other receivables | | 25,815 | 44,806 | 187,138 | 215,152 |
| Total current assets | | 3,529,726 | 4,000,285 | 9,210,910 | 9,400,239 |
| Non-current assets | | | | | |
| Long-term assets | | | | | |
| Financial investments | 4.2 | 189 | 189 | 7,538 | 7,690 |
| Compulsory deposits | | 19,418 | 19,412 | 19,608 | 19,548 |
| Notes receivable | 9 | 1,601,951 | 1,024,247 | 39,653 | 11,078 |
| Deferred income and social contribution taxes | 10 | 399,284 | 385,914 | 968,902 | 893,100 |
| Recoverable taxes | 8 | 529,940 | 529,940 | 984,860 | 1,008,235 |
| Other receivables | | 5,030 | 5,245 | 117,185 | 99,818 |
| | | 2,555,812 | 1,964,947 | 2,137,746 | 2,039,469 |
| Investments | 11 | 4,669,298 | 4,796,225 | 10,161 | 10,040 |
| Property, plant and equipment | 12 | 1,472,235 | 1,460,474 | 6,800,621 | 6,685,588 |
| Biological assets | 7 | - | - | 201,699 | 277,554 |
| Intangible assets | 13 | 958,463 | 959,449 | 4,042,325 | 4,186,696 |
| | | 7,099,996 | 7,216,148 | 11,054,806 | 11,159,878 |
| Total non-current assets | | 9,655,808 | 9,181,095 | 13,192,552 | 13,199,347 |
| Total assets | | 13,185,534 | 13,181,380 | 22,403,462 | 22,599,586 |

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| LIABILITIES | Note | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Current liabilities | | | | | |
| Trade accounts payable | | 292,694 | 341,911 | 2,366,274 | 2,310,763 |
| Accrued payroll and related charges | 14 | 152,748 | 156,892 | 535,192 | 537,079 |
| Taxes payable | 15 | 20,584 | 28,609 | 171,404 | 171,627 |
| Loans and financing | 16 | 1,411,985 | 1,459,146 | 2,759,649 | 2,852,561 |
| Notes payable | 19 | 49,630 | 152,857 | 126,224 | 313,632 |
| Lease payable | 17.1 | 32,319 | 49,826 | 76,246 | 89,018 |
| Dividends payable | 22.6 | 4,865 | 4,865 | 4,865 | 4,865 |
| Interest on equity capital | 22.7 | 29,833 | 91,769 | 29,833 | 91,769 |
| Interest on debentures | 18 | 222,794 | 132,000 | 222,794 | 132,000 |
| Advances from customers | | 138,816 | 181,687 | 185,591 | 181,687 |
| Other payables | | 2,657 | 5,847 | 193,994 | 263,558 |
| Total current liabilities | | 2,358,925 | 2,605,409 | 6,672,066 | 6,948,559 |
| Non-current liabilities | | | | | |
| Loans and financing | 16 | 3,612,785 | 3,846,442 | 5,956,605 | 6,375,244 |
| Taxes payable | 15 | 78,028 | 94,048 | 276,230 | 291,686 |
| Deferred taxes | 21 | 133,548 | 135,321 | 1,402,434 | 1,463,436 |
| Provisions for legal proceedings | 20 | 15,250 | 15,250 | 209,740 | 223,686 |
| Lease payable | 17.1 | 24,659 | 24,418 | 224,826 | 230,193 |
| Debentures payable | 18 | 592,643 | - | 592,643 | - |
| Notes payable | 19 | 76,773 | 107,204 | 365,917 | 380,461 |
| Other payables | | - | - | 261,219 | 189,908 |
| Total non-current liabilities | | 4,533,686 | 4,222,683 | 9,289,614 | 9,154,614 |
| Shareholders' equity | | | | | |
| Share capital | 22.1 | 4,061,478 | 4,061,478 | 4,061,478 | 4,061,478 |
| (-) Share issue expenses | 22.1 | (74,960) | (74,960) | (74,960) | (74,960) |
| Capital reserve | | 2,468,450 | 2,468,450 | 2,468,450 | 2,468,450 |
| Debentures convertible into shares | 22.2 | 2,500,000 | 2,500,000 | 2,500,000 | 2,500,000 |
| Charges on the issue of convertible debentures | 22.2 | (12,328) | (12,328) | (12,328) | (12,328) |
| Acquisition of shares in subsidiaries | | (19,222) | (19,222) | (19,222) | (19,222) |
| Income reserves | 22.3 | 45,842 | 44,476 | 45,842 | 44,476 |
| Statutory reserve | | 44,476 | 44,476 | 44,476 | 44,476 |
| Retained earnings | | 7,348 | 7,348 | 7,348 | 7,348 |
| Treasury shares | | (5,982) | (7,348) | (5,982) | (7,348) |
| Asset and liability valuation adjustment | | 30,375 | 109,423 | 30,375 | 109,423 |
| Cumulative translation adjustment | | 285,892 | 307,565 | 285,892 | 307,565 |
| Accumulated losses | | (524,154) | (563,144) | (524,154) | (563,144) |
| Controlling shareholders' equity | | 6,292,923 | 6,353,288 | 6,292,923 | 6,353,288 |
| Minority interest | | - | - | 148,859 | 143,125 |
| Total shareholders' equity | | 6,292,923 | 6,353,288 | 6,441,782 | 6,496,413 |
| Total liabilities and shareholders' equity | | 13,185,534 | 13,181,380 | 22,403,462 | 22,599,586 |
| | | - | - | - | - |

The accompanying notes are an integral part of these financial statements.

**EXHIBIT 2**

**MARFRIG ALIMENTOS S.A.**

**STATEMENT OF INCOME ENDED**
**MARCH 31, 2011 AND 2010**
**(In thousands of Brazilian reais - R$, except earnings per share)**

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 03/31/10 | 03/31/11 | 03/31/10 |
| NET SALES | 1,067,893 | 768,254 | 5,252,145 | 3,195,931 |
| Cost of goods sold | (840,209) | (650,948) | (4,523,377) | (2,649,634) |
| GROSS INCOME | 227,684 | 117,306 | 728,768 | 546,297 |
| OPERATING INCOME (EXPENSES) | (219,325) | (224,060) | (748,778) | (646,342) |
| Selling expenses | (66,715) | (49,718) | (351,115) | (270,406) |
| General and administrative expenses | (42,318) | (25,283) | (195,907) | (103,876) |
| Equity in earnings (losses) of subsidiaries | (43,532) | 91,824 | - | - |
| Other operating income (expenses) | 6,921 | 9,777 | (22,846) | 38,847 |
| Financial income (expenses) | (73,681) | (250,660) | (178,910) | (310,907) |
| Financial income | 134,720 | 31,718 | 143,851 | 41,035 |
| Exchange gain | 91,037 | 9,394 | 93,066 | 15,626 |
| Financial expenses | (284,581) | (142,312) | (370,581) | (200,415) |
| Exchange loss | (14,857) | (149,460) | (45,246) | (167,153) |
| INCOME (LOSS) FROM OPERATIONS | 8,359 | (106,754) | (20,010) | (100,045) |
| INCOME (LOSS) BEFORE TAXES | 8,359 | (106,754) | (20,010) | (100,045) |
| PROVISION FOR INCOME AND SOCIAL CONTRIBUT | 15,143 | 56,629 | 45,225 | 48,008 |
| Income tax | 11,135 | 40,425 | 34,193 | 35,238 |
| Social contribution tax | 4,008 | 16,204 | 11,032 | 12,770 |
| NET INCOME (LOSS) IN THE PERIOD | 23,502 | (50,125) | 25,215 | (52,037) |
| ATTRIBUTABLE TO: | | | | |
| Controlling shareholders | 23,502 | (50,125) | 23,502 | (50,125) |
| Minority interest | - | - | 1,713 | (1,912) |
| | 23,502 | (50,125) | 25,215 | (52,037) |
| Basic and diluted earnings per share - common share | 0.07 | 0.14 | - | - |

The accompanying notes are an integral part of these financial statements.

Marfrig Alimentos S.A.

**(In thousands of Brazilian reais - R$)**

| | Attributable to controlling shareholders | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Profits reserve | | | Asset and liability valuation adjustment | Cumulative translation adjustments | Accumulated losses | Total | Total controlling interest | Total minority interest | Total shareholders' equity |
| | Share capital | Share issue expense | Capital reserve | Legal Reserve | Profit retention | Treasury shares | | | | | | | |
| AT DECEMBER 31, 2010 | 4,061,478 | (74,960) | 2,468,450 | 44,476 | 7,348 | (7,348) | 109,423 | 307,565 | (563,144) | 6,353,288 | 6,353,288 | 143,125 | 6,496,413 |
| Comprehensive income: | | | | | | | | | | | | | |
| Exchange gains (losses) on net investments | - | - | - | - | - | - | (63,560) | - | - | (63,560) | (63,560) | 7,447 | (56,113) |
| Exchange gains (losses) from balance sheet translation | - | - | - | - | - | - | - | (21,673) | - | (21,673) | (21,673) | - | (21,673) |
| Realization of deemed cost | - | - | - | - | - | - | (15,488) | - | 15,488 | - | - | - | - |
| Write-off of treasury shares | - | - | - | - | - | 1,366 | - | - | - | 1,366 | 1,366 | - | 1,366 |
| Net income for the period | - | - | - | - | - | - | - | - | 23,502 | 23,502 | 23,502 | (1,713) | 21,789 |
| AT MARCH 31, 2011 | 4,061,478 | (74,960) | 2,468,450 | 44,476 | 7,348 | (5,982) | 30,375 | 285,892 | (524,154) | 6,292,923 | 6,292,923 | 148,859 | 6,441,782 |

**EXHIBIT 4**

**MARFRIG ALIMENTOS S.A.**

**STATEMENT OF CASH FLOWS**
**FOR THE PERIODS ENDED MARCH 31, 2011 AND 2010**
**(In thousands of Brazilian reais - R$)**

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2011 | 3/31/2010 | 3/31/2011 | 3/31/2010 |
| NET INCOME (LOSS) IN THE PERIOD | 23,502 | (50,125) | 23,502 | (50,125) |
| Non-cash items | 177,731 | 92,853 | 423,441 | 273,765 |
| Depreciation | 17,398 | 14,062 | 116,780 | 75,985 |
| Amortization | - | - | 61,616 | 32,386 |
| Minority interest | - | - | 1,713 | (1,912) |
| Provision for contingencies and non-realisation of tax credits | - | - | (1,687) | (42,758) |
| Deferred taxes | (15,144) | (56,631) | (41,486) | (52,562) |
| Equity in earnings (losses) of subsidiaries | 43,532 | (91,824) | - | - |
| Exchange gains (losses) on loans and financing | (72,792) | 141,719 | (77,010) | 157,203 |
| Exchange gains (losses) on other asset and liability accounts | (3,388) | (6,853) | 45,440 | (10,876) |
| Interest expense on financing debts | 109,928 | 84,157 | 176,208 | 106,672 |
| Interest expense on finance lease | 7,403 | 5,826 | 10,090 | 6,059 |
| Interest expense on debentures | 90,794 | - | 90,794 | - |
| Financial expenses from other liabilities | - | 2,944 | - | 5,475 |
| Write-off of property, plant and equipment | - | (547) | 40,983 | (1,907) |
| Changes in shareholders' equity | (1,011,424) | (82,937) | (800,803) | (156,519) |
| Trade accounts receivable | (11,843) | 269,651 | 6,747 | 361,858 |
| Inventories | (100,454) | (61,533) | (284,104) | (228,170) |
| Court deposits | (6) | (321) | 4,797 | (440) |
| Accrued payroll and related charges | (4,144) | 2,803 | 1,225 | 27,053 |
| Trade accounts payable and advances | (51,613) | (51,467) | 56,376 | (19,874) |
| Current and deferred taxes | (113,264) | (40,486) | (233,784) | (210,866) |
| Notes receivable and payable | (745,920) | (117,647) | (206,794) | (395,379) |
| Other asset and liability accounts | 15,820 | (83,937) | (145,266) | 309,299 |
| Net cash provided by (used in) operating activities | (810,191) | (40,209) | (353,860) | 67,121 |
| Cash flows from investing activities | | | | |
| Investments | - | (1,279,060) | - | (612,064) |
| Investments in property, plant and equipment | (29,159) | (42,128) | (278,359) | (139,515) |
| Investments in intangible assets | 986 | (22) | (5,629) | (646,777) |
| Investments in deferred assets | - | - | - | (609) |
| Net cash provided by (used in) investing activities | (28,173) | (1,321,210) | (283,988) | (1,398,965) |
| Cash flows from financing activities | | | | |
| Dividends / interest on equity capital paid in the year | (61,936) | - | (61,936) | - |
| Debentures | 592,643 | - | 592,643 | - |
| Loans and financing | (314,581) | (193,164) | (558,371) | (137,503) |
| Borrowings | 207,794 | 506,341 | 860,724 | 1,289,122 |
| Repayment of loans | (522,375) | (699,505) | (1,419,095) | (1,426,625) |
| Lease payable | (24,668) | (17,519) | (23,947) | (21,589) |
| New leases | - | 374 | 13,384 | 3,345 |
| Discount to present value | (5,845) | - | (5,845) | - |
| Settled leases | (18,823) | (17,893) | (31,486) | (24,934) |
| Treasury shares | 1,366 | 1,765 | 1,366 | 1,765 |
| Issuance of shares and share issue expense | - | (2,909) | - | (2,909) |
| | - | - | | |
| Net cash provided by financing activities | 192,824 | (211,827) | (50,245) | (160,236) |
| Exchange gains (losses) on cash and cash equivalents | - | - | (25,068) | 2,482 |
| Cash flow in the period | (645,540) | (1,573,246) | (713,161) | (1,489,598) |
| Cash and banks and short-term financial investments | | | | |
| End of year | 1,608,480 | 1,056,479 | 3,163,195 | 1,543,840 |
| Beginning of year | 2,254,020 | 2,629,725 | 3,876,356 | 3,033,438 |
| Changes in the period | (645,540) | (1,573,246) | (713,161) | (1,489,598) |
| | - | - | - | - |

The accompanying notes are an integral part of these financial statements.

EXHIBIT 5

MARFRIG ALIMENTOS S.A.

VALUE ADDED STATEMENT FOR THE PERIODS ENDED
MARCH 31, 2011 AND 2010
(In thousands of Brazilian reais - R$)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 03/31/10 | 03/31/11 | 03/31/10 |
| 1 - REVENUES | 1,073,194 | 768,801 | 5,295,779 | 3,204,145 |
| 1.1 ) Sales of goods and services | 1,067,893 | 768,254 | 5,252,145 | 3,195,931 |
| 1.2 ) Other revenues | 652 | - | 39,527 | 9,099 |
| 1.3 ) Allowance for doubtful accounts - Reversal (recognition) | 4,649 | 547 | 4,107 | (885) |
| 2 - INPUTS PURCHASED FROM OTHER FIRMS (including taxes - ICMS, IPI, PIS and Cofins) | 476,128 | 660,795 | 3,918,792 | 2,261,054 |
| 2.1 ) Cost of goods and services sold | 355,602 | 454,130 | 2,790,841 | 1,689,844 |
| 2.2 ) Materials, power, services and other | 120,526 | 77,398 | 1,004,322 | 372,993 |
| 2.3 ) Loss / Recovery of assets | - | 129,267 | 123,629 | 198,217 |
| 2.4 ) Other | - | - | - | - |
| 3 - GROSS VALUE ADDED (1-2) | 597,066 | 108,006 | 1,376,987 | 943,091 |
| 4 - DEPRECIATION AND AMORTIZATION | 17,398 | 14,062 | 178,396 | 108,371 |
| 5 - NET VALUE CREATED BY COMPANY (3 - 4) | 579,668 | 93,944 | 1,198,591 | 834,720 |
| 6 - VALUE ADDED RECEIVED THROUGH TRANSFER | 182,225 | 157,472 | 238,176 | 57,271 |
| 6.1 ) Equity in earnings (losses) of subsidiaries | (43,532) | 91,824 | - | - |
| 6.2 ) Financial income | 225,757 | 41,112 | 236,917 | 56,661 |
| 6.3) Other | - | 24,536 | 1,259 | 610 |
| **7 - TOTAL VALUE ADDED TO BE DISTRIBUTED (5 + 6)** | **761,893** | **251,416** | **1,436,767** | **891,991** |
| **8 - VALUE ADDED DISTRIBUTION** | **761,893** | **251,416** | **1,436,767** | **891,991** |
| 8.1 ) Employees | 135,760 | 67,960 | 515,095 | 407,435 |
| 8.1.1 - Direct compensation | 110,528 | 57,458 | 366,068 | 343,171 |
| 8.1.2 - Benefits | 15,203 | 6,611 | 108,834 | 37,315 |
| 8.1.3 - FGTS (severance pay fund) | 10,029 | 3,891 | 40,193 | 26,949 |
| 8.2 ) Taxes | 226,561 | 9,462 | 448,995 | 176,084 |
| 8.2.1 - Federal | 170,222 | 34,264 | 357,214 | 164,634 |
| 8.2.2 - State | 56,339 | (24,802) | 89,630 | 9,303 |
| 8.2.3 - Municipal | - | - | 2,151 | 2,147 |
| 8.3 ) Cost of debt | 376,070 | 224,119 | 449,175 | 358,597 |
| 8.3.1 - Interest | 358,622 | 192,077 | 379,804 | 311,830 |
| 8.3.2 - Rentals | 17,448 | 32,042 | 69,371 | 46,767 |
| 8.3.3 - Other | - | - | - | - |
| 8.4 ) Cost of equity | 23,502 | (50,125) | 23,502 | (50,125) |
| 8.4.1 - Interest on equity capital | - | - | - | - |
| 8.4.2 - Dividends | - | - | - | - |
| 8.4.3 - Retained earnings /Accumulated losses for the period | 23,502 | (50,125) | 21,789 | (48,213) |
| 8.4.4 - Minority interest in retained earnings | - | - | 1,713 | (1,912) |

The accompanying notes are an integral part of these financial statements.

**MARCH 31, 2011 AND 2010**
**(In thousands of Brazilian reais - R$)**

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| NET INCOME (LOSS) IN THE PERIOD | 23,502 | (50,125) | 25,215 | (52,037) |
| Exchange gains (losses) on net investments | (63,560) | 1,997 | (63,560) | 1,997 |
| Exchange gains (losses) from balance sheet translation | (21,673) | 9,974 | (21,673) | 9,974 |
| Total comprehensive income in the period | (85,233) | 11,971 | (85,233) | 11,971 |
| Total comprehensive income in the period | (61,731) | (38,154) | (60,018) | (40,066) |
| ATTRIBUTABLE TO: | | | | |
| Controlling shareholders | (61,731) | (38,154) | (61,731) | (38,154) |
| Minority interest | | | 1,713 | (1,912) |

The accompanying notes are an integral part of these financial statements.

**(Convenience translation into English from the original previously issued in Portuguese)**

**MARFRIG ALIMENTOS S.A.**

**INDIVIDUAL (COMPANY) AND CONSOLIDATED QUARTERLY FINANCIAL INFORMATION FOR THE YEARS ENDED MARCH 31, 2011 AND 2010**
**(In thousands of Brazilian reais – R$)**

## 1. OPERATIONS

Marfrig Alimentos S.A. (the "Company") is a publicly-traded Company that carries out foodstuff production and meat packing activities consisting of cattle, pig, lamb and poultry slaughter; industrial processing, distribution, importing, exporting and marketing of animal products and by-products, whether edible or not, at its own or third parties' facilities.

Marfrig Alimentos S.A. was set up on June 6, 2000 and became a corporation on March 26, 2007. The Company was registered with the Brazilian Securities and Exchange Commission (CVM) under No. 20.788 on June 18, 2007 and made its initial public offering (*IPO*) on June 29, 2007. Its shares were listed on the New Market of São Paulo Stock Exchange (BM&F Bovespa) under code No. MRFG3. On April 28, 2009 its corporate name was changed to Marfrig Alimentos S.A. As of March 31 2011, its subscribed and paid-in share capital is represented by 346,983,954 common shares, of which 150,903,836 shares or 43.49% are controlled by MMS Participações S.A. and 196,080,118 shares or 56.51% are outstanding free float shares in capital markets. MMS Participações S.A. is controlled by Marcos Antonio Molina dos Santos and Márcia Aparecida Pascoal Marçal dos Santos, each holding a 50% ownership interest.

As a participant in BM&FBOVESPA's New Market, the Company is subject to arbitration under the Market Arbitration Chamber, pursuant to an arbitration clause included in its by-laws.

The Company's financial and equity position should be considered within the context of the integrated activities of the following divisions, organized according to business from which revenue is derived, with own structures established and segmented into:

- Cattle, Lamb and Leather, with animal slaughtering operations located solely in South America (Brazil, Argentina, Uruguay and Chile) and
- Poultry, Pig and manufactured and processed products, with operations in Brazil, Europe, United States, Middle East and Asia.

CATTLE, LAMB AND LEATHER

Beef and Food Service Divisions – Brazil:

- Marfrig Alimentos S.A. (Brazil) – made up of ten cattle slaughtering units, three beef processing units, one tannery, one factory which produces cleaning and hygiene products and four feedlots, located in the States of São Paulo, Rio Grande do Sul, Goiás, Mato Grosso do Sul, Mato Grosso and Rondônia, in addition to a Distribution Centre in the State of São Paulo;

- MFB Marfrig Frigoríficos Brasil S.A., current name of Frigoclass Alimentos S.A., consists of 13 cattle slaughter facilities, one of them also used for the slaughtering of sheep, as well as two beef processing facilities, one of them located in the slaughter facility of Rio Verde – State of Goiás. Those facilities are in the States of São Paulo, Rio Grande do Sul, Goiás, Mato Grosso do Sul, Pará, Paraná and Rondônia. Marfrig's ownership interest is 100%;

- Masplen Ltd (Jersey), (company which holds 100% of Pampeano Alimentos S.A. (Brazil)). Pampeano produces canned meat and other processed products in the State of Rio Grande do Sul. Marfrig's ownership interest is 100%;

- Marfrig Overseas Ltd (the Cayman Islands), company set up for raising funds abroad by issuing Notes. Marfrig's ownership interest is 100%.

- Marfood USA Inc. (USA), producer and distributor of beef jerky for the US market. It holds 100% of the Pemmican trademark. Marfrig's ownership interest is 100%.

- Argentine Division:

- Quickfood S.A. (Argentina) is a publicly-traded company, holder of PATY brand and a leader in the Argentine, Uruguayan and Chilean hamburger markets, with two slaughter facilities, three beef processing facilities and one frozen legumes and vegetables plan. Marfrig's ownership interest is 90.05%. Argentine Breeders & Packers S.A. (Argentina), with three cattle slaughter facilities (including positions whereby it holds 100% of Best Beef S.A. companies (Argentina), Estâncias del Sur S.A. (Argentina) and Mirab S.A. (Argentina), producer and distributor of beef jerky in the US market and several other export destinations.

- Argentine Breeders & Packers S.A. – AB&P (Argentina) is no longer controlled directly by Marfrig Alimentos S.A. and now is controlled by Quickfood S.A., with a capital increase in Quickfood S.A. through subscription and payment of shares in AB&P that were owned by Marfrig Alimentos S.A..

- Uruguayan Division:

  - Frigorífico Tacuarembó S.A. (Uruguay), which operates a cattle slaughter and beef processing facility – 93.62%;

  - Inaler S.A. (Uruguay), a cattle and lamb slaughter facility – 100%;

  - Marfrig Chile S.A. (Chile), which operates a meat deboning and trading facility, both in the Chilean market – 99.47%. Marfrig Chile took over Quinto Cuanto S.A. and PBP Chile Limitada, which were previously its subsidiaries. In addition, Marfrig Chile S.A holds 100% of Frigorífico Patagonia S.A. (Chile), which operates a lamb packing plant in Patagonia;

  - Prestcott International S.A. (Uruguay), which holds 100% of Cledinor S.A. (Uruguay), a beef and lamb packing facility in the city of Salto – 100%;

  - Establecimientos Colonia S.A. (Uruguay), a beef packing plant in the city of Colonia – 100%.

  - Columbus Netherlands B.V. (Netherlands), which holds 59.17% of Gidney S.A., which is a holding company that controls 100% of Zenda Group (Uruguay), which in turn produces and sells finished and cut leather, besides its affiliated companies in Argentina, Mexico, United States, Germany, South Africa, Chile, Hong Kong and China.

- POULTRY, PIG AND MANUFACTURED AND PROCESSED PRODUCTS

  - Nova Seara Division - Brazil:

  - Seara Holdings (Europe) BV, which holds 100% of Babicora Holding Participações Ltda. that holds 100% of Seara Alimentos S.A. (Brazil) besides its affiliated companies in Europe and Asia -100%.

  - Secculum Participações Ltda. (Brazil) – 99% and União Frederiquense Participações Ltda. (Brazil) – 99.99%, companies which together hold 100% of Frigorífico Mabella Ltda. Mabella operates a pig slaughter facility in the State of Santa Catarina and one pig slaughter and pork processing facility in the State of Rio Grande do Sul. It is also responsible for Marfrig's poultry and pork operations, and has the following percentages of ownership interest in the companies:

    - DaGranja Agroindustrial Ltda. – 94%;

    - Braslo Produtos de Carnes Ltda. – 100%;

    - MAS Frangos Participações Ltda. – 100%, which holds 100% of Agrofrango Indústria e Comércio de Alimentos Ltda.;

    - Penasul Alimentos Ltda. – 100%;

Poultry operations consist of seven poultry slaughter facilities and seven poultry processing facilities in the States of Santa Catarina, Rio Grande do Sul, Paraná, São Paulo, Minas Gerais and Distrito Federal.

- MBL Alimentos S.A., company that is engaged in pig raising – 100%.

The poultry and pig division produces and sells products under Pena Branca trademark, which belongs to Marfrig Alimentos S.A.

- European Division:

  - Weston Importers Ltd. (United Kingdom), *trading* which operates in the European market and holds 100% of CDB Meats Ltd (United Kingdom), a producer of processed meat. – 100%

  - Marfrig Holdings (Europe) – B.V. (Netherlands) which holds 100% of Moy Park Holdings (Europe) Limited (company headquartered in Northern Ireland), which in turn holds 100% of Moy Park Group (Northern Ireland) and Kitchen Range Foods Ltd (England), which operates three poultry slaughter facilities and eight processing facilities in England, Northern Ireland, France and the Netherlands – 100%.

- Keystone Foods:

  - Marfrig Alimentos S/A, through its subsidiaries (i) MFG (USA) Holding Inc., which holds the assets of Keystone in the United States; (ii) McKey Luxembourg Holdings S.a.r.l., which holds the assets of Keystone in Europe; and (iii) McKey Luxembourg Holdings APMEA S.a.r.l., which holds the assets of Keystone in Asia. Although their operations are segregated, these companies together operate worldwide in the development, production, trading and distribution of chicken, fish, pork and beef food, and are specialised in food services. They serve more than 28,000 restaurants in 13 countries, including USA, France and United Kingdom (Europe), China, Thailand, Malaysia and South Korea (Asia), Australia, New Zealand and United Arab Emirates, Kuwait, Bahrain, Qatar and Oman (Middle East) – 100%

# 2. PREPARATION AND PRESENTATION OF QUARTERLY FINANCIAL INFORMATION

## 2.1. STATEMENT OF COMPLIANCE

**Quarterly financial information**

The consolidated quarterly financial information were prepared and are presented in accordance with accounting practices adopted in Brazil, including the statements issued by the "Comitê de Pronunciamentos Contábeis" (CPC) – (Committee of Technical Pronouncements) and in accordance with International Financial Reporting Standards (IFRS) issued by the IASB.

**Company quarterly financial information**

The parent company's individual quarterly financial information was prepared according to the Brazilian accounting practices, and technical pronouncement CPC 21 – Interim Statement, and rules issued by Comissão de Valores Mobiliários (CVM) – (Brazilian Securities and Exchange Commission), applicable to the preparation of Quarterly Financial Information and presented with the consolidated financial statements. The Brazilian accounting practices applied to the Company financial statements are different from the IFRS only for the presentation of investments in controlled and affiliated companies through the equity method of accounting, while these investments would be carried at fair value or cost for IFRS purposes.

## 2.2. BASIS OF PREPARATION

The individual (Company) and consolidated quarterly financial information is denominated in Brazilian reais, which is the functional and reporting currency, and all amounts are rounded to thousands of Brazilian reais, unless otherwise stated.

The consolidated quarterly financial information has been prepared on the historical cost basis, unless otherwise stated, such as certain non-current assets and financial instruments.

The preparation of consolidated quarterly financial information in accordance to IFRS and CPCs requires Management to make certain accounting estimates. The areas involving considerable judgment or use of estimates for the consolidated financial statements are stated in note 3.1.4.

### 2.2.1. Foreign currency translation

*Functional and reporting currency*

The Financial Statements of each consolidated subsidiary and those used as a basis for accounting for investments under the equity method are prepared using each entity's functional currency.

Under CPC 02, functional currency is the currency of the primary economic environment in which the entity operates. To define the functional currency of each subsidiary, Management considered which currency significantly influences the sale price of their goods and services and the currency in which most of their production input costs are paid or incurred. The Consolidated Quarterly Financial Information are expressed in Brazilian reais (R$), which is the functional and reporting currency of Marfrig Alimentos S.A.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rate in effect at the transaction date. Gains and losses resulting from the difference between the asset and liability balance translation at the period-end and the translation of the transaction balances are recognised in the statement of income.

*Group companies*

The results of operations and the financial position of all consolidated subsidiaries and investments accounted for under the equity method, whose functional currency differs from the reporting currency, are translated from the reporting currency, as follows:

i. asset and liability balances are translated using the exchange rate in effect at the date of the Consolidated Financial Statements;

ii. statement of income accounts are translated using the monthly average exchange rate; and

iii. all differences arising from the foreign currency translation are recognised in Shareholders' Equity in Consolidated Comprehensive Income under the line "Accumulated translation adjustments".

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

## 3.1. SIGNIFICANT ACCOUNTING PRACTICES

The significant accounting practices adopted to prepare this quarterly financial information are as follows:

### 3.1.1. Results of operations

Results of operations are recorded on the accrual basis.

- Revenue

Revenue arising from the sale of goods is recognised when the Group transfers all of the risks and rewards of ownership of the asset to the buyer and it is probable that the Group will receive the agreed payment. These conditions are met when the goods are delivered to the buyer, complying with main freights modalities used by the Company.

Revenue is shown net of taxes on returns, rebates and discounts and the consolidated quarterly financial information is also net of intercompany sales eliminations.

- Financial Income

It comprises gains on changes in the value of financial assets measured at fair value in income, as well as interest revenue obtained with the effective interest method.

They include interest revenue on invested amounts (including financial assets available for sale), gains on the disposal of financial assets available for sale and changes in the fair value of financial assets measured at value through income. Interest revenue is recognised in income using the effective interest method.

### 3.1.2. Segment Information

The information by operating segment is based on internal reporting to the chief operating decision maker. The chief operating decision maker is a Board, that´s included the chief executive officer, the operating officer and the financial officer.

This Board identified two reportable segments that are strategically organised according to business, the domestic and foreign market, which meet the quantitative and qualitative thresholds for reportable segments.

### 3.1.3. Government grants

Government grants received for capital expenditures are usually deducted when the carrying amount of the asset acquired is determined. Grants related to income are offset against the related costs incurred by the Group. If there are conditions attached to the retention of a government grant, this retention is initially recognised as deferred income. When the retention conditions were met, the deferred income balance is disclosed in consolidated comprehensive income or offset against the asset acquired.

### 3.1.4. Accounting estimates

The preparation of the individual (Company) and consolidated quarterly financial information in accordance with Brazilian accounting practices and IFRS requires Management to make estimates and assumptions that, in its best judgment, affect the reported amounts of assets and liabilities. These estimates and assumptions include, when applicable, the determination of the residual value of property, plant and equipment, allowance for doubtful accounts, inventories, deferred income and social contribution tax assets and provisions for tax, labour and civil contingencies. Transaction settlement involving those estimates may result in values different from estimates, due to the inherent inaccuracy of the process. The Company and its subsidiaries review estimates and assumptions at least quarterly.

The issues requiring Company's judgment are as follows:

- useful life of property, plant and equipment;
- biological assets;
- impairment of taxes;
- measurement of items arising from business combinations at fair value;
- fair value of financial instruments; and
- losses on doubtful accounts.

### 3.1.5. Financial instruments

Non-derivative financial instruments include financial investments, debt and equity instruments, accounts receivable and other receivables, cash and cash equivalents, loans and financing, as well as accounts payable and other debts.

Non-derivative financial instruments are initially recognised at their fair values plus, for instruments which are not recognised at fair value through income, any directly attributable transaction costs. After initial recognition, non-derivative financial instruments are measured according to their respective classification, as follows:

- Held-to-maturity

If the Company intends and is able to hold its debt instruments until maturity they must be classified as held-to-maturity instruments. Held-to-maturity investments are stated at their amortized cost using the effective interest method, less impairment losses.

- Available-for-sale

The Company's investments in equity instruments and certain assets related to debt instruments must be classified as available for sale. After initial recognition, they are stated at fair value and changes in fair value, except impairment, and the foreign currency differences of these instruments, are recognised directly in equity, net of tax effects. When an investment fails to be recognised, the accumulated gain or loss in equity is transferred to the statement of income. The Company has no financial assets in this financial instrument category.

- Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

- Measured at fair value through income

An instrument is measured at fair value through income if it is held for trading, i.e. designated as such upon initial recognition. Financial instruments are designated at fair value through income if the Company manages these investments and makes decisions to buy and sell the investments based on the investment's fair value according to the Company's investment and risk Management strategy. After initial recognition, transaction costs that are attributable to the acquisition of the investment are recognised in the statement of income when incurred. Financial instruments stated at fair value through income are measured at fair value and changes in fair value are recognised in the statement of income.

- Financial liabilities

Financial liabilities are measured at amortized cost using the effective interest method, adjusted for impairment, if any.

- Derivative Financial Instruments

Derivative financial instruments measured at fair value are derivative financial instruments that are traded in an active organized market and their fair value is determined based on quoted market prices at the date of the quarterly financial information. Upon initial recognition, they are recognised as other financial assets and/or liabilities against income under the captions "financial income (expenses)".

### 3.1.6. Foreign currency

The Company's Management established that its functional currency, as well as that of its subsidiaries in Brazil, is the Brazilian real, according to the provisions of CPC Technical Pronouncement No. 02 – *The Effects on Changes in Foreign Exchange Rates and Translation of Financial Statements*, approved by CVM Resolution No. 640/10. The functional currency of foreign companies is the legal tender of the country in which they operate, except for companies located in Uruguay, whose functional currency is the US dollar. Translations into the reporting currency are also in accordance with CPC Technical Pronouncement No. 02.

Foreign currency transactions, i.e. all transactions not made in the functional currency, are translated using the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currency are converted into the functional currency at the closing exchange rate. Gains and losses on exchange rate variations of monetary assets and liabilities are recognised in the statement of income. Non-monetary assets and liabilities acquired or entered into in foreign currency are translated using the exchange rates on the transaction dates or the dates at which they are stated at fair value when fair value is used.

### 3.1.7. Current and non-current assets

- Cash and cash equivalents

Cash and cash equivalents consist of cash, banks and highly liquid short-term financial investments that are readily converted to known amounts of cash and that are subject to an insignificant risk of changes in value.

- Trade accounts receivable

Trade accounts receivable are recorded at the billed amount and when applicable, discounted to present value.

The allowance for doubtful accounts is set up in an amount deemed sufficient by Management to cover possible losses on the realisation of receivables.

- Inventories

Inventories are stated at the average acquisition or production cost, adjusted to market or realisable values.

- Investments

Parent Company's investments in subsidiaries and affiliates are accounted for using the equity method.

- Property, plant and equipment

Property, plant and equipment are stated at acquisition or construction cost, less depreciation calculated using the straight-line method at the rates mentioned in note 12 and take into consideration the estimated useful lives of assets and property lease terms with respect to leasehold improvements.

Finance charges on financing agreements entered into by the Company when property, plant and equipment items are being built are capitalized.

In addition, with the purpose of measuring its property, plant and equipment at fair value, the Company decided on January 1, 2009 (transition to IFRS adoption) to adopt the deemed cost concept, included in CPC 27 and ICPC 10, as described in note 12.

Other costs are capitalized only if the economic benefits associated with the property, plant and equipment item increase. Another type of cost is recognised as an expense when incurred.

- Lease

  - Finance lease

  Certain lease agreements transfer substantially all of the risks and benefits of ownership of an asset to the Company. These agreements are finance leases and are initially recognised as property, plant and equipment with an offsetting entry to liabilities at their present or fair values.

  - Operating lease

  Certain agreements are classified as operating leases when its substance does not meet the finance lease requirements. Payments of these agreements are recognised as expenses in the statement of income on a straight-line basis over the terms of the agreements.

- Intangible assets

Intangible assets consist of assets acquired from third parties, including through business combinations, and those generated internally by the Company. They are stated at acquisition or formation cost, less amortisation calculated using the straight-line method, according to the terms of the exploration rights set forth on lease agreements and recovery estimated periods.

Intangible assets with indefinite useful lives and goodwill resulting from expected future profitability are not amortized and are tested annually for impairment.

The goodwill represents the excess of total consideration paid over the fair value of acquired assets and liabilities assumed on the takeover date of the acquired company.

Goodwill is capitalized as an intangible asset and any impairment is charged to statement of income. Whenever the fair value of the acquired assets and assumed liabilities exceeds total consideration paid, the full difference will be credited to consolidated comprehensive income on the acquisition date.

### 3.1.8. Biological assets

According to CVM Resolution No. 596/09, agricultural activity is the Management of the biological transformation of assets (living animals and/or plants) for sale, into agricultural produce or into additional biological assets. The Company classifies living cattle, poultry and pigs as biological assets.

The Company recognises biological assets when it controls these assets as a result of past events and it is probable that future economic benefits will flow to the Company and the fair value of the asset can be measured reliably.

Under CVM Resolution No. 596/09, biological assets should be measured on initial recognition and at the end of each reporting period at fair value less costs to sell, unless fair value cannot be reliably measured.

### 3.1.9. Impairment

The Company valuates cattle by its fair value based on market prices, while poultry and pork are valued by the acquisition cost since there was no market for poultry and pork.

Impairment tests on goodwill and other intangible assets with indefinite economic useful life are annually conducted at the end of the fiscal year. Other non-financial assets are submitted to impairment tests whenever events or changes in circumstances indicate that its book value may not be recoverable. Once the book value of an asset exceeds its impairment (i.e., the highest between the use and fair value minus selling costs), the asset is written-off.

When it is not possible to estimate the impairment of an individual asset, the impairment test is conducted in its cash generating unit (CGU): the smallest group of assets to which the asset belongs and for which there are cash flows separately identifiable. Goodwill is allocated in the initial recording of each CGU of the group that expects to benefit from combination synergies that originated the goodwill.

Impairment losses are included in the statement of income, except as gains previously recorded in other comprehensive income are reversed. An impairment loss recorded as goodwill is not reversed.

### 3.1.10. Current and non-current liabilities

Current and non-current liabilities are stated at known or estimated amounts, plus the related charges, exchange rate gains (losses) and/or monetary changes incurred through the balance sheet date, when applicable.

### 3.1.11. Provisions

Provisions are recognised as a result of past events that originated a liability, and it is likely that an economic resource is required to settle it. Provisions are recognised when losses are considered probable, based on the best estimates of risks involved.

3.1.12. Share-based compensation plan

The effects of the share-based compensation plan are calculated at fair value and recognised in the balance sheet and the statement of income as contract conditions are met and as commented in note 24.

3.1.13. Income and social contribution taxes

Income tax is calculated on taxable income. Income and social contribution taxes are paid monthly on estimated calculation bases, at the rates and in the manners provided for in prevailing legislation.

Deferred tax assets recognised for income and social contribution tax losses and temporary differences are recognised pursuant to tax legislation and CVM Instruction No. 599/09 – Income Taxes. They take into consideration the Company's history of profitability and the expected future generation of taxable income supported by an annually reviewed technical feasibility study.

The Company and its subsidiaries opted for the Temporary Tax Scheme (RTT) established by Executive Act No. 449/08, converted into Law No. 11.941, of May 27, 2009, declaring their irrevocable option for RTT in the Corporate Income Tax Return of 2009.

Deferred tax assets and liabilities are recognised when the carrying amount of an asset or liability differs from their tax base, except for the differences that arise from:

- the initial recognition of goodwill;

- the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither book income or taxable income; and

- the investments in subsidiaries and joint ventures where the Group is able to control the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future.

Deferred tax asset is recognised only if it is probable that taxable income will be available against which the difference can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised and the liability is settled, based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when the legally enforceable right to offset current tax assets and liabilities exists and the deferred tax assets and liabilities relate to income taxes levied by the same taxing authority on the following cases:

- for the same entity of the taxable group; or
- for different entities of the group that intend to settle on a net basis or realise the asset and settle the liability at the same time, in each future year in which significant amounts of deferred tax assets and deferred tax liabilities are to be realised or settled.

3.1.14. Dividends and Interest on capital

Management's proposal for distribution of dividends and interest on equity capital within the mandatory minimum dividend amount is recorded as current liabilities since it is considered a legal obligation set out bylaws. However, the amount that exceeds mandatory minimum dividend, which is declared by Management before the end of the reporting period and has not yet been approved by the shareholders, is recorded as proposed additional dividend in shareholders' equity.

For reporting purposes, interest on equity capital is shown as allocation of income directly in shareholders' equity.

3.1.15. Earnings per share

Basic

Basic earnings per share is calculated by dividing the earnings attributable to the Company's controlling and non-controlling shareholders by the weighted average number of common shares outstanding during the period, pursuant to CVM Instruction 636/10 (CPC 41 – Earnings per share), excluding the common shares held as treasury shares.

Diluted

Diluted earnings per share are calculated by adjusting the weighted average of the number of outstanding common shares, assuming the conversion of all possible common shares that would cause the dilution and also adjusting any other changes in revenues or expenses that would result from converting potentially diluted common shares.

### 3.1.16. Discount to Present Value

In accordance with CPC Technical Pronouncement No. 12, approved by CVM Resolution No. 564/2008, non-current assets and liabilities, as well as current assets and liabilities, when material, are discounted to present value, transaction by transaction, according to rates that reflect each transaction's term, currency and risk. The offsetting entry to discounts to present value is made to the accounts that originated the asset or the liability. The difference between the present value of a transaction and the face value of an asset or liability is recorded in the statement of income during the assets or liabilities' life according to the amortized cost and effective interest method.

Discounts to present value were determined using the average between SELIC (Central Bank overnight rate) used by the Company to compensate the shareholders (established as the rate of return on equity capital) and the average rate at which funds are raised in financial markets (rate established as that of return on debt capital), thus reaching the average rate of 10.65% p.a., as of March 31 2011 (8.63% p.a. as of December 31, 2010).

The terms adopted for determining discounts to present value vary according to the operating activity and correspond to the average expected period to settle it, for example: average sales collection term, average payment term, tax debt instalment payment terms and others deemed necessary.

The established rates and periods in relation to the risk factors involved in the Company's operations are perfectly reflected on the discount to present value.

### 3.1.17. Share issuance expenses

In accordance with Technical Pronouncement CPC No. 8, approved by CVM Resolution No. 649/2010, transaction costs incurred with the raising of funds through the issuance of equity securities should be separately booked in a valuation allowance which reduces shareholders' equity, less possible tax effects.

### 3.1.18. Treasury shares

Treasury shares are Company shares acquired by the Company itself and kept in the treasury with the specific purpose of carrying out the Company's stock option plan, as per note 22.3.3. Treasury shares are recorded in a separate account, and, for the purpose of balance sheet presentation, are deducted from the Income Reserve, whose balance was used in such operation.

3.1.19. Business combination

Business combinations are recognised using the acquisition method. Cost of an acquisition is the sum of the consideration transferred, measured at fair value on the acquisition date, and any minority interest in the acquire. For each business combination, the acquirer should measure the minority interest in the acquire at the fair value or based on the acquirer's share of the acquire's identifiable net assets. Costs that are directly attributable to the acquisition should be recorded as an expense when incurred.

In a business acquisition, Management assesses the assets acquired and the liabilities assumed with the objective of classifying and allocating them according to contractual provisions, economic circumstances and relevant conditions on the acquisition date.

Goodwill is initially measured as the excess of the consideration transferred in the business combination over the fair value of the net assets acquired (identifiable assets and liabilities assumed, net). If the consideration is less than the fair value of the net assets acquired, the difference should be recognised as a gain in the statement of income.

After initial recognition, goodwill is measured at cost less accumulated impairment loss. For impairment test, goodwill arising on a business combination should be allocated, from the acquisition date, to each of the cash generating units of the Company that are expected to benefit from the synergies of the combination, regardless of other assets or liabilities of the acquire that are attributable to these units.

3.1.20. Consolidation

Accounting practices are uniformly applied to all consolidated companies and are consistent with those applied in the previous year.

Description of the main consolidation procedures:

- Elimination of the balances of intercompany assets and liabilities;
- Elimination of ownership interest, reserves and retained earnings of subsidiaries;
- Elimination of the balances of intercompany revenues and expenses and unrealised profits resulting from intercompany transactions.

3.1.21. Minority interest

- For business combinations that occurred after January 1, 2010, the Group may opt to initially recognise any minority interest in the acquire at the acquisition-date fair value or, as required before January 1, 2010, the proportional amount of the minority interest in the acquire's net assets. The Group opted not to use the fair value on the acquisitions that occurred by that date.

- Starting January 1, 2010, other comprehensive income of non-wholly owned subsidiaries must be attributable to the parent's owners and the minority interest to the extent of their interests. Before that date, losses for which no provisions exist in the subsidiaries were allocated solely to the Group. In conformity with transitory provisions of IAS 27 (2008), the carrying amount of the minority interest on the effective date of the change was not adjusted.

## 3.2. CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The consolidated quarterly financial information include the accounts of the Company and the following subsidiaries:

| | Ownership Percentage | |
|---|---|---|
| DIRECT SUBSIDIARIES | 03/31/11 | 12/31/10 |
| MFB Marfrig Frigoríficos Brasil S.A | 100.00% | 100.00% |
| Marfrig Chile S.A | 99.47% | 99.47% |
| Inaler S.A | 100.00% | 100.00% |
| Frigorífico Tacuarembó S.A | 93.62% | 93.53% |
| Weston Importers Ltd | 100.00% | 100.00% |
| Masplen Limited | 100.00% | 100.00% |
| Prestcott International S.A | 100.00% | 100.00% |
| Secculum Participações Ltda | 99.00% | 99.00% |
| União Frederiquense Partic. Ltda | 99.99% | 99.99% |
| QuickFood S.A | 90.05% | 90.05% |
| Establecimientos Colonia S.A | 100.00% | 100.00% |
| Marfrig Holdings (Europe) BV | 100.00% | 100.00% |
| Seara Holding (Europe) BV | 100.00% | 100.00% |
| Columbus Netherlands BV | 100.00% | 100.00% |
| Marfrig Overseas Ltd | 100.00% | 100.00% |
| Marfood USA Inc. | 100.00% | 100.00% |
| Keystone Foods International Holdings, LLC (1) | - | 100.00% |
| Mckey Luxembourg Holdings S.a.r.l (1) | 100.00% | - |
| Mckey Luxembourg Holdings APMEA S.a.r.l (1) | 100.00% | - |

(1) The Special Shareholders' Meeting held on March 1, 2011 approved Marfrig Alimentos S.A.'s merger of its wholly-owned subsidiary, Keystone Foods International Holdings LLC, a company duly incorporated and validly existing according to the laws of the state of Delaware, United States of America, pursuant to the Protocol and Justification of Merger submitted to shareholders at that time. As a result of this merger, Marfrig replaced its investments in Keystone Foods International with its net assets and Keystone was extinguished. The merger did not result in any change to Marfrig's shareholders' equity and accordingly, no new shares have been issued, reason that any share swap ratio was not necessary. This merger resulted in the centralization of management, physical structure and operation of their activities, thus, generating greater efficiency, resources optimization and improvement of business profitability, therefore, in line with shareholders' interests. This merger resulted in the consolidation of the parties involved into a single company, thus, promoting the synergy of their activities and the rationalization of administrative and financial costs of the group to which they are parties.

The financial statements of subsidiaries located abroad were originally prepared in local currency, according to the applicable laws of each country where the companies are located. They were converted into the International Financial Reporting Standards (IFRS) and expressed in US dollars (US$). Later, those financial statements were translated into Brazilian reais, using the exchange rate prevailing on the balance sheet date.

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash, banks and financial investments, as shown below:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Cash and cash equivalents | 189,383 | 91,899 | 857,576 | 682,364 |
| Financial investments | 1,419,097 | 2,162,121 | 2,305,619 | 3,193,992 |
| | 1,608,480 | 2,254,020 | 3,163,195 | 3,876,356 |

The subsidiaries' cash and cash equivalents are consolidated as follows:

| | Brazil | | Abroad | |
|---|---|---|---|---|
| | 03/31//11 | 12/31//10 | 03/31//11 | 12/31//10 |
| Cash and cash equivalents | 169,057 | 112,751 | 499,136 | 477,714 |
| Financial investments | 17,575 | 168,729 | 868,947 | 863,142 |
| | 186,632 | 281,480 | 1,368,083 | 1,340,856 |

The Company adopts the policy of presenting the following items within the cash and cash equivalents group:

- Cash on hand;
- Demand deposits;
- Cash in transit;
- Highly liquid financial investments.

## 4.1. CASH AND CASH EQUIVALENTS BY CURRENCY

Cash and cash equivalents by currency are as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Cash and banks: | | | | |
| Brazilian real | 99,897 | 9,298 | 118,339 | 36,746 |
| US dollar | 77,516 | 78,097 | 371,792 | 240,278 |
| Euro | 7,415 | - | 123,337 | 124,833 |
| Brtisih pound | 4,555 | 4,504 | 116,369 | 131,529 |
| Yen | - | - | - | 148,978 |
| Canadian dollars | - | - | 71,751 | - |
| Malaysian Ringgits | - | - | 15,369 | - |
| Other | - | - | 40,619 | - |
| | 189,383 | 91,899 | 857,576 | 682,364 |

## 4.2. FINANCIAL INVESTMENTS

The Company's financial investments by type are as follows:

| | | | | | Company | |
|---|---|---|---|---|---|---|
| | Maturities | PMPV [1] | Currency | Average interest rate p.a.% | 03/31/11 | 12/31/10 |
| Available-for-sale | | | | | | |
| Bank deposit certificates - CDB (2) | 21/03/2013 | 1.72 | Real | 11.67 | 932,512 | 1,427,786 |
| Repurchase and reverse repurchase agreements (2) | 27/02/2012 | 0.65 | Real | 11.68 | 359,003 | 616,544 |
| Automatic savings account (2) | Imediate | - | Real | 6.42 | 35,896 | 31 |
| Other (2) | Imediate | - | Real | - | 347 | 967 |
| | | | | | 1,327,758 | 2,045,328 |
| Loans and receivable | | | | | | |
| Interest-bearing account | 03/31/2014 | 3.04 | Dolar | 0.35 | 30,215 | 54,685 |
| | | | | | 30,215 | 54,685 |
| Held-to-maturity (3) | | | | | | |
| Foreign credit note | 01/08/2013 | 1.80 | Dolar | 0.35 | 54,160 | 55,406 |
| Foreign credit note | 09/04/2014 | 3.48 | Euro | 0.35 | 6,962 | 6,700 |
| Prize-draw investment bonds | 04/29/2014 | 3.13 | Real | 2.43 | 191 | 191 |
| | | | | | 61,313 | 62,297 |
| Total | | | | | 1,419,286 | 2,162,310 |
| Total current | | | | | 1,419,097 | 2,162,121 |
| Total non-current | | | | | 189 | 189 |

(1) Average weighted maturity in years.

(2) Transactions have daily liquidity and can be redeemed at any time. Said maturity is the maturity of the collateral.

(3) Despite the fact that the maturity date falls from 2013 to 2014, securities are classified as held for trading due to their immediate liquidity, i.e., they may be redeemed as any time, depending on the Company's Management decision.

| | Maturities | PMPV (1) | Currency | Average interest rate p.a% | Consolidated 03/31/11 | Consolidated 12/31/10 |
|---|---|---|---|---|---|---|
| **Available for sale** | | | | | | |
| Bank deposit certificates - CDB (2) | 03/21/2013 | 1.29 | Real | 5.85 | 949,767 | 1,596,194 |
| Bank deposit certificates - CDB (2) | 03/31/2012 | 0.25 | USD | 0.35 | 23 | 23 |
| Repurchase and reverse repurchase agreements | 02/27/2012 | 0.65 | Real | 11.68 | 359,003 | 1,676 |
| Bonds and shares | 06/30/2012 | 0.10 | USD | 0.05 | 7,472 | 616,544 |
| Automatic savings account (2) | Imediate | - | Real | 6.42 | 35,896 | 31 |
| Fixed term | 06/30/2012 | 0.10 | USD | 0.11 | 1,621 | - |
| Circ. 1456 | 12/31/2012 | 0.26 | USD | 0.02 | 42,742 | 40,902 |
| Other (2) | Imediate | - | Real | - | 346 | 968 |
| | | | | | 1,396,870 | 2,256,338 |
| Loans and receivables | | | | | | |
| Interest-bearing account | 03/31/2014 | 3.04 | USD | 0.35 | 30,215 | 54,685 |
| | | | | | 30,215 | 54,685 |
| **Held to maturity (3)** | | | | | | |
| Foreign credit note | 01/08/2013 | 1.80 | USD | 0.35 | 54,160 | 55,406 |
| Foreign credit note | 09/04/2014 | 3.48 | Euro | 0.35 | 6,962 | 6,700 |
| Prize-draw investment bonds | 3/31/2011 to 4/29/2014 | 2.03 | Real | 1.23 | 7,861 | 8,013 |
| CLN | 01/01/2013 to 12/31/2015 | 4.36 | USD | 0.08 | 817,089 | 820,540 |
| | | | | | 886,072 | 890,659 |
| Total | | | | | 2,313,157 | 3,201,682 |
| Total current | | | | | 2,305,619 | 3,193,992 |
| Total non-current | | | | | 7,538 | 7,690 |

(1) Average weighted maturity in years.

(2) Transactions have daily liquidity and can be redeemed at any time. Said maturity is the maturity of the collateral.

(3) Despite the fact that the maturity date falls in 2013 and 2015, securities are classified as held for trading due to their immediate liquidity, i.e., they may be redeemed as any time, depending on the Company's Management decision.

The Company maintains the following types of financial investments:

4.2.1 Bank Deposit Certificate - CDB

This investment is made in Brazilian reais and bears interest at the CDI (Interbank Deposit Rate), which ranges from 99% to 107%.

4.2.2 Repurchase and reverse repurchase agreements

Repurchase and reverse repurchase agreements are transactions denominated in Brazilian reais and guaranteed by debentures that bear interest at the CDI (Interbank Deposit Rate), which ranges from 100% to 100.5%. This operation has immediate liquidity, for it can be early redeemed without yield loss.

4.2.3 Creditlinked note (CLN)

The credit-linked note transaction is conducted with a top-tier bank abroad. This investment is denominated in US dollars and bears fixed interest rates.

4.2.4 Savings account

The remaining balances in checking accounts, in Brazilian reais, are automatically transferred to a savings account, which bears interest at financial market rates.

4.2.5 Fixed-income investment

This investment is made in US dollars and does not bear interest. This is a specific transaction made in Uruguay.

4.2.6 Circular Letter 1456

The investments of this type consist of exports denominated in US dollars with the Central Bank of Uruguay that bear interest at fixed rates, and are made between 180 and 270 days before the export.

4.2.7 Interest-bearing account

The interest-bearing account consists of amounts received in US dollars from exports and financial transactions, kept in accounts abroad. It bears interest at a fixed rate.

4.2.8 Foreign credit note

The investments of this type are made in Euro and US dollar and bear interest at a fixed rate.

4.2.9 Brazilian prize-draw investment bonds

The investments of this type are made in Brazilian reais and bear interest at the benchmark rate (TR).

4.2.10 Securities and stocks

Financial investments in U.S. dollar of immediate liquidity with Banco Galicia, with annual yields of 5%.

## 5. TRADE ACCOUNTS RECEIVABLE – DOMESTIC AND FOREIGN CUSTOMERS

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Trade accounts receivable - domestic | 226,038 | 245,864 | 1,070,601 | 1,117,767 |
| (-) Discount to present value | (2,616) | (7,916) | (2,705) | (7,916) |
| | 223,422 | 237,948 | 1,067,896 | 1,109,851 |
| Trade accounts receivable - foreign | 444,918 | 385,032 | 916,792 | 533,385 |
| (-) Advances on foreign exchange | (303,696) | (230,860) | (589,947) | (281,291) |
| (-) Discount to present value | (3,552) | - | (4,530) | - |
| | 137,670 | 154,172 | 322,315 | 252,094 |
| | 361,092 | 392,120 | 1,390,211 | 1,361,945 |
| Amounts not yet due | 656,026 | 626,322 | 1,710,930 | 1,186,956 |
| Amounts overdue | | | | |
| From 1 to 30 days | 11,675 | 3,681 | 198,999 | 318,673 |
| From 31 to 60 days | 2,429 | 537 | 57,420 | 81,533 |
| From 61 to 90 days | 826 | 356 | 20,044 | 43,463 |
| More than 90 days | 4,649 | 4,267 | 56,264 | 81,954 |
| (-) Advances on export contracts - ACEs | (303,696) | (230,860) | (589,947) | (281,291) |
| (-) Discount to present value | (6,168) | (7,916) | (7,235) | (7,916) |
| (-) Allowance for doubtful accounts | (4,649) | (4,267) | (56,264) | (61,427) |
| | 361,092 | 392,120 | 1,390,211 | 1,361,945 |

The allowance for doubtful accounts was set up in an amount deemed sufficient by Management to cover possible losses on the realisation of receivables.

Aiming to achieve the best estimate possible, concerning the realization of such credits, and therefore duly set up an allowance for doubtful accounts as of March 31 2011, the Company's Management analysed particular aspects about its customers, such as: business activity, general credit situation, the market's economic situation and notes due for more than ninety days and whose settlement is not considered as possible.

The Company does not have a history of relevant problems with collection, and the Accounts Receivable Department rates each customer upon acceptance and credit granting.

Changes in provision for credit risks are as follows:

| | COMPANY | CONSOLIDATED |
|---|---|---|
| Balance on 12/31/2010 | (4,267) | (61,427) |
| Credit recovered in the year | (382) | 3,402 |
| Written-off credits | - | 487 |
| Exchange rate variation | - | 1,274 |
| Balance on 3/31/2011 | (4,649) | (56,264) |

For sales paid in instalments, the Company uses working capital financing lines available in financial markets.

The current economic situation presents a trend of improvement in relation to sales and volume of credit in the market, which increases the purchasing power of customers and leads to timely payments.

Receivables were discounted to present value in accordance with CPC Technical Pronouncement No. 12, approved by CVM Resolution No. 564/2008, as described in note 3.1.15.

## 6. INVENTORIES OF GOODS AND MERCHANDISE

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Finished products | 650,719 | 728,852 | 2,028,575 | 1,913,454 |
| Raw materials | 1,978 | - | 273,795 | 314,785 |
| Packaging material and storeroom supplies | 23,110 | 25,220 | 213,786 | 236,442 |
| (-) Valuation allowance | - | (177,948) | (63,875) | (215,367) |
| | 675,807 | 576,124 | 2,452,281 | 2,249,314 |

In the period ended March 31 2011 and year ended December 31, 2010, inventories of finished goods were carried at average purchase and/or production cost, lower than realisation values, as explained in note 3.1.7.

The balances of the inventory valuation allowance relate mainly to a reduction in cost or market adjustment for the impacts on certain raw materials acquired by the Company and which had a decline in the sale prices of the finished products. Since the prices of raw materials plus estimated costs to complete production are higher than the sales price less estimated costs to sell, the Company recognized adjustments to the net realisation amount, as shown below:

| | Company | Consolidated |
|---|---|---|
| Balance on 12/31/10 | 177,948 | 215,367 |
| Reversal of provision | (177,948) | (182,965) |
| Recognition of provision | - | 30,847 |
| Translation gains/losses | - | 626 |
| Balance on 3/31/11 | - | 63,875 |

On March 31, 2011 the Company did not identify the justifications for eventual adjustments to the recoverable value, thus, the balance of December 31, 2010 was reversed.

## 7. BIOLOGICAL ASSETS

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Biological Assets - Cattle | 118,829 | 118,058 | 287,993 | 293,914 |
| Biological Assets - Poultry | - | - | 258,263 | 218,346 |
| Biological Assets - Pigs | - | - | 189,720 | 180,780 |
| Translation gains/losses | - | - | (2,531) | - |
| Biological Assets - Current | 118,829 | 118,058 | 733,445 | 693,040 |
| Biological Assets - Cattle | - | - | 23,240 | 27,858 |
| Biological Assets - Poultry | - | - | 152,428 | 220,430 |
| Biological Assets - Pigs | - | - | 26,759 | 29,266 |
| Translation gains/losses | - | - | (728) | - |
| Biological Assets - Non-current | - | - | 201,699 | 277,554 |

The Company's biological assets are composed of live animals segregated among the categories: poultry, pig and cattle. Animals classified in this group are those intended for slaughtering for production of fresh beef and/or processed products.

Poultry and pigs are considered immature until they reach the appropriate weight for slaughter. The slaughter process occurs sequentially in a short period of time and thus only live animals transferred to slaughter are classified as mature.

Due to not having a quotation to poultry and pigs market, the Company evaluated these biological assets based on a discounted cash flow model and identified no material adjustments in relation to acquisition cost. In this case, the Company believes that the fair value of biological assets is substantially represented by the formation cost, given the short life cycle of the animals.

With respect to cattle, these are animals kept in confinement for fattening and slaughter, whose life cycle is an average of 3 years. The Company valued these animals at fair value, based on the "mark to market" concept, considering the market prices of the "arroba" of cattle, and recognized the effects of these valuations directly in the statement of income.

The changes in biological assets are as follows:

Current biological assets:

| | Company | Consolidated |
|---|---|---|
| Balance on December 31, 2010 | 118,058 | 693,040 |
| Increase due to purchases | 24,183 | 126,086 |
| (-) Write-off for slaughter | (38,867) | (1,030,086) |
| Costs of input for fattening | 10,807 | 1,001,625 |
| (-) Decrease due to sales | - | (64,108) |
| Net increase due to births (deaths) | (250) | (276) |
| Fair value adjustment | 4,898 | 9,695 |
| Balance sheet translation | - | (2,531) |
| Balance on March 31, 2011 | 118,829 | 733,445 |

Non-current biological assets:

| | Company | Consolidated |
|---|---|---|
| Balance on December 31, 2010: | - | 277,554 |
| Increase due to purchases | - | 9,652 |
| (-) Write-off for slaughter | - | (65,888) |
| Costs of input for fattening | - | 37,993 |
| Net increase due to births (deaths) | - | (24,334) |
| Amortization | - | (32,740) |
| Balance sheet translation | - | (727) |
| Other | - | 189 |
| Balance on March 31, 2010 | - | 201,699 |

## 8. RECOVERABLE TAXES

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| ICMS (State VAT) | 323,027 | 310,396 | 518,490 | 474,717 |
| IPI (Federal VAT) deemed credit | 61,046 | 61,046 | 69,888 | 71,668 |
| PIS (tax on sales) credit | 138,542 | 108,394 | 285,735 | 227,343 |
| Cofins (tax on sales) credit | 631,573 | 483,110 | 1,245,778 | 1,008,912 |
| Income tax | 73,136 | 74,885 | 105,623 | 115,015 |
| Social contribution tax | 12,919 | 12,862 | 20,594 | 19,630 |
| IRRF (Withholding Income Tax) | 68,163 | 56,084 | 69,379 | 57,105 |
| IVA (value-added tax) | - | - | 43,456 | 35,490 |
| Export certificates | - | - | 4,460 | 15,004 |
| ONCCA credits | - | - | 17,535 | 8,020 |
| (-) Provision for non-realization | (250,013) | (239,486) | (407,187) | (288,034) |
| Other | 377 | 102,259 | 35,613 | 132,003 |
| | 1,058,770 | 969,550 | 2,009,364 | 1,876,873 |
| Current assets | 528,830 | 439,610 | 1,024,504 | 868,638 |
| Non-current assets | 529,940 | 529,940 | 984,860 | 1,008,235 |

### 8.1 ICMS (State VAT)

The balance of recoverable ICMS derives from credits taken for ICMS paid on the purchase of raw, packaging and other materials, in amounts higher than the debts generated from domestic sales, since foreign market sales are free from this tax. Credit realisation is made through offsetting against debts generated in domestic sales or through transfers to third parties.

### 8.2 IPI (Federal VAT) DEEMED CREDIT

IPI deemed credit consists of the refund of PIS and COFINS levied on input acquired domestically and used in the processing of goods actually exported.

### 8.3 PIS AND COFINS (TAXES ON SALES)

Pursuant to Laws No. 10.637/02 and 10.833/03, this line item consists of noncumulative PIS and COFINS credits on the acquisition of raw, packaging, and other materials used in the goods sold in foreign markets.

8.4 INCOME AND SOCIAL CONTRIBUTION TAXES

This line item consists of income and social contribution taxes prepaid in the periods ended March 31 2011.

8.5 WITHHOLDING INCOME TAX (IRRF)

Withholding income tax consists of income tax withheld from gains on financial investments made by the Company.

8.6 IVA – VALUE ADDED TAX

This caption refers to balances of recoverable value added tax of foreign subsidiaries resulting from the tax difference between purchases and sales, given that the difference in the food rate is lower than most transactions.

8.7 EXPORT CERTIFICATES

Export certificates are certificates issued by the government of Uruguay as return of a percentage of income tax paid by exporters.

8.8 ONCCA CREDITS (OFICINA NACIONAL DE CONTROL COMERCIAL AGROPECUÁRIO)

Oncca credits are a benefit granted in Argentina by the *Ministério de Agricultura Ganadeira y Pesca* to companies which invest in feedlots.

8.9 PROVISION FOR NON-REALIZATION

The provisions for non-realization were calculated based on the best expectation of realization of the Company's recoverable taxes balances, in which main credits are from PIS/COFINS.

Changes in the provision for non-realisation of tax credits are as follows:

| | COMPANY | CONSOLIDATED |
|---|---|---|
| Balance on 12/31/2010 | (239,486) | (288,034) |
| Recognition of provision | (10,527) | (119,153) |
| Balance on 3/31/2011 | (250,013) | (407,187) |

## 9. NOTES RECEIVABLE

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Related-party transactions | 1,691,658 | 1,130,316 | - | - |
| Other notes receivable | 53,767 | 4,684 | 131,886 | 13,955 |
| Total | 1,745,425 | 1,135,000 | 131,886 | 13,955 |
| Current assets | 143,474 | 110,753 | 92,233 | 2,877 |
| Non-current assets | 1,601,951 | 1,024,247 | 39,653 | 11,078 |

The Company's notes receivable mostly consist of balances resulting from transactions with its subsidiaries (related parties), as described in note 9.1.

## 9.1 RELATED-PARTY TRANSACTIONS

The following tables, except for transactions with Mr Marcos Antonio Molina dos Santos and Mrs. Márcia Aparecida Pascoal Marçal dos Santos, sole partners of MMS Participações S.A., show the transactions between the Company and its wholly owned subsidiaries as of March 31 2011. They should not be considered as related parties of the Company, taking into account that these transactions are conducted over the normal course of business, but are eliminated in consolidation, not having any effect on income (loss), and, therefore, not bringing any effects to the Company's shareholders:

| | | | | | | **COMPANY** |
|---|---|---|---|---|---|---|
| | | | | 3/31/2011 | | 2011 |
| March 31, 2011 | Accounts receivable | Accounts payable | Notes receivable | Notes payable | Purchases | Sales |
| Frigorífico Tacuarembó S.A. | - | 353 | 633 | - | 1,631 | - |
| Inaler S.A. | - | - | - | - | 1,667 | - |
| Marfrig Chile Inversiones Ltda | 3,920 | - | - | - | - | 2,585 |
| Weston Importers Ltd. | 14,476 | - | - | - | - | 2,818 |
| Establecimientos Colonia S.A. | - | 724 | - | - | 1,963 | - |
| Cledinor S.A. | - | 864 | - | - | 1,883 | - |
| Quickfood S.A. | - | 1,202 | 1,667 | - | 6,110 | - |
| Grupo Mabella | 3 | 1,578 | 62,074 | - | 3,090 | 336 |
| MFB Marfrig Frigorificos Brasil S.A | 15,001 | 52,828 | 688,017 | - | 197,422 | 62,940 |
| Pampeano Alimentos S.A. | 21,353 | 1,459 | 182,430 | - | 1,459 | 23,702 |
| Seara Holding BV | - | 597 | 421,929 | - | 1,079 | 1,387 |
| Zendaleather S.A. (ZENDA) | 705 | - | 9,355 | 16,134 | - | 844 |
| Marfood USA | - | - | 66,050 | - | - | - |
| Dagranja Agroindustrial Ltda | - | - | 201,771 | - | 122 | 1 |
| Moy Park Holdings Europe Limited | - | - | 22,103 | - | - | - |
| Braslo Produtos de Carne Ltda | 9,262 | 1,380 | 27,517 | - | 4,687 | 24,914 |
| MBL Alimentos Ltda | 78 | - | 4 | 275 | - | 340 |
| Penasul Alimentos Ltda | 194 | - | 224 | 58,795 | - | 767 |
| Penasul UK | - | - | 20 | - | - | - |
| Agrofrango Ind. Com. Alim. Ltda. | 85 | - | 3,276 | - | - | 319 |
| Marfrig Overseas | - | - | 3,219 | - | - | - |
| Marcos Antonio Molina dos Santos | - | 5,493 | - | - | 12,571 | - |
| Marcia Apareica Pascoal Marçal dos Santos | | 475 | - | - | 7,479 | - |
| Keystone US | - | - | 1,368 | - | - | - |
| Keystone International | - | - | - | - | - | 146 |
| | 65,078 | 66,953 | 1,691,658 | 75,204 | 241,164 | 121,098 |

| | COMPANY | | | | | |
|---|---|---|---|---|---|---|
| | | | | 12/31/2010 | | 2010 |
| | Accounts receivable | Accounts payable | Notes receivable | Notes payable | Purchases | Sales |
| Argentine Breeders & Packers S.A. | - | - | - | - | 11,263 | - |
| Frigorífico Tacuarembó S.A. | - | 2,480 | 26 | - | 7,551 | - |
| Inaler S.A. | - | 3,683 | - | - | 8,101 | - |
| Marfrig Chile Inversiones Ltda | 8,770 | - | - | - | - | 19,340 |
| Weston Importers Ltd. | 24,346 | 3 | - | - | - | 33,313 |
| Establecimientos Colonia S.A. | - | 1,945 | - | - | 4,664 | - |
| Cledinor S.A. | - | 945 | - | - | 6,782 | - |
| Quickfood S.A. | - | 8,973 | 1,119 | - | 14,276 | - |
| Moy Park Limited | - | - | 1,108 | - | - | - |
| Kitchen Ranger | - | - | | | - | - |
| Grupo Mabella | 8,827 | 5,038 | 63,224 | - | 21,527 | 241 |
| MFB Marfrig Frigorificos Brasil S.A | 15,073 | 49,900 | 540,452 | - | 426,950 | 116,358 |
| Pampeano Alimentos S.A. | 12,144 | 112 | 173,144 | - | 103 | 54,782 |
| Seara Holding BV (1) | 112 | 7,789 | 22,891 | 1,002 | 1,005 | 1,099 |
| Zendaleather S.A. (ZENDA) | 20 | - | 9,469 | 16,363 | - | 37 |
| Marfood USA | - | 16 | 62,000 | - | - | - |
| Masplen Limited | - | - | - | - | - | - |
| Dagranja Agroindustrial Ltda | - | - | 201,767 | - | 3,930 | 3,567 |
| Moy Park Holdings Europe Limited | - | - | - | - | - | - |
| Marfrig Holdings BV | - | - | 20,020 | - | - | - |
| Braslo Produtos de Carne Ltda | - | - | 27,601 | 939 | 18,032 | 84,253 |
| MBL Alimentos Ltda | - | - | 4 | 275 | - | 776 |
| Mas Frangos Part. Ltda. | - | - | 3,194 | - | - | - |
| Penasul Alimentos Ltda | - | - | 223 | 58,795 | - | 3,311 |
| Agrofrango Ind. Com. Alim. Ltda. | - | - | 81 | - | - | 451 |
| Columbus Netherlands BV | - | - | - | - | - | - |
| Marfrig Overseas | - | - | 3,293 | - | - | - |
| Keystone International | - | - | 700 | - | - | - |
| Marcos Antonio Molina dos Santos | - | 5,984 | - | - | 41,057 | - |
| Marcia Aparecida Pascoal Marçal dos Santos | - | 3,888 | - | - | 17,034 | - |
| | 69,292 | 90,756 | 1,130,316 | 77,374 | 582,275 | 317,529 |

| | Consolidated | | | |
|---|---|---|---|---|
| | Accounts payable | | Total purchases in the period | |
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Marcos Antonio Molina dos Santos | 5,493 | 5,984 | 12,571 | 41,057 |
| Marcia Aparecida Pascoal Marçal dos Santos | 475 | 3,888 | 7,479 | 17,034 |
| | 5,968 | 9,871 | 20,050 | 58,091 |

The Company's controlling shareholder, MMS Participações S.A., and its sole partners, have endorsed some financial agreements of the Company. No amounts were paid to the controlling shareholder or to its partners for the collaterals offered. In case of default, creditors can demand payment directly from the controlling shareholder and from its partners and, if they make the payment, they will be entitled to reimbursement from the Company.

Mr Marcos Antonio Molina dos Santos and his wife acquired a property in the State of São Paulo on April 27, 2007 through Maremar – Administração de Bens S/C Ltda., which is controlled by them. This property engages in genetic studies to improve breeds of beef cattle. From mid 2008, the property began to operate a feedlot for 7,800 animals, which are slaughtered in the Company's beef packing plants. There are no other relations with directors or shareholders of Marfrig Group.

The transactions mentioned in the previous paragraph were conducted according to the market price of the 'arroba'[1] of cattle used by the Company at the acquisition date, based on suitable parameters published by Escola Superior de Agricultura Luiz de Queiroz (ESALQ).

According to the Company's by-laws, the Board of Directors should approve any transactions or group of transactions involving the Company and any direct or indirect related parties, whose annual value is equal to or exceeds the limit the Board of Directors defined for Management. Related party should be understood as any manager, employee or shareholder of the Company that holds, directly or indirectly, more than a 10% interest in the Company's share capital.

All relations between the Company's affiliates and subsidiaries are described in note 1 – OPERATIONS.

Related-party transactions between Marfrig Group companies are represented by commercial transactions (purchases and sales) and sending of cash for payment of such transactions, as well as for working capital, always under conditions similar to the ones that would be applicable to non-related parties.

Intercompany loans are taken out under contracts establishing different rates and terms. The agreement terms are of approximately two years. Loan rates vary from 1% p.a. to 3% p.a. + LIBOR (London Interbank Offered Rate), the latter applied to transactions with foreign subsidiaries.

Purchases and sales are made at market values. No guarantees or allowances for doubtful accounts are required. These transactions involve purchase and sale of *in natura* meat and cattle, poultry, lamb and pork processed products.

Transactions between subsidiaries do not have an impact on consolidated quarterly financial information, given that they are eliminated in consolidation.

[1] Arroba = A unit of weight equivalent to 15 Kg.

## 10. DEFERRED INCOME AND SOCIAL CONTRIBUTION TAXES - ASSETS

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Income tax | 292,336 | 282,505 | 749,987 | 693,552 |
| Social contribution tax | 106,948 | 103,409 | 218,915 | 199,548 |
| Non-current assets | 399,284 | 385,914 | 968,902 | 893,100 |

Tax credits consist of deferred income and social contribution taxes, calculated on taxes whose payment has been suspended (provisions), which were added to the taxable income and the social contribution tax basis in prior periods and calculated on tax losses, temporary additions and future utilization for tax purposes of goodwill paid due to future profitability, which will be realised from 2011 to 2015.

Tax credits recognised for income and social contribution tax losses are supported by taxable income projections based on feasibility studies that are annually reviewed by the Company's Management. These studies consider the profitability history of the Company and its subsidiaries and the prospect of maintaining in the future the current profitability, allowing an estimate of recovery of tax credits. Other tax credits, which are based on temporary differences, especially tax contingencies and provision on losses, were recognized according to the expected realization.

Below is a roll forward of deferred taxes as of March 31 2011:

| | Company | | Consolidated | |
|---|---|---|---|---|
| Description | IRPJ | CSL | IRPJ | CSL |
| Opening balance on December 31, 2010 | 282,505 | 103,409 | 693,552 | 199,548 |
| (-) Realisation due to tax utilization of goodwill | (2,177) | (784) | (2,177) | (784) |
| (-) Realisation of taxes on tax losses | - | - | (12,820) | - |
| Deferred taxes on tax losses | 488 | - | 36,949 | - |
| Deferred taxes on social contribution tax loss carryforwards | - | 176 | - | 11,956 |
| (-) Realization of deferred taxes on social contribution tax loss ca | - | - | - | (4,220) |
| (-) Realization of deferred taxes on attributed cost | - | - | (4,702) | (1,693) |
| Tributos diferidos sobre adições/exclusões temporárias | 11,520 | 4,147 | 17,266 | 6,097 |
| Deferred taxes on temporary add-backs/deductions | - | - | (8,097) | (2,919) |
| Other | - | - | 30,016 | 10,930 |
| Closing balance on March 31, 2011 | 292,336 | 106,948 | 749,987 | 218,915 |

The expectation for recoverability of Company's and its subsidiaries' deferred asset balances is based on an appraisal report prepared by skilled professionals. The value in use for credits is estimated based on the present value of future cash flows, which results of the Company's best estimates for future generations of taxable income. The projected discounted cash flow considered the changes in the economy involving the Company's business markets, as well as assumptions for expected results and history of profitability for each segment. Discount rates ranged from 8.9% to 11% p.a. depending on the business specific characteristics and the countries where it operates.

The expected realisation of "Deferred Tax Assets" is as follows:

| Year | Company | Consolidated |
|---|---|---|
| 2011 | 61,565 | 150,227 |
| 2012 | 198,448 | 323,483 |
| 2013 | 139,271 | 278,383 |
| 2014 | - | 199,053 |
| 2015 | - | 17,756 |
| | 399,284 | 968,902 |

In the period ended March 31 2011 the Company realised R$37,412 of deferred tax assets by utilising the goodwill for tax purposes and offsetting it against income and social contribution tax losses.

## 11. **INVESTMENTS**

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Owership interest in subsidiaries | 4,669,163 | 4,796,090 | - | - |
| Other investments | 135 | 135 | 10,161 | 10,040 |
| | 4,669,298 | 4,796,225 | 10,161 | 10,040 |

## 11.1 INVESTMENTS (COMPANY)

| | No. of units of interest/shares | Ownership percentage in voting capital (1) | Trading on the stock exchange | Share capital | Equity | Net income (loss) for the period |
|---|---|---|---|---|---|---|
| MFB Marfrig Frigorificos Brasil S.A. | 78,573,743 | 100.00 | No | 78,574 | 23,239 | 9,395 |
| Marfrig Chile Inversiones Ltda | 13,358,426,280 | 99.47 | No | 40,517 | 37,332 | 1,781 |
| Inaler S.A | 66,247,320 | 100.00 | No | 2,389 | 35,382 | 1,526 |
| Frigorífico Tacuarembó S.A | 166,925,258 | 93.62 | No | 10,640 | 98,616 | 7,657 |
| Weston Importers Ltd | 1,338,278 | 100.00 | No | 21,202 | 17,252 | 880 |
| Masplen Limited | 100 | 100.00 | No | - | 30,893 | 394 |
| Prestcott International S.A | 79,638,916 | 100.00 | No | 4,759 | 39,445 | 4,457 |
| Secculum Participações Ltda | 9,200,000 | 99.00 | No | 9,200 | 9,019 | (592) |
| União Frederiquense Partic. Ltda | 552,031,080 | 99.99 | No | 552,031 | 841,703 | (55,224) |
| QuickFood S.A | 21,419,606 | 90.05 | Yes | 25,448 | 227,468 | (5,827) |
| Establecimientos Colonia S.A | 80,647,477 | 100.00 | No | 42,755 | 66,997 | 6,562 |
| Marfrig Holdings(Europe) BV | 3,509,714 | 100.00 | No | 644,787 | 779,558 | (18,100) |
| Seara Holding BV | 490,285,420 | 100.00 | No | 1,261,248 | 1,906,108 | (5,800) |
| Columbus Netherlands | 27,087,661 | 100.00 | No | 62,076 | 116,542 | 780 |
| Marfood USA | 50,000 | 100.00 | No | 6,024 | 1,432 | (5,245) |
| Marfrig Overseas | 1 | 100.00 | No | - | (28,292) | 6,576 |
| Mckey Luxembourg | 500 | 100.00 | No | 233,161 | 174,881 | 4,067 |
| Mckey APMEA | 500 | 100.00 | No | 435,720 | 323,241 | 3,856 |
| Total | | | | 3,430,531 | 4,700,816 | (42,857) |

(1) The subsidiaries' total capital equals their voting capital.

## 11.2 BREAKDOWN OF INVESTMENTS (COMPANY)

| | Book balance on 12/31/2010 | Asset valuation | Acquisition/ write-off | Capital increase | Investment in the period | Equity in earnings (losses) of subsidiaries | Exchange rate variation in calculation of equity in earnings (losses) of subsidiaries | Book balance on 3/31/2011 |
|---|---|---|---|---|---|---|---|---|
| MFB Marfrig Frigorificos Brasil S.A (1) | 13,842 | 1 | - | - | - | 9,395 | - | 23,238 |
| Marfrig Chile Inversiones Ltda. | 36,696 | - | - | - | - | 1,772 | (1,332) | 37,136 |
| Inaler S.A. | 34,593 | - | - | - | - | 1,591 | (816) | 35,368 |
| Frigorífico Tacuarembó S.A. | 87,064 | - | - | - | - | 7,180 | (2,128) | 92,116 |
| Weston Importers Ltd. | 15,159 | - | - | - | - | (84) | 167 | 15,242 |
| Masplen Limited | 32,003 | 2,572 | - | - | - | 394 | (4,077) | 30,892 |
| Prestcott International S.A. | 35,899 | - | - | - | - | 4,457 | (911) | 39,445 |
| Secculum Participações Ltda. | 39,222 | (29,703) | - | - | - | (585) | (5) | 8,929 |
| União Frederiquense Partic. Ltda. | 838,586 | 58,635 | - | - | - | (55,121) | (511) | 841,589 |
| QuickFood S.A | 215,085 | (186) | - | - | - | (5,224) | (4,917) | 204,758 |
| Establecimientos Colonia S.A | 61,980 | | - | - | - | 6,562 | (1,547) | 66,995 |
| Marfrig Holdings(Europe) BV | 801,351 | (1,541) | - | - | - | (18,100) | (2,152) | 779,558 |
| Seara Holding BV | 2,004,866 | (91,500) | - | - | - | (5,803) | (1,471) | 1,906,092 |
| Columbus Notherlands | 117,396 | - | - | - | - | 780 | (1,635) | 116,541 |
| Marfood USA | 6,706 | - | - | - | - | (5,245) | (29) | 1,432 |
| Marfrig Overseas | (35,515) | - | - | - | - | 6,576 | 647 | (28,292) |
| Keystone International (2) | 491,157 | - | (491,157) | - | (491,157) | - | - | - |
| Mckey Luxembourg (2) | - | - | 170,815 | - | 170,815 | 4,067 | - | 174,882 |
| Mckey APMEA (2) | - | - | 320,342 | - | 320,342 | 3,856 | (956) | 323,242 |
| Total | 4,796,090 | (61,722) | - | - | - | (43,532) | (21,673) | 4,669,163 |

(1) Current name of Frigoclass Alimentos S.A.

(2) The Special Shareholders' Meeting held on March 1, 2011 approved Marfrig Alimentos S.A.'s merger of its wholly-owned subsidiary, Keystone Foods International Holdings LLC, a company duly incorporated and validly existing according to the laws of the state of Delaware, United States of America, pursuant to the Protocol and Justification of Merger submitted to shareholders at that time. As a result of this merger, Marfrig replaced its investments in Keystone Foods International with its net assets and Keystone was extinguished. The merger did not result in any change to Marfrig's shareholders' equity and accordingly, no new shares have been issued, reason that any share swap ratio was not necessary. This merger resulted in the centralization of management, physical structure and operation of their activities, thus, generating greater efficiency, resources optimization and improvement of business profitability, therefore, in line with shareholders' interests. This merger resulted in the consolidation of the parties involved into a single company, thus, promoting the synergy of their activities and the rationalization of administrative and financial costs of the group to which they are parties.

## 12 PROPERTY, PLANT AND EQUIPMENT

Adoption of deemed cost:

As mentioned in note 2, pursuant to CPC 27 (Property, Plant and Equipment) and ICPC 10 (Explanations about CPC 27 and CPC 28), the Company and its local subsidiaries have adopted fair value as deemed cost for property, plant and equipment, on the transition date to CPC/IFRS as disclosed in the financial statements as of December 31, 2010, mainly for classes as below:

| | Company and Consolidated |
|---|---|
| **Class of property, plant and equipment** | Adopted methodology |
| Plots of land | Comparison of market data |
| Constructions and buildings | Value evolution method |
| Machinery and equipment | Value evolution method |
| Furniture | Value evolution method |
| Industrial facilities | Value evolution method |
| IT equipment | Value evolution method |
| Vehicles | Value evolution method |

· Comparison of market data method – according to NBR 14.653 from ABNT.

· Value evolution method – item 8.2.4 of NBR 14.653-2 from ABNT.

Deemed values were determined through appraisal report prepared by independent appraisers, as below:

| | | | | Marfrig Group |
|---|---|---|---|---|
| Companies | Reference date | Division | Appraiser | Report amount R$ |
| Marfrig Alimentos S/A - controladora | 12.31.2008 | Cattle | Câmara de Consultores Associados Ltda-CCA | 1,060,895 |
| Masplen Ltd / Pampeano | 12.31.2008 | Cattle | Câmara de Consultores Associados Ltda-CCA | 82,896 |
| Seara Holdings (Europe) B.V. | 12.31.2009 | Poultry and pork | Câmara de Consultores Associados Ltda-CCA | 1,431,196 |
| Secculum Participações Ltda. | 12.31.2009 | Poultry and pork | Mercato Assessoria e Avaliações Ltda. | 10,952 |
| União Frederiquense | 12.31.2009 | Poultry and pork | Mercato Assessoria e Avaliações Ltda. | 1,022,270 |
| Marfrig Holding (Europe)-B.V.-Moy Park | NA | Poultry and pork | Not applied (business combination) | 255,555 |
| | | | Total report - gross amounts | 3,863,764 |
| | | | (-) Report depreciation - apparent age | (2,318,169) |
| | | | Total "Deemed Cost" impact | 1,545,595 |

The reports were prepared according to the guidelines established by NBR-14.653 Standards, specifically: NBR – 14653-1, NBR – 14653-2 and NBR – 14653-5 from the Brazilian Association of Technical Standards - ABNT, and strict observance of principles included in the Code of Professional Ethics of the Federal Council of Engineering and Architecture – CONFEA and the Legal Engineering Institute - IEL, as well as other principles included in the related legislation.

The adoption of this valuation on January 1, 2009 resulted in an adjustment of R$1,545,595, of which R$324,007 is in the Company's fixed assets and R$1,221,590 in subsidiaries' assets. Deferred income and social contribution taxes - liabilities were recognised on the adjustment, amounting to R$525,502. An offsetting entry to these values was recorded in the Company's and its subsidiaries' equity, in the group "Asset and liability valuation adjustments", net of applicable taxes.

The subsidiaries abroad did not decide to adopt the deemed cost for its property, plant and equipment, as it did not identify assets with significant value whose book values were substantially below or above their fair values.

As part of the adoption of deemed cost, the Company and its domestic subsidiaries reviewed the depreciation rates of their property, plant and equipment, changed the estimated individual useful lives of their assets included in the groups as shown below.

Below are the annual depreciation rates according to the straight-line method, defined based on the useful lives of assets:

| | | Company and Consolidated |
|---|---|---|
| Class of property, plant and equipment | Adopted methodology | Current depreciation |
| Plots of land | Comparison of market data | 0% |
| Constructions and buildings | Value evolution method | 1.6% to 50.0% |
| Machinery and equipment | Value evolution method | 3.6% to 25.0% |
| Furniture | Value evolution method | 5.6% to 25.0% |
| Industrial facilities | Value evolution method | 3.7% to 14.3% |
| IT equipment | Value evolution method | 4.3% to 20.0% |
| Vehicles | Value evolution method | 8.3% to 25.0% |

· Comparison of market data method – according to NBR 14.653 from ABNT.

· Value evolution method – item 8.2.4 of NBR 14.653-2 from ABNT.

For the presentation of quarterly financial information, the Company and its subsidiaries made the reclassification of their biological assets, previously classified as property, plant and equipment, in a highlighted account of Non-current assets which correspond to the raising of animals and breeders, as provided by the CPC 29 and shown in Note 7.

Balance of property, plant and equipment for the first quarter of 2011:

| | | | | | | Company |
|---|---|---|---|---|---|---|
| | | 12/31/2010 | | | | 3/31/2011 |
| Description | Average annual depreciation rates | Net | Additions | Reclassifications and exclusions | Depreciation | Net |
| Plots of land | - | 40.171 | - | - | - | 40.171 |
| Buildings | 4%-50% | 425.495 | - | - | (3.338) | 422.157 |
| Machinery and equipment | 3.6%-25% | 183.761 | 12.361 | (69) | (4.492) | 191.561 |
| Furniture and fixtures | 5.6%-25% | 5.915 | 613 | - | (186) | 6.342 |
| Facilities | 3.7%-14.3% | 327.569 | 60 | - | (4.402) | 323.227 |
| Vehicles | 8.3%-25% | 2.727 | 60 | - | (162) | 2.625 |
| IT equipment | 4.3%-20% | 2.992 | 403 | - | (283) | 3.112 |
| Aircraft | 20% | 153 | - | - | (19) | 134 |
| Advance for acquisition of property, plant and equipment | - | 11.681 | 386 | - | - | 12.067 |
| Improvements in leased properties | 4%-50% | 2.978 | - | - | (26) | 2.952 |
| Lease - vehicles | 8.3%-25% | 23.248 | - | - | (1.170) | 22.078 |
| Lease - computer hardware | 4.3%-20% | 8.232 | - | - | (461) | 7.771 |
| Lease - machinery | 3.6%-25% | 32.115 | - | - | (492) | 31.623 |
| Lease - facilities | 3.7%-14,3% | 107.521 | - | - | (1.246) | 106.275 |
| Lease - buildings | 4%-50% | 90.193 | - | - | (564) | 89.629 |
| Construction in progress | - | 195.555 | 14.811 | (40) | - | 210.326 |
| Other | 5%-10% | 168 | 28 | (9) | (2) | 185 |
| | | 1.460.474 | 28.722 | (118) | (16.843) | 1.472.235 |

| | | | | | | Consolidated |
|---|---|---|---|---|---|---|
| | | 12/31/2010 | | | | 3/31/2011 |
| Description | Average annual depreciation rates | Net | Additions | Reclassifications and exclusions | Depreciation | Net |
| Plots of land | - | 369,059 | 9,529 | (6,954) | - | 371,634 |
| Buildings | 1.6%-50% | 2,582,874 | 39,791 | (41,386) | (21,576) | 2,559,703 |
| Machinery and equipment | 3.6%-25% | 1,595,000 | 106,719 | (4,995) | (56,317) | 1,640,407 |
| Furniture and fixtures | 5.6%-25% | 72,463 | 24,180 | (163) | (4,816) | 91,664 |
| Facilities | 3.7%-14.3% | 639,103 | 6,984 | (223) | (7,165) | 638,699 |
| Vehicles | 8.3%-25% | 25,603 | 5,458 | (675) | (2,034) | 28,352 |
| IT equipment | 4.3%-20% | 16,442 | (1,899) | (150) | (1,854) | 12,539 |
| Aircraft | 20% | 153 | - | - | (19) | 134 |
| Advance for acquisition of property, plant and equipment | - | 20,940 | 23,103 | (21,497) | - | 22,546 |
| Improvements in leased properties | 4%-50% | 49,929 | 2,562 | (1) | (961) | 51,529 |
| Lease - vehicles | 8.3%-25% | 23,484 | - | (16) | (1,185) | 22,283 |
| Lease - computer hardware | 4.3%-20% | 8,232 | - | - | (461) | 7,771 |
| Lease - machinery | 3.6%-25% | 116,040 | 2,396 | (81) | (5,684) | 112,671 |
| Lease - facilities | 3.7%-14.3% | 110,336 | - | - | (1,256) | 109,080 |
| Lease - buildings | 4%-50% | 230,827 | 5,650 | (38) | (2,315) | 234,124 |
| Construction in progress | - | 783,404 | 54,267 | (52,858) | - | 784,813 |
| Other | 1.7%-10% | 41,699 | 161,765 | (90,221) | (571) | 112,672 |
| | | 6,685,588 | 440,505 | (219,258) | (106,214) | 6,800,621 |

Pursuant to CVM Resolution No. 645/10, the assets acquired by the Company under a finance lease started to be recorded as property, plant and equipment, including their respective depreciation, as mentioned above, with an offsetting entry to lease payable, shown in note 17.

In accordance with CVM Resolution No. 639/10 property, plant and equipment are annually tested for impairment, or when there is evidence that assets may not be recovered. During the period ended March 31 2011, the book values of the Company's assets were not higher than the amounts which could be obtained by use or sale. These analyses are made on an annual basis.

Such analysis comprised projecting the profitability and future cash of the Company's plants, which are discounted to present value to identify the degree of recoverability of the asset.

## 13 INTANGIBLE ASSETS

Pursuant to CVM Resolutions No. 644/10 and 565/08 the Company created the "Intangible Assets" account in non-current assets, as shown below:

| | 03/31/11 | 12/31/10 |
|---|---|---|
| Intangible assets - Company | 958,463 | 959,449 |
| Intangible assets - Subsidiaries | 3,083,862 | 3,227,247 |
| | 4,042,325 | 4,186,696 |

Changes in the Intangible assets accounts (Company and Consolidated) for the period ended March 31 2011 are as follows:

### 13.1 CHANGES IN INTANGIBLE ASSETS (COMPANY)

| | Balance on December 31, 2010 | Acquisition/ write-off | Goodwill on acquisition | Reclassification | Balance on March 31, 2011 |
|---|---|---|---|---|---|
| Argentine Breeders & Packers S.A. - Goodwill | 24,213 | - | - | - | 24,213 |
| Inaler S.A. - Goodwill | 38,379 | - | - | - | 38,379 |
| Frigorífico Tacuarembó S.A. - Goodwill | 57,824 | - | - | - | 57,824 |
| Masplen Limited - Goodwill | 17,258 | - | - | - | 17,258 |
| Prestcott International S.A. -Goodwill | 22,922 | - | - | - | 22,922 |
| Secculum Participações Ltda. - Goodwill | 16,188 | - | - | - | 16,188 |
| União Frederiquense Partic. Ltda. - Goodwill | 11,683 | - | - | - | 11,683 |
| QuickFood S.A - Goodwill | 223,872 | - | - | - | 223,872 |
| Establecimientos Colonia S.A - Goodwill | 114,479 | - | - | - | 114,479 |
| Seara Holding BV (2) | 21 | - | - | - | 21 |
| Columbus Netherlands BV | 22 | - | - | - | 22 |
| Marfood USA Inc. | 308 | - | - | - | 308 |
| Keystone International | 388,244 | - | - | - | 388,244 |
| Software and systems | 21,152 | - | - | (986) | 20,166 |
| Trademarks and patents | 22,884 | - | - | - | 22,884 |
| Total | 959,449 | - | - | (986) | 958,463 |

The goodwill generated in the business acquisitions concluded before the adoption of all CPCs is expressed in the parent company's functional currency.

## 13.2 CHANGES IN INTANGIBLE ASSETS (SUBSIDIARIES)

| | Book balance on December 31, 2010 | Reclassification | Goodwill | Trademark / Other | Exchange rate gain (loss) on translation | Amortization | Write-offs | Book balance on March 31, 2011 |
|---|---|---|---|---|---|---|---|---|
| **Marfrig Chile Inversiones Ltda** | **13,274** | **-** | **-** | **-** | **(299)** | **-** | **-** | **12,975** |
| Goodwill | 13,328 | (84) | - | - | (299) | - | - | 12,945 |
| Trademark and patents/software/other | (54) | 84 | - | - | - | - | - | 30 |
| **Weston Importers Ltd.** | **8,849** | **-** | **-** | **100** | **(129)** | **-** | **-** | **8,820** |
| Goodwill | 8,849 | | | 100 | (129) | | | 8,820 |
| **Marfrig Holdings (Europe) BV** | **1,488,676** | **-** | **-** | **17** | **(143,092)** | **(2,687)** | **(42)** | **1,342,872** |
| Goodwill | 370,751 | - | - | - | (8,343) | - | - | 362,408 |
| Relacionamento com clientes | 688,876 | | - | - | (125,093) | - | - | 563,783 |
| Trademark and patents/software/other | 429,049 | - | - | 17 | (9,655) | (2,687) | (42) | 416,682 |
| **Masplen Limited** | **398** | **-** | **-** | **4** | **(9)** | **-** | **-** | **393** |
| Trademark and patents/software/other | 398 | - | - | 4 | (9) | - | - | 393 |
| **Quickfood S.A** | **86,544** | **-** | **-** | **-** | **(3,740)** | **(23)** | **-** | **82,781** |
| Goodwill | 85,924 | - | - | - | (3,715) | - | - | 82,209 |
| Trademark and patents/software/other | 620 | - | - | - | (25) | (23) | - | 572 |
| **Prestcott International S.A** | **7,687** | **-** | **-** | **-** | **(174)** | **(9)** | **-** | **7,504** |
| Goodwill | 7,326 | - | - | - | (166) | | - | 7,160 |
| Trademark and patents/software/other | 360 | - | - | - | (8) | (9) | - | 343 |
| **Seara Holding BV** | **601,911** | **-** | **11,111** | **1,676** | **(54)** | **(858)** | **(628)** | **613,158** |
| Goodwill | **-** | | 11,111 | | | | | 11,111 |
| Trademark and patents/software/other | 601,459 | - | | 1,676 | (54) | (816) | (628) | 601,637 |
| Licença Porto | 452 | - | - | - | - | (42) | - | 410 |
| **Columbus Netherlands** | **46,430** | **-** | **-** | **1,127** | **(1,081)** | **(61)** | **-** | **46,414** |
| Goodwill | 46,053 | - | - | 1,123 | (1,036) | - | - | 46,140 |
| Trademark and patents/software/other | 377 | - | - | 4 | (45) | (61) | - | 275 |
| **União Frederiquense Partic. Ltda.** | **523,802** | **-** | **-** | **6,190** | **(90)** | **(154)** | **(9)** | **529,739** |
| Goodwill | 492,101 | 18,157 | - | 6,190 | (90) | - | - | 516,358 |
| Trademark and patents/software/other | 31,701 | (18,157) | - | - | - | (154) | (9) | 13,381 |
| **Secculum Participações Ltda.** | **6,525** | **-** | **-** | **-** | **(1)** | **(849)** | **-** | **5,675** |
| Goodwill | 5,274 | 218 | - | - | (1) | - | - | 5,491 |
| Trademark and patents/software/other | 1,251 | (218) | - | - | - | (849) | - | 184 |
| **Marfood USA** | **48,237** | **-** | **-** | **-** | **(1,083)** | **(140)** | **-** | **47,014** |
| Goodwill | **33,774** | | | | (760) | | | 33,015 |
| Customer relationship | **4,432** | **-** | **-** | **-** | (99) | **(140)** | | 4,193 |
| Trademark and patents/software/other | 10,031 | - | - | - | (225) | - | - | 9,806 |
| **Tacuarembó S.A** | **490** | **-** | **-** | **-** | **(11)** | **(24)** | **-** | **455** |
| Trademark and patents/software/other | 490 | - | - | - | (11) | (24) | - | 455 |
| **Inaler S.A** | **293** | **-** | **-** | **-** | **(6)** | **(8)** | **-** | **279** |
| Trademark and patents/software/other | 293 | - | - | - | (6) | (8) | - | 279 |
| **Estabelecimentos Colonia** | **433** | **-** | **-** | **-** | **(9)** | **(6)** | **-** | **418** |
| Trademark and patents/software/other | 433 | - | - | - | (9) | (6) | - | 418 |
| **MFB S.A** | **150** | **-** | **-** | **-** | **-** | **(10)** | **-** | **140** |
| Trademark and patents/software/other | 150 | - | - | - | - | (10) | - | 140 |
| **Mckey Luxembourg** | **393,548** | **-** | **-** | **534** | **(8,857)** | **-** | **-** | **385,225** |
| Trademark and patents/software/other | 393,548 | - | - | 534 | (8,857) | - | - | 385,225 |
| **Total** | 3,227,247 | - | 11,111 | 9,648 | (158,636) | (4,829) | (679) | 3,083,862 |

Goodwill from the acquisition of businesses by September 30, 2008 (last acquisition previous to transition date as of January 1, 2009, referring to complete adoption of CPCs) was calculated based on the accounting standards previous to the concept of business combination according to CPC 15.According to "Optional Exemptions in IFRS", the Company decided to adopt IFRS in all business acquisitions as from September 30, 2008. The goodwill amounts referred to above were based on expected future profitability, and supported by valuation reports from experts. The trademarks acquired from third parties were measured at the paid amount, while trademarks and list of clients acquired after September 30, 2008 were calculated at fair value pursuant to CPC 15.

The impairment test of goodwill and other intangible assets is conducted annually or whenever there is evidence of non-realisation of those items. Intangible assets represented by trademarks, patents and list of clients are amortized at their respective useful lives, if applicable. Certain intangible assets of the Company have undefined useful lives, according to the experts' valuation, and are annually tested for impairment.

## 14 ACCRUED PAYROLL AND RELATED CHARGES

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| INSS (social security contribution) payable | 104,259 | 115,841 | 169,230 | 190,250 |
| Salaries and payroll provisions | 34,210 | 39,063 | 288,677 | 243,441 |
| Other social charges and benefits payable | 14,279 | 1,988 | 77,285 | 103,388 |
| | 152,748 | 156,892 | 535,192 | 537,079 |

On November 21, 2005, Law No. 11.196 was enacted allowing the offsetting of INSS debts against federal tax credits. This procedure was regulated by Interministry Ordinance No. 23 dated February 2, 2006.

In addition, article 2 of Law 11.457/07 establishes responsibility to the Brazilian Federal Revenue Service concerning the employees' social security contributions levied on their contribution salaries, according to item c, sole paragraph, article 11 of Law 8.212/91 and art. 104 of Law No 11.196/05.

Thus, based on the opinion of its external legal counsellors, Marfrig Group has been offsetting social security debts against PIS/COFINS credits.

## 15 TAXES PAYABLE

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| ICMS (State VAT) payable | 1,187 | 819 | 41,941 | 32,925 |
| Special tax debt instalment payment plan - Law No. 11.941/2009 | 90,593 | 107,028 | 299,873 | 312,290 |
| Income tax payable | 2,076 | 7,227 | 26,767 | 36,864 |
| Social contribution tax payable | 260 | - | 3,832 | 3,565 |
| PIS and COFINS (tax on sales) payable | - | - | 1,449 | 1,527 |
| Federal tax instalment payment | 806 | - | 806 | 416 |
| Other taxes payable | 3,690 | 7,583 | 72,966 | 75,726 |
| | 98,612 | 122,657 | 447,634 | 463,313 |
| Current liabilities | 20,584 | 28,609 | 171,404 | 171,627 |
| Non-current liabilities | 78,028 | 94,048 | 276,230 | 291,686 |

### Special Tax Debt Instalment Payment Plan – Law 11.941/2009

On September 30, 2009, the Company adhered to the Special Tax Debt Instalment Payment Plan (New REFIS), established by Law No. 11.941, of May 27, 2009. It provides for the payment in instalments of debts due to the Brazilian Federal Revenue Service (SRF), the Office of the National Treasury Attorney-General (PGNF), and the Brazilian Social Security Institute (INSS). The Company declared debts with those agencies and transferred to the plan debts included in other payment plans (Special Tax Debt Instalment Payment Plan - Law No. 10.684/03 – PAES and Extraordinary Tax Debt Instalment Payment Plan – Executive Act No. 303/06 – PAEX), to be settled within 180 months, as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Opening balance | 107,028 | 92,993 | 312,290 | 268,526 |
| (+) Adhesion to instalment payment | - | 11,048 | - | 37,116 |
| (-) Offsetting of fine and interest using income and social contribution tax losse carryforwards | - | - | - | (10,350) |
| Interest | 4,090 | 14,721 | 10,341 | 32,071 |
| Discount to present value | (19,389) | (3,682) | (19,389) | (3,682) |
| (-) Payments made | (1,136) | (8,052) | (3,369) | (11,391) |
| Debt balance | 90,593 | 107,028 | 299,873 | 312,290 |
| Current liabilities | 12,726 | 13,303 | 34,769 | 34,236 |
| Non-current liabilities | 77,867 | 93,725 | 265,104 | 278,054 |

The Federal Revenue Service approved the Company's and its subsidiaries' requests to join the Special Tax Debt Instalment Payment Plans (New Refis). Debts will be assessed and consolidated according to Jointly Administrative Act PGFN/RFB No. 3 of April 29, 2010.

Despite the fact that the amounts of the Special Tax Debt Instalment Payment Plan (New Refis) had not been approved by the date of presentation of this quarterly financial information, the declared debt was booked and classified, assuming its acceptance by authorities and considering the settlement period established under the plans. Total obligations will only be confirmed when competent authorities finish their analyses of the declared debts. Management does not expect material adjustments arising from that case.

## 16 LOANS AND FINANCING

| | | | | Company | |
|---|---|---|---|---|---|
| Credit facility | Charges (% p.a.) | Weighted average interest rate (p.a.) | Weighted average maturity (years) | Balance on 3/31/2011 | Balance on 12/31/2010 |
| Local currency | | | | | |
| FINAME | TJLP + Fixed Rate | 4.5 | 4.27 | 680 | 719 |
| BNDES Finem | TJLP + 1.80% | 8.05 | 1.87 | 6,883 | 7,688 |
| FINEP | TJLP + 1% | 7.25 | 2.54 | 38,809 | 39,725 |
| NCE | Fixed rate + %CDI | 13.83 | 1.20 | 1,003,967 | 801,480 |
| Working Capital | CDI + Fixed rate | 14.37 | 3.18 | 258,490 | 266,646 |
| Prepayment (interest) | % CDI | 13.53 | 0.30 | 1,952 | 2,010 |
| Procer | Fixed rate | 11.25 | 1.57 | 204,688 | 204,812 |
| BNDES Exim | Fixed rate | 7.00 | 0.64 | 30,917 | 30,492 |
| Total local currency | | 13.25 | | 1,546,386 | 1,353,572 |
| Foreign currency | | | | | |
| ACC (US$) | Fixed rate + exchange | 4.18 | 0.17 | 202,840 | 293,580 |
| Financing of industrial complex (US$) | Libor+Fixed rate+exchange | 3.96 | 1.27 | 3,370 | 4,426 |
| Prepayment (US$) | Libor+Fixed rate+exchange | 7.79 | 3.95 | 2,253,362 | 2,565,075 |
| BNDES Finem | Currency basket + 1.30% | 1.30 | 1.87 | 1,370 | 1,535 |
| NCE (US$) | Fixed rate+ exchange (US$)+Libor | 8.46 | 3.09 | 1,017,442 | 1,087,400 |
| Total foreign currency | | 7.77 | | 3,478,384 | 3,952,016 |
| Total indebtedness | | 9.45 | | 5,024,770 | 5,305,588 |
| Current liabilities | | | | 1,411,985 | 1,459,146 |
| Non-current liabilities | | | | 3,612,785 | 3,846,442 |

| | | | | Consolidated | |
|---|---|---|---|---|---|
| Credit facility | Charges (% p.a.) | Weighted average interest rate (p.a.) | Weighted average maturity (years) | Balance on 3/31/11 | Balance on 12/31/10 |
| Local currency | | | | | |
| FINAME | TJLP + Fixed Rate | 6.76 | 2.76 | 8,751 | 9,940 |
| BNDES Finem | TJLP + 1.80 | 7.64 | 2.42 | 13,391 | 14,789 |
| FINEP | TJLP + 1% | 7.25 | 2.54 | 38,809 | 39,725 |
| NCE | Fixed Rate+%CDI | 13.43 | 1.53 | 1,156,831 | 1,109,086 |
| Working capital (R$) | Fixed Rate+%CDI | 14.37 | 3.18 | 258,489 | 475,547 |
| Rural credit note (R$) | Fixed Rate | 6.78 | 0.62 | 216,828 | 276,962 |
| Prepayment (interest) | %CDI | 13.53 | 0.30 | 1,952 | 2,010 |
| FCO - Mid-West Region Fund | Fixed Rate | 10.00 | 3.00 | 7,913 | 8,633 |
| Procer | Fixed Rate | 11.27 | 1.29 | 409,059 | 204,812 |
| BNDES Exim | Fixed Rate | 7.00 | 0.73 | 149,908 | 149,483 |
| Total local currency | | 11.91 | | 2,261,931 | 2,290,987 |
| Foreign currency | | | | | |
| ACC (US$) | Fixed Rate + Exchange | 3.62 | 0.62 | 569,575 | 712,267 |
| Financing of industrial facilities (US$) | Libor+Fixed Rate + Exchange | 5.31 | 1.21 | 26,114 | 28,443 |
| Prepayment (US$) | Libor+Fixed Rate + Exchange | 7.82 | 3.92 | 2,309,766 | 2,629,232 |
| Bonds (US$) | Fixed Rate + Exchange | 9.55 | 7.73 | 1,416,117 | 1,423,948 |
| BNDES Finem | Currency basket + 1.30 | 1.30 | 1.87 | 1,370 | 1,535 |
| NCE (US$) | %CDI+Fixed Rate+Exchange(US$) +Libor | 8.46 | 3.08 | 1,022,671 | 1,092,867 |
| Working capital (US$) | Fixed Rate + Libor | 4.96 | 1.55 | 51,599 | 186,758 |
| Working capital (Pesos) | Development unit | 6.80 | 0.30 | 1,702 | 1,858 |
| Bank loan (US$) | Fixed Rate + Exchange | 3.70 | 2.47 | 830,641 | 773,870 |
| PAE (US$) | Fixed Rate + Exchange | 1.60 | 0.30 | 11,491 | 7,453 |
| Financing agreements (US$) | Fixed Rate + Exchange | 2.00 | 0.33 | 32,986 | 18 |
| Guaranteed account (US$) | Libor + Fixed Rate + Exchange | 4.90 | 0.4 | 106,789 | 2,052 |
| Tradeable liabilities | Fixed Rate | 7.06 | 3.05 | 73,502 | 76,517 |
| Total foreign currency | | 7.27 | | 6,454,323 | 6,936,818 |
| Total indebtedness | | 8.47 | | 8,716,254 | 9,227,805 |
| Current liabilities | | | | 2,759,649 | 2,852,561 |
| Non-current liabilities | | | | 5,956,605 | 6,375,244 |

The Company's types of loans and financing can be described as follows:

*16.1* FINAME – Machinery and Equipment Finance

BNDES (National Bank for Economic and Social Development) credit line for acquisition of capital goods. The currency to be used by BNDES to adjust amounts is URTJLP (benchmark long-term interest rate), according to the TJLP (Long-Term Interest Rate). These transactions are guaranteed by the acquired asset itself. Repayments will be made until June 2015.

*16.2* BNDES FINEM – Business Finance

BNDES credit line to finance businesses. The loans have been raised to acquire machinery and equipment, and expand production facilities. This finance agreement is partially adjusted using the TJLP (long-term interest rate) and the rest is adjusted using the UMBNDES (Monetary unit of the National Bank for Economic and Social Development), which consists of a basket of currencies which reflects daily fluctuation of the currencies in which BNDES raises loans. This type of financing is secured by bank guarantees given by Banco Bradesco. A portion of the principal plus interest will be repaid in monthly instalments maturing by February 2013.

*16.3* FINEP – Fund for Financing Studies and Projects

FINEP credit line for financing studies and projects. FINEP is a public institution linked to the Ministry of Science and Technology. The currency used for adjusting the finance agreement is URTJ01 (monetary unit used by FINEP), which is based on TJLP (long-term interest rate). The finance agreement is guaranteed by a contract with Bradesco. It will be repaid in monthly instalments until March 2016.

*16.4* NCE - Export Credit Note (ECN)

Credit line which grants tax benefits to export companies. Exports made must be proved. Funds raised under this credit line are used as working capital. These transactions, denominated in R$ and US$, are guaranteed by trade notes, endorsements and supply contracts; in some cases, no guarantee is given. The rates used for adjustment of those transactions in U.S. dollars are: Libor *(London Interbank Offered Rate)* and/or fixed rate, and for transactions in Brazilian reais, CDI and/or fixed rate. Repayments will be made until April 2018.

*16.5* Working capital

Funds raised under this credit line are used for working capital financing. There are transactions conducted in Reais, Dollars and Pesos. They are guaranteed by endorsements and mortgages. The adjustment indexes used for that operation are CDI and/or fixed rate. Repayments will be made until September 2014.

*16.6* Rural credit note

Credit line to finance the integration system between rural producers (partners) and meat packing plants. Funds under this credit line are raised in BRL and linked to production. This finance is guaranteed by endorsement and adjusted using a fixed rate. Repayments will be made until September 2011.

*16.7* ACC – Advance on exchange contracts

Foreign credit line for export companies. Funds raised under this credit line are used for export financing.

ACC transactions are conducted in US dollars. Payment is linked to exports and guaranteed by promissory notes. The adjustment rate used for those transactions is a fixed rate. Repayments will be made until March 2012.

*16.8* Financing of industrial complex

Foreign credit line for acquisition of equipment. This transaction is conducted in US dollars, and is guaranteed by the financed equipment itself. The adjustment rates used for those transactions are Libor (London Interbank Offered Rate), plus a fixed rate and exchange variation. Repayment is scheduled up to July 2012, with quarterly instalments of the principal and interest.

*16.9* Prepayment

Foreign credit line for export companies. Funds raised under this credit line are used for export financing. This transaction is conducted in US dollars and guaranteed by promissory notes, endorsements, supply contracts and export documents. In some cases no collaterals are offered. The adjustment rates used for those transactions are Libor *(London Interbank Offered Rate)*, plus a fixed rate. Repayments will be made until December 2016.

*16.10* FCO - Centre Western Fund

It is a line of credit to support enterprises located exclusively in the States of Goiás, Mato Grosso do Sul and Distrito Federal. The financing periods are established according to the item to be financed. This finance is guaranteed by mortgage and adjusted using a fixed rate. The repayment schedule is monthly, plus interest, until December 2013.

*16.11* Senior Notes - Bonds

Financing in US$, with semi-annual interest payments and without guarantees, through debt securities issued abroad under 144A Rule and Regulation S. The first transaction was made in 2006, with principal due in November 2016, for the purpose of financing the acquisition of units in Argentina and Uruguay. The second transaction was made in April 2010, with principal due in April 2020, and the funds will be used principally to extend the maturity of the Company's debt.

On March 26 2010, shareholders authorised a transaction of "Senior Notes", issued in March 2006 by Marfrig Overseas, subsidiary of the Company, amounting to US$375 million at the annual rate of 9.625%, maturing on 2016 (the "Notes"), for the change of some provisions on this agreement, in order to establish new guarantees by Marfrig Alimentos S.A. The amendment included the change or elimination of certain clauses and restrictions described in the agreement of the transaction referred to above. There were no changes as for the effective period or annual interest rates paid on these Notes. The authorisation referred to above was given by the holders of the outstanding notes who informed their decision by March 25, 2010.

On April 30, 2010, Marfrig Overseas Limited, a subsidiary of Marfrig Alimentos S.A., concluded a 10-year bond offering in the total amount of US$500 million, solely for qualified institutional investors, under Rule 144A of the Securities Act. This transaction was not and will not be registered with the Brazilian Securities and Exchange Commission ("CVM") or under the Securities Act of 1933, as amended.

The amounts raised are below:

Fund raising statement - Bonds 2010

| | US$ thousand |
|---|---|
| Principal amount | 500,000 |
| (-) Negative goodwill (face value equal to 98.426%) | (7,870) |
| (-) Banks' comission | (4,500) |
| (-) Lawyers' services | (331) |
| Net amount | 487,299 |

The bonds, maturing on April 29, 2020, were issued with a coupon of 9.50% per year and the foreign-currency risk rating assigned by Moody's and Standard & Poors and Fitch was B1 and B+, respectively.

The transaction is guaranteed by Marfrig Alimentos S.A. and its subsidiaries União Frederiquense Participações Ltda., Marfrig Holdings (Europe) BV and Seara Alimentos S.A.

The funds raised were used principally to extend the maturity of the Company's debt.

Considering that the notes issued by the Company (Marfrig Bonds), which mature in 2016 and 2020, account for 16.25% of consolidated indebtedness at the end of the period (15.43% as of December 31, 2010), requirements related to the maintenance of certain financial indexes agreed upon their issue are valid for all the other loans and financing, as well as debentures convertible into shares presented in note 22, item 22.2, outstanding at the end of the period. After the amendments to certain clauses, the restrictions, as for indebtedness, correspond to keeping the adjusted net debt to pro forma EBITDA ratio of last twelve months below 4.75x.

*16.12* PAE – Export Loan

Chile's credit line for export companies. The purpose of the loans raised under this credit line, which may be used for any export contract, is to finance exports of lamb, food fish and other products brought to Brazil. The difference between this line and a normal one is that it is exempt from ITE – "*Impuesto de Timbre y Estampilla*" (equivalent to the tax on financial transactions in Brazil). Lines are raised in US dollars and are collateralised by bank guarantees.

*16.13* BNDES PROCER – Working capital financing

BNDES credit line for working capital loans to boost the competitiveness of companies in the agriculture and livestock and agribusiness industries. This loan bears annual interest of 11.25%. A portion of the principal plus interest will be repaid in monthly instalments maturing by October 2012.

*16.14* BNDES – EXIM (EXPORT FINANCE)

Credit line offered by BNDES to export companies under the BNDES Investment Support Programme – Pre-shipment export sub programme. Funds raised under this credit line are used for export financing. This credit line is in Brazilian reais and collateralised by endorsements from Marfrig Alimentos S.A. It bears annual interest of 7%. Repayments will be made until December 2011.

*16.15* Bank borrowings

Funds raised under this credit line are used as working capital financing. The Company holds transactions in US dollars and pesos, which, in some cases, may only be applied to pay inventories and fixed assets. These transactions are guaranteed by endorsements and mortgages, although, in some cases, no guarantee is given. The transactions in pesos are restated at the BADLAR (Buenos Aires Deposits of Large Amount Rate), and credit lines in US dollars have fixed rates. Repayments will be made until October 2016.

16.16 Negotiable Liabilities

Funding in U.S. dollars raised by our subsidiaries in Argentina and Uruguay. These operations are concerned with working capital needs, unsecured and to mature until September 2016.

16.17 Maturity schedule:

Below is a debt maturity schedule:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Local currency | | | | |
| 1Q11 | - | 31,601 | - | 218,792 |
| 2Q11 | 275,012 | 258,011 | 388,156 | 345,163 |
| 3Q11 | 246,363 | 241,502 | 389,030 | 366,502 |
| 4Q11 | 133,993 | 129,680 | 318,397 | 323,843 |
| 1Q12 | 76,992 | - | 196,705 | - |
| 2012 | 316,905 | 390,219 | 389,920 | 568,524 |
| 2013 | 252,221 | 220,063 | 311,478 | 279,323 |
| 2014 | 107,285 | 74,805 | 130,631 | 128,149 |
| 2015 | 38,270 | 5,789 | 38,270 | 58,789 |
| 2016 | 34,385 | 1,902 | 34,384 | 1,902 |
| 2017 | 32,480 | - | 32,480 | - |
| 2018 | 32,480 | - | 32,480 | - |
| 2019 | - | - | - | - |
| | 1,546,386 | 1,353,572 | 2,261,931 | 2,290,987 |

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Foreign currency | | | | |
| 1Q11 | - | 342,110 | - | 811,531 |
| 2Q11 | 180,582 | 109,098 | 399,710 | 272,533 |
| 3Q11 | 219,032 | 239,442 | 662,418 | 325,055 |
| 4Q11 | 94,907 | 107,702 | 161,451 | 189,142 |
| 1Q12 | 185,103 | - | 243,782 | - |
| 2012 | 357,287 | 583,541 | 524,358 | 765,206 |
| 2013 | 861,013 | 909,261 | 945,226 | 975,625 |
| 2014 | 769,928 | 812,672 | 1,297,960 | 1,317,616 |
| 2015 | 655,274 | 689,345 | 666,477 | 702,887 |
| 2016 | 155,258 | 158,845 | 750,631 | 763,481 |
| 2017 | - | - | 4,668 | 12 |
| 2018 | - | - | 13 | - |
| 2019 | - | - | - | - |
| 2020 | - | - | 797,629 | 813,730 |
| | 3,478,384 | 3,952,016 | 6,454,323 | 6,936,818 |
| Total debt | 5,024,770 | 5,305,588 | 8,716,254 | 9,227,805 |

16.18 Guarantees for loans and financing:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Balance of financing | 5,024,770 | 5,305,588 | 8,716,254 | 9,227,805 |
| Guarantees: | | | | |
| No guarantees: | 1,314,388 | 1,985,271 | 3,579,081 | 4,014,553 |
| Promissory notes | 1,535,543 | 1,860,041 | 1,685,808 | 2,250,357 |
| Trade notes | 74,359 | 240,046 | 101,371 | 267,272 |
| Bank Guarantee | 8,299 | 9,270 | 40,873 | 43,135 |
| Supply Agreement | 32,828 | 33,584 | 34,530 | 35,383 |
| Guarantee | 1,770,010 | 982,401 | 2,830,153 | 2,281,649 |
| Leased Asset | 680 | 720 | 15,258 | 17,042 |
| Export document | - | - | 17,261 | 9,935 |
| Facilities | 42,178 | 44,152 | 42,178 | 44,152 |
| Mortgage | - | - | 42,049 | 46,363 |
| Financial Investment | 246,485 | 150,103 | 267,652 | 150,103 |
| Export Credit | - | - | 60,040 | 67,861 |

## 17 LEASE PAYABLE

The Company is a lessee in various agreements, classified as operating or finance leases.

### 17.1 FINANCE LEASE

According to CVM Decision No. 645/10, finance lease operations are now recognized under the Company's current liabilities, instead of noncurrent liabilities, with an offsetting entry of the asset recorded in property, plant and equipment, according to note 12 of property, plant and equipment.

Transactions agreed before the issue of the decision referred to above are not considered in the calculation of the *covenants*.

| | | | | Controladora | | |
|---|---|---|---|---|---|---|
| Credit facility | Charges (% p.a.) | Weighted average interest rate (p.a.) | Weighted average maturity (years) | Balance on 3/31/11 (at present value) | Future Payments 3/31/11 | Balance on 12/31/10 (at present value) |
| Local currency | | | | | | |
| Finance lease of vehicles | CDI + Rate | 12.8% | 1.7 | 18,917 | 16,457 | 21,200 |
| Finance lease of IT equipment | CDI + Rate | 9.1% | 1.7 | 7,633 | 8,037 | 18,307 |
| Finance lease of machinery and equipment | CDI + Rate | 13.8% | 2.2 | 18,835 | 20,644 | 20,931 |
| Finance lease of industrial facilities | CDI + Rate | 15.6% | 1.4 | 26,870 | 33,910 | 33,639 |
| Finance lease of buildings | CDI + Rate | 15.7% | 1.7 | 20,912 | 23,506 | 27,401 |
| Interest due | | | | (38,881) | - | (55,772) |
| Finance lease - discount to present value | | | | 2,692 | - | 8,538 |
| Total local currency | | | | 56,978 | 102,554 | 74,244 |
| Total Company | | | | 56,978 | 102,554 | 74,244 |
| Current liabilities | | | | 32,319 | | 49,826 |
| Non-current liabilities | | | | 24,659 | | 24,418 |

| | | | | Consolidated | | |
|---|---|---|---|---|---|---|
| Credit facility | Charges (% p.a.) | Weighted average interest rate (p.a.) | Weighted average maturity (years) | Balance on 3/31/11 (at present value) | Future Payments 3/31/11 | Balance on 12/31/10 (at present value) |
| Local currency | | | | | | |
| Finance lease of vehicles | CDI + Rate | 12.8% | 1.7 | 18,931 | 16,471 | 21,229 |
| Finance lease of IT equipment | CDI + Rate | 9.1% | 1.7 | 7,633 | 8,037 | 18,307 |
| Finance lease of machinery and equipment | CDI + Rate | 13.8% | 2.2 | 19,541 | 21,376 | 21,686 |
| Finance lease of industrial facilities | CDI + Rate | 15.5% | 1.4 | 27,476 | 34,529 | 34,307 |
| Finance lease of buildings | CDI + Rate | 15.7% | 1.7 | 20,912 | 23,506 | 27,400 |
| Interest due | | | | (38,881) | - | (55,772) |
| Finance lease - discount to present value | | | | 2,692 | - | 8,538 |
| Total local currency | | | | 58,304 | 103,919 | 75,695 |
| Foreign currency | | | | | | |
| Finance lease of vehicles | Rate | 5.8% | 5.5 | 2,582 | 2,650 | 996 |
| Finance lease of IT equipment | Rate | 6.0% | 0.9 | 8 | 8 | 16 |
| Finance lease of machinery and equipment | Rate | 5.4% | 5.6 | 146,546 | 150,186 | 117,550 |
| Finance lease of industrial facilities | Rate | 9.6% | 1.2 | 2,106 | 2,125 | 2,674 |
| Finance lease of buildings | Rate | 5.3% | 13.6 | 91,526 | 97,043 | 122,280 |
| Total foreign currency | | | | 242,768 | 252,012 | 243,516 |
| Total Consolidated | | | | 301,072 | 355,931 | 319,211 |
| Current liabilities | | | | 76,246 | | 89,018 |
| Non-current liabilities | | | | 224,826 | | 230,193 |

According to Technical Pronouncement CPC No. 12, approved by CVM Resolution No. 564/08, finance lease payable was discounted to present value, at the initial registration date, as described in note 3.

Below is the lease maturity schedule:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Local currency | | | | |
| 1Q11 | - | 13,664 | - | 13,789 |
| 2Q11 | 10,411 | 13,688 | 10,536 | 13,813 |
| 3Q11 | 8,979 | 11,808 | 9,090 | 11,918 |
| 4Q11 | 8,109 | 10,666 | 8,219 | 10,777 |
| 1Q12 | 4,821 | - | 4,930 | - |
| 2012 | 20,679 | 21,491 | 21,010 | 21,933 |
| 2013 | 3,787 | 2,785 | 4,136 | 3,133 |
| 2014 | 127 | 93 | 271 | 237 |
| 2015 | 65 | 49 | 112 | 95 |
| Total local currency | 56,978 | 74,244 | 58,304 | 75,695 |
| Foreign currency | | | | |
| 1Q11 | - | - | - | 9,809 |
| 2Q11 | - | - | 11,174 | 9,868 |
| 3Q11 | - | - | 11,150 | 9,478 |
| 4Q11 | - | - | 11,059 | 9,566 |
| 1Q12 | - | - | 10,087 | - |
| 2012 | - | - | 32,324 | 42,585 |
| 2013 | - | - | 37,648 | 34,018 |
| 2014 | - | - | 36,721 | 32,426 |
| 2015 | - | - | 35,712 | 30,850 |
| 2016 | - | - | 26,932 | 20,819 |
| 2017 | - | - | 17,098 | 44,097 |
| 2015 | - | - | 12,863 | - |
| Total foreign currency | - | - | 242,768 | 243,516 |
| Total lease amount | 56,978 | 74,244 | 301,072 | 319,211 |

The present value schedule for total future minimum payments of the finance lease is as follows:

| | Company | |
|---|---|---|
| | 3/31/11 (at present value) | 12/31/10 (at present value) |
| Local currency | | |
| Up to one year | 32,319 | 49,826 |
| More than five years | 24,659 | 24,418 |
| | 56,978 | 74,244 |

| | Consolidated | |
|---|---|---|
| | 3/31/11 (at present value) | 12/31/10 (at present value) |
| Local currency | | |
| Up to one year | 32.774 | 50.297 |
| From one to five years | 25.530 | 25.398 |
| | 58.304 | 75.695 |
| Foreign currency | | |
| Up to one year | 43.469 | 38.721 |
| From one to five years | 169.337 | 160.699 |
| More than five years | 29.962 | 44.096 |
| | 242.768 | 243.516 |
| | 301.072 | 319.211 |

Following are the guarantees for the leases:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Local currency | | | | |
| Guarantees: | | | | |
| Financed asset | 56,978 | 74,244 | 58,304 | 75,695 |
| Total local currency | 56,978 | 74,244 | 58,304 | 75,695 |
| Foreign curreny | | | | |
| Guarantees: | | | | |
| Financed asset | - | - | 242,768 | 243,516 |
| Total foreign currency | - | - | 242,768 | 243,516 |
| Total | 56,978 | 74,244 | 301,072 | 319,211 |

## 17.2 OPERATING LEASE

### Operating lease as of March 31 2011 is as follows:

OPERATIONAL LEASING

Company

| Financial institution | Financed asset | Start date | Weighted averate interest rate (p.a) | Weighted average maturity (years) | Total amount financed | Expense at 3/31/11 |
|---|---|---|---|---|---|---|
| | Local currency | | | | | |
| CSI LATINA A. M. S.A | IT equipment | 02/16/11 | 11,66% | 0,5 | 230 | 51 |
| CSI LATINA A. M. S.A | IT equipment | 02/21/11 | 11,66% | 0,6 | 221 | 49 |
| CSI LATINA A. M. S.A | IT equipment | 07/02/07 | 15,66% | 1,8 | 1.640 | 85 |
| CSI LATINA A. M. S.A | IT equipment | 11/21/09 | 13,39% | 1,6 | 1.206 | 100 |
| CSI LATINA A. M. S.A | IT equipment | 02/21/10 | 17,18% | 1,8 | 4.790 | 399 |
| CSI LATINA A. M. S.A | IT equipment | 05/19/10 | 17,18% | 2,1 | 5.429 | 452 |
| CSI LATINA A. M. S.A | IT equipment | 05/19/10 | 10,37% | 2,1 | 1.718 | 143 |
| CSI LATINA A. M. S.A | IT equipment | 09/09/10 | 9,77% | 2,4 | 1.572 | 253 |
| CSI LATINA A. M. S.A | IT equipment | 08/23/10 | 14,70% | 2,3 | 1.064 | 148 |
| CSI LATINA A. M. S.A | IT equipment | 09/09/10 | 8,09% | 2,4 | 1.571 | 131 |
| CSI LATINA A. M. S.A | IT equipment | 09/21/10 | 14,70% | 2,4 | 260 | 36 |
| CSI LATINA A. M. S.A | IT equipment | 01/18/11 | 11,66% | 2,7 | 6.199 | 682 |
| CSI LATINA A. M. S.A | IT equipment | 01/21/11 | 11,66% | 2,7 | 1.216 | 34 |
| CSI LATINA A. M. S.A | Machinery and equipment | 01/10/08 | 15,66% | 1,7 | 5.691 | 311 |
| Frigorifico Extremo Sul | Meat packing plant | 10/01/09 | 0,00% | 1,4 | 2.740 | 228 |
| | Total local currency | | | | 35.547 | 3.104 |
| | Foreign currency | | | | | |
| AVN AIR LLC | Aircraft | 12/01/07 | libor + 3% | 5,4 | 3.744 | 71 |
| AVN AIR LLC | Aircraft | 12/01/07 | libor + 3% | 5,4 | 9.360 | 176 |
| AVN AIR LLC | Aircraft | 12/01/08 | libor + 3% | 7,4 | 6.099 | 121 |
| | Total foreign currency | | | | 19.204 | 367 |
| | Total local and foreign currencies | | | | 54.751 | 3.471 |

Consolidated

| Financial institution | Financed asset | Start date | Weighted averate interest rate (p.a) | Weighted average maturity (years) | Total amount financed | Expense at 3/31/11 |
|---|---|---|---|---|---|---|
| | Local currency | | | | | |
| CSI LATINA A. M. S.A | IT equipment | 02/16/11 | 11,66% | 0,5 | 230 | 51 |
| CSI LATINA A. M. S.A | IT equipment | 02/21/11 | 11,66% | 0,6 | 221 | 49 |
| CSI LATINA A. M. S.A | IT equipment | 07/02/07 | 15,66% | 1,8 | 1.640 | 85 |
| CSI LATINA A. M. S.A | IT equipment | 11/21/09 | 13,39% | 1,6 | 1.206 | 100 |
| CSI LATINA A. M. S.A | IT equipment | 02/21/10 | 17,18% | 1,8 | 4.790 | 399 |
| CSI LATINA A. M. S.A | IT equipment | 05/19/10 | 17,18% | 2,1 | 5.429 | 452 |
| CSI LATINA A. M. S.A | IT equipment | 05/19/10 | 10,37% | 2,1 | 1.718 | 143 |
| CSI LATINA A. M. S.A | IT equipment | 09/09/10 | 9,77% | 2,4 | 1.572 | 253 |
| CSI LATINA A. M. S.A | IT equipment | 08/23/10 | 14,70% | 2,3 | 1.064 | 148 |
| CSI LATINA A. M. S.A | IT equipment | 09/09/10 | 8,09% | 2,4 | 1.571 | 131 |
| CSI LATINA A. M. S.A | IT equipment | 09/21/10 | 14,70% | 2,4 | 260 | 36 |
| CSI LATINA A. M. S.A | IT equipment | 01/18/11 | 11,66% | 2,7 | 6.199 | 682 |
| CSI LATINA A. M. S.A | IT equipment | 01/21/11 | 11,66% | 2,7 | 1.216 | 34 |
| CSI LATINA A. M. S.A | Machinery and equipment | 01/10/08 | 15,66% | 1,7 | 5.691 | 311 |
| Frigorifico Extremo Sul | Meat packing plant | 10/01/09 | 0,00% | 1,4 | 2.740 | 228 |
| Frigorifico Mercosul | Meat packing plant | 09/21/09 | IGP-M year | 3,8 | 100.000 | 5.771 |
| Frigorifico Margem | Meat packing plant | 10/09/09 | IGP-M year | 3,8 | 164.500 | 12.757 |
| Frigorifico 4 Rios | Meat packing plant | 12/01/09 | IGP-M year | 3,8 | 9.600 | 2.365 |
| Frigorfico Boivi | Meat packing plant | 12/29/09 | IGP-M year | 4,8 | 6.000 | 968 |
| | Total local currency | | | | 315.647 | 24.965 |
| | Foreign currency | | | | | |
| AVN AIR LLC | Aircraft | 12/01/07 | libor + 3% | 5,4 | 3.744 | 71 |
| AVN AIR LLC | Aircraft | 12/01/07 | libor + 3% | 5,4 | 9.360 | 176 |
| AVN AIR LLC | Aircraft | 12/01/08 | libor + 3% | 7,4 | 6.099 | 121 |
| | Total foreign currency | | | | 19.204 | 367 |
| | Total local and foreign currencies | | | | 334.851 | 25.332 |

The maturity Schedule for the financed balance of the operating lease payable is as follows:

| | Company |
|---|---|
| | 3/31/11 (at present value) |
| Local currency | |
| Up to one year | 12,416 |
| From one to five years | 7,622 |
| | 20,038 |
| Foreign currency | |
| Up to one year | 1,470 |
| From one to five years | 14,928 |
| More than five years | 879 |
| | 17,277 |
| | 37,315 |

| | Consolidated |
|---|---|
| | 3/31/11 (at present value) |
| Local currency | |
| Up to one year | 78,267 |
| From one to five years | 200,010 |
| | 278,277 |
| Foreign currency | |
| Up to one year | 1,470 |
| From one to five years | 14,928 |
| More than five years | 879 |
| | 17,277 |
| | 295,554 |

The operating leases the Company enters into have no restrictions or contingencies, follow market practices and include, in some cases, price adjustment clauses during their effective term.

The value of the leased assets is calculated at total definitive cost, which includes costs of transportation, taxes and documentation. Finance lease obligations are calculated on the total definitive cost, by applying a predefined percentage for each agreement. In the event of termination, the lessor will have the option of cumulatively: (i) unilaterally cancelling all rights arising from the lease agreement; (ii) claiming the return of the leased goods; and (iii) accelerating the maturity of the lease agreement. In that case, the lessee undertakes to pay unsettled debts, including instalments overdue and coming due, besides possible outstanding expenses, taxes and charges, plus a fine of 10% on the debt balance. The lessee, without prejudice to the lessor, may file a claim for damages.

In relation to the renewal option, the lessee should previously communicate his/her intention to renew the lease agreement, otherwise the renewal is automatic, the conditions of which should be agreed upon between the parties. In the event the parties do not reach an agreement, the lessee should opt for purchasing the goods at market value or returning them.

## 18 DEBENTURES PAYABLE

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Debentures payable | 598,200 | - | 598,200 | - |
| (-) Cost with debenture issue | (7,518) | - | (7,518) | - |
| Interest on convertible debentures | 208,136 | 132,000 | 208,136 | 132,000 |
| Interest on non-convertible debentures | 16,619 | - | 16,619 | - |
| | 815,437 | 132,000 | 815,437 | 132,000 |
| Current liabilities | 222,794 | 132,000 | 222,794 | 132,000 |
| Non-current liabilities | 592,643 | - | 592,643 | - |

The Company, after approval at the Board of Directors Meeting on January 14, 2011, carried out the Company's 3rd issue of non-convertible secured debentures, with personal guarantee and restricted efforts, pursuant to CVM Rule 476/2009, with the following characteristics: face value of R$598,200, divided into 598,200 debentures, at the unit face value of R$1, issue date of January 18, 2011, to mature on January 18, 2018, divided into two series, (i) the First Series, by issuing 360,000 debentures, remunerated by face value as of the issue of 127.6% of DI rate p.a., basis of 252 days, without monetary restatement and (ii) the Second Series, by issuing 298,200 debentures, remunerated by face value as of the issue date adjusted by IPCA – Extended Consumer Price Index, published by the Brazilian Institute of Geography and Statistics, calculated by Getúlio Vargas Foundation, plus 9.5% p.a., basis of 252 days; secured by the fiduciary assignment of the Company's receivables flow, corresponding to 20% of the balance of debentures issued and personal guarantee (surety) of the following subsidiaries: (i) União Frederiquense Participações Ltda. (ii) Seara Alimentos S/A; and (iii) Marfrig Holdings (Europe ) B.V. Both operations had their flows translated into U.S. dollar exchange variation, plus annual rates of 6.98% for the entire period of the operation.

Non-convertible debentures interest rates were accrued as per Note 22.2.

Below, the schedule of debentures maturities:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Local currency | | | | |
| 3Q11 | 208,136 | 132,000 | 208,136 | 132,000 |
| 1Q12 | 9,101 | - | 9,101 | - |
| 2013 | 199,400 | - | 199,400 | - |
| 2014 | 199,400 | - | 199,400 | - |
| 2015 | 199,400 | - | 199,400 | - |
| | 815,437 | 132,000 | 815,437 | 132,000 |

## 19 NOTES PAYABLE

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Notes payable for investments in Europe (a) | - | - | 358.314 | 367.479 |
| Notes payable for investments in Brazil | 35.629 | 108.250 | 35.629 | 108.250 |
| Notes payable - Sponsorships (b) | - | - | 34.366 | 33.338 |
| Derivatives payable | 19.530 | 138.914 | 30.780 | 148.875 |
| Other ( c ) | 76.186 | 14.955 | 37.994 | 38.209 |
| Discount to present value | (4.942) | (2.058) | (4.942) | (2.058) |
| | 126.403 | 260.061 | 492.141 | 694.093 |
| Current liabilities | 49.630 | 152.857 | 126.224 | 313.632 |
| Non-current liabilities | 76.773 | 107.204 | 365.917 | 380.461 |

(a) On June 23, 2008 the Company disclosed in the market that Marfrig performed company acquisitions in Europe and Brazil. The acquisition agreement includes an expected potential contingent payment of up to US$220 million based on future performance of the businesses located in Europe. This acquisition was approved at a meeting of the Company's Board of Directors held on October 31, 2008 and an Annual Shareholders' Meeting held on December 1, 2008. Obligation was recorded pursuant to CPC 15 – Business combination and disclosed according to CVM Decision No. 603/2009, with due effects on 2009 financial statements compared with 2010 financial statements.

(b) On March 8, 2010, the Company signed a sponsorship agreement with the Brazilian Football Confederation (CBF) to sponsor the Brazilian football teams, including men's and women's national association football teams administered by CBF ("TEAMS").

The agreement allows the disclosure of the sponsorship of the "TEAMS" through display and associations with the SEARA, MONTANA, BASSI, DAGRANJA, PALATARE and other brands owned by MARFRIG. Image rights of athletes and members of the technical commissions of the teams and third parties, use of the CBF logo in advertising campaigns of the products, including in-store actions, gifts and packaging of products in Brazil and abroad are also allowed. CBF must make backdrop displays of MARFRIG brands at press conferences in Brazil and abroad, and this agreement is valid from the date of execution to December 31, 2014.

On March 29, 2010, the Company signed a sponsorship agreement with FIFA (Fédération Internationale de Football Association) to sponsor the 2010 FIFA World Cup™, FIFA Confederations Cup 2013 and 2014 FIFA World Cup™.

The agreement permits the use of Marfrig Group brands, such as: SEARA, PATY, PEMMICAN and MOY PARK, and also the use of the tournament logo in advertisements and products and its distribution.

On February 10, 2011, the Company signed a sponsorship agreement with Santos Futebol Clube to sponsor the club's professional men's football team. The agreement is valid until December 31, 2011. Under the agreement, the sponsor's brand is set to appear on the shoulder of the shirts of the teams participating in the São Paulo championship and Brazilian Championship in 2011.

On February 14, 2011, the Company entered into an agreement with MMC Automotores do Brasil S.A., referring to Mitsubishi Motorsports Sudeste sponsorship, tagged on vehicles, start and arrival ramp and uniforms. Said agreement will become effective until December 31, 2011.

(c) The second instalment payable from the acquisition of O'Kane Poultry was recognises on December 31, 2010 under "Other", in the consolidated note.

## 20 PROVISIONS FOR LAWSUITS

20.1 The Company and its subsidiaries are involved in several civil, administrative, tax, social security and tax proceedings, in the ordinary course of business, for which provisions based on legal counsellors' estimates have been set up. The principal information about these proceedings is presented below:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Labor and social security | 10,484 | 10,484 | 53,215 | 46,436 |
| Tax | 2,555 | 2,555 | 129,888 | 138,037 |
| Civil | 2,211 | 2,211 | 26,637 | 38,900 |
| Other | - | - | - | 313 |
| | 15,250 | 15,250 | 209,740 | 223,686 |

### 20.1.1 LABOUR AND SOCIAL SECURITY

As of March 31 2011, the Company and its subsidiaries were parties to various labour claims. Based on the Company's and its subsidiaries' payment history, a provision of R$53,215 was set up. In the opinion of the Management and legal counsellors, this provision is sufficient to face probable losses. Most of the labour claims filed against the Company and its subsidiaries refer to matters usually questioned in this industry, such as dismissal for cause, preparation time, break time for personnel who work in refrigerated environments and commuting time, among others.

20.1.2 TAX

Tax contingencies refer mostly to the following taxes:

State VAT - ICMS

According to the Management and its legal counsellors, all tax lawsuits of the Company are rated as a probable unfavourable outcome, totalling estimated amount of R$2,555. They refer to ICMS in several states where the Company has activities. The Company is claiming the use of credits from the transfer of goods to other branches, at the estimated value of R$596, and the issuance of electronic invoices, at the estimated value of R$1,959.

FEDERAL TAXES AND CONTRIBUTIONS

Subsidiary Seara has filed administrative proceedings discussing the disallowance of refund requests of PIS/COFINS credits, totalling R$52,397. They refer to credits on depreciation expenses, on goods acquired for resale, freight expenses, transportation of cargo, deemed PIS and COFINS credit of agribusiness activities, rent expenses and commission expenses.

Seara has accrued R$13,125 referring to the tax deficiency notice discussing the supposed undue exclusion of amounts composing the calculation basis of income and social contribution effects, such as CPMF (provisional contribution on financial operation) with suspended enforceability and reversal of provision for government bonds.

Seara has also filed administrative proceedings discussing the disallowance of IPI deemed credits taken as refund of PIS/COFINS levied on exports, corresponding to R$3,793. That company has a tax provision in the amount of R$34,933, of which R$18,373 corresponds to administrative proceedings referring to: i) IRPJ/CSLL for the deductibility of expenses on allowance for doubtful accounts and court deposits (CPMF) in the amount of R$10,623; ii) disallowance of PIS/COFINS credits on inputs taxed at a zero rate, monophase products, freight expenses and deemed credits of agribusiness activities amounting to R$7,287; iii) ICMS on transfer margins in the amount of R$249; iv) ITR (real estate tax) on the value of bare land corresponding to R$214; and R$16,560 of tax risks immaterialised to date.

In addition, the subsidiaries DaGranja, Mabella, Penasul, Agrofrango, Braslo and MBL jointly maintain a provision for tax contingency totalling R$23,085, which individually are not material.

20.1.3 CIVIL

The civil suits of the Company and its subsidiaries involve disputes typically related to business agreements and indemnities. None of those proceedings is individually material. Based on the opinion of legal advisors, the Management recognised on March 31 2011 a provision for the amount of shares considered to be of probable risk, totalling R$26,637.

20.2 Contingent liabilities, which are not recorded in the books of account, according to prevailing legislation, are shown below:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Labor and social security | 59,192 | 41,042 | 150,684 | 125,446 |
| Tax | 225,793 | 143,726 | 225,945 | 261,578 |
| Civil | 2,400 | 1,589 | 78,294 | 72,235 |
| | 287,385 | 186,357 | 454,923 | 459,259 |

20.2.1 Labour and social security

Among labour class actions, we emphasize those from subsidiary Seara which, in the opinion of the legal counsellors, are possible losses, in the estimated amount of R$25,700. They refer to preparation time, break time for the personnel who work at refrigerated environments, commuting time, outsourcing of the core activity and health hazard premium, among others.

Furthermore, most labour claims filed against the Company and its subsidiaries which, in the opinion of the legal counsellors are possible losses, refer to matters usually questioned in this industry, such as dismissal for cause, preparation time, break time for personnel who work in refrigerated environments and commuting time, among others. However, Management points out that no labour claim is individually relevant.

20.2.2 Tax

We list below the tax matters discussed at court that in the opinion of the Management and legal counsellors are rated as possible losses for the Company and its subsidiaries.

Federal Taxes and Contributions

As of March 31 2011, the Company was a party to administrative proceedings filed by the Federal Government at the total historical value of R$71,250, claiming (i) the amounts related to Corporate Income Tax, and Social Contribution Tax, Contributions for the Social Integration Program (PIS) and Contribution for Social Security Funding (COFINS), payable due to alleged omission of income, determined by crosschecking amounts stated and booked against invoices presented by suppliers, and (ii) differences in payments of PIS and COFINS debts and accessory obligations. The total historic amount involved of items i) to iii) totalled R$2,405, for which no provision was accrued given that legal counsellors consider the likelihood of unfavourable outcome possible, (iv) IPI deemed credit, with a historic cost of R$293 and an administrative decision recognising the origin of the company's credit/ (v) deduction of ICMS from PIS and COFINS tax bases. This last lawsuit is the most significant one, addressing a refund request at the historical value of R$68,552, for which a provision was not set up, given that according to the opinion of the legal counsellors, they are rated only as possible losses. The Company has filed administrative defences, alleging its non-enforceability and that part of the debts is barred by the statute of limitations, as well as the misscalculation of their tax bases, and that inspectors estimated the amounts according to assumptions, which is forbidden in certain cases. Such defences have not been analysed yet.

The Company and its subsidiaries have administrative proceedings associated with federal tax credits offset against social security debts. The amounts are the following: Marfrig 15,190, Penasul R$3,162, Dagranja R$19,913, Mabella R$17,833, Pampeano R$5,243 and Agrofrango R$4,105. These companies are parties to court actions discussing their right to the offset under those terms. It is worth mentioning that the amounts of all social security debts with the same purpose of said administrative proceedings have been accrued as mentioned in Note 14 "INSS payable".

PIS and COFINS on imports

In November 2004, the Company filed a lawsuit challenging the enforceability of PIS and COFINS on imports and claimed the non-payment of those contributions. A provisional remedy was granted and confirmed in a sentence that is currently in effect, against which the Federal Government has filed an appeal that will be judged at the Federal Court of Appeals - 3rd Region. That action generates favourable effects on cash flows, as it allows the payment of those taxes during the sale of the goods, and not in advance during the import.

STATE VAT - ICMS

The discussions on ICMS involving the Company in administrative proceedings filed by the Finance Departments of the States of São Paulo, Goiás, Minas Gerais, Paraná, Bahia, Rio Grande do Sul and Ceará that question the credits from the transfer of goods, non-fulfilment of accessory obligations and wrong issuance of invoices and credit granted, which amount to the historical value of R$33,878. From such amount, the amount of R$13,277 was the object of a legal claim on the credit granted by the State of São Paulo, with an interim relief that suspended its mandatory payment. Currently the amount of $3,517 is the object of a legal claim. The Company is challenging the collection imposed for the lack of supporting documentation to prove the entrance of goods through the Free-Trade Zone of Manaus, at the historical value of R$685. In the State of Mato Grosso, the actions refer to the disregard of the tax regimen established with the State, the absence of issuance of electronic invoice, irregular issue of tax document and export evidence corresponding to R$10,123.

The most significant proceedings regarding ICMS were filed by the Finance Department of the State of São Paulo claiming amounts related to deemed credit taken on transfer invoices of goods sent by the branch located in the State of Mato Grosso do Sul to the branches in the State of São Paulo, that is, a "Tax War". The assessed amounts correspond to the difference between the amount separately identified in the goods receiving documents at the distribution centre and that paid to the State of origin. The total historical amount claimed in these administrative proceedings is R$188,125. The discussion at the administrative level is in the total amount is R$114,875. The Company has filed a lawsuit claiming the suspension of the enforceability of that credit, totals R$73,250. Among these, two are court claims for taxes at the historical amount of R$34,887. Subsidiary Dagranja is a party to administrative proceedings also filed by the Finance Department of the State of São Paulo claiming the ICMS on the tax benefit granted by the States of Minas Gerais and Paraná. They total the historical amount of R$19,221, and are in discussion at the administrative level. Court proceedings have been filed for the actions whose administrative phase is finished.

20.2.3 Civil

The civil suits of the Company and its subsidiaries involve disputes typically related to business agreements and indemnities, which are not individually relevant.

### 20.3 Changes in provisions

The changes in provisions for contingencies are as follows:

| | Company | | | | Consolidated | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Labor and social security | Tax | Civil | TOTAL | Labor and social security | Tax | Civil | Other | TOTAL |
| **Balance on December 31, 2010** | 10,484 | 2,555 | 2,211 | 15,250 | 46,436 | 138,037 | 38,900 | 313 | 223,686 |
| Addition | - | - | - | - | 6,194 | 7,806 | 1,232 | - | 15,232 |
| Reversal | - | - | - | - | (2,835) | (4,379) | (1,253) | - | (8,467) |
| Reclassification | - | - | - | - | 3,513 | (11,513) | (12,242) | (313) | (20,555) |
| Translation gains/losses | - | - | - | - | (93) | (63) | - | - | (156) |
| **Balance on March 31, 2011** | 10,484 | 2,555 | 2,211 | 15,250 | 53,215 | 129,888 | 26,637 | - | 209,740 |

## 21 DEFERRED TAXES - LIABILITIES

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Income Tax | 98,196 | 99,500 | 1,091,822 | 1,138,812 |
| Social Contribution | 35,352 | 35,821 | 310,612 | 324,624 |
| | 133,548 | 135,321 | 1,402,434 | 1,463,436 |

Refer to deferred taxes recorded when property, plant and equipment items adopted deemed cost as of January 1. They will be settled as revalue assets are sold, written off, depreciated or amortized, according to their respective useful lives established in the revaluation report. Additionally, it is represented by the effect of deferred federal taxes calculated on the effects of the first-time adoption of IFRS.

Below are the changes in deferred taxes in the period ended March 31, 2011:

| | Company | | Consolidated | |
|---|---|---|---|---|
| Description | IRPJ | CSL | IRPJ | CSL |
| Balance on December 31, 2010 | 99.500 | 35.821 | 1.138.812 | 324.624 |
| Recognition | - | - | 6.566 | - |
| Realization of revaluation reserve | (523) | (188) | (26.394) | (9.516) |
| Revaluation of the appreciation of property, plant an | (781) | (281) | (1.937) | (360) |
| Reversal of deferred taxes on temporary differences | - | - | (24.310) | (4.136) |
| Translation gains/losses | - | - | (915) | - |
| Closing balance on March 31, 2011 | 98.196 | 35.352 | 1.091.822 | 310.612 |

## 22 SHAREHOLDERS' EQUITY

### 22.1 SHARE CAPITAL

Subscribed and paid-in share capital as of March 31 2011 totals R$4,061,478 and is represented by 346,983,954 common shares without par value (R$4,061,478 as of December 31, 2010). Capital, less expenditure on public and private share issue, is R$3,986,518 (3,986,518 as of December 31, 2010).

Based on CVM Resolution No. 649/10, the Company recorded under shareholders' equity the costs incurred with raising funds through public issue of shares in 2007 and 2009, and the private issue of shares made in 2008.

Pursuant to the Company's by-laws, at the discretion of the Board of Directors, share capital can be increased through issuance of up to five hundred million (500,000,000) common shares, including share capital, regardless of amendments to the by-laws.

Also at discretion of the Board of Directors, the Company can issue shares and debentures convertible into shares or subscription warrants without pre-emptive rights or with the period reduction provided for in paragraph 4 of article 171 of Law No. 6.404/76. Their placement should be made through sale at stock exchange or public subscription, or by means of exchange for shares in a public offering for control acquisition, under the terms of the law and within the limit of authorised capital.

The Board of Directors defines issuance conditions (prices and periods).

The call option of shares, the conditions under which shareholders will have pre-emptive rights to subscription, or the inexistence of such right in relation to Management, employees, or individuals who render services to the Company or other companies under its control are presented in note 25.

22.2 CAPITAL RESERVE – CONVERTIBLE DEBENTURES

According to the "Indenture for the Second Issue of Debentures Convertible into Shares of Marfrig Alimentos S/A", the Company issued two hundred and fifty thousand (250,000) debentures, mainly convertible into shares, with unit par value of R$10, amounting to R$2,500,000. The debentures were issued on July 15, 2010 through private subscription, with maturity within 60 months, annually restated at the interest rate at 100% of the accumulated variation of average interbank deposit rates of a day, plus spread of one percent (1%). Debenture remuneration is recognised as current liabilities and collateralised by a bank guarantee provided by Banco Itaú BBA S/A. The total amount of the two hundred and fifty thousand (250,000) debentures was subscribed on various dates during September, and the main debenture holder is BNDES Participações S/A.

The Company, based on the characteristics of the transactions, recorded a capital reserve of issued debentures. As defined in the Indenture and except for the cases of voluntary conversion, the conversion price will be lower than the following items: (i) R$21.50, plus the percentage of interest paid to debenture holders over the par value of the issues, less earnings distributed to each share, both restated at CDI as from the actual payment, in the case of interest on debentures, or the date of debentures less earnings, in the case of earnings, until the conversion date; and (ii) the higher between the market price and R$24.50, the latter without adjustment for earnings in cash or monetary restatement.

The Company spent R$12,328 to issue debentures, which was recorded as a valuation allowance to the capital reserve account, according to accounting rules for capital instruments.

Because of the paying in of such debentures made by BNDES Participações S/A, MMS Participações S/A and BNDES Participações S/A have entered into a shareholders' agreement with the purpose of regulating the relationship between the parties as shareholders of Marfrig Alimentos S.A.

22.3 INCOME RESERVES

22.3.1 Legal reserve

It is 5% (five per cent) of the Company's net income, as defined in its by-laws and current legislation.

In 2010, the amount of R$7,305 was recognised as statutory reserve. Accordingly, the balance as of March 31 2011 remained at R$44,476.

22.3.2 Treasury shares

Treasury shares - Company

In 2008, the Company acquired 695,600 shares for R$12,966, at an average cost of R$18.64 (eighteen Brazilian reais and sixty-four cents) per share. These shares are for the share option-based variable compensation program, as described in note 25. They will be entitled to dividends and earnings occasionally distributed by the Company. In the same year one share was transferred to each one of the Board of Directors' independent members.

In 2009, 124,101 shares were transferred to the Management of the Company, in compliance with the share option plan described in note 25.

For year of 2010, 177,300 shares were transferred to the Management of the Company, in compliance with the share option plan described in note 25.

During the three-month period ended March 31, 2011, 73,275 shares were transferred to the Company's Management, in view of the stock option plan described in Note 25.

As of March 31 2011, the balance of treasury shares was 320,923 booked at the amount of R$5,982.

The value of Treasury shares was R$4,682, priced at R$14.59 (twenty Brazilian reais and thirty-four cents)/share in the last trading session before March 31 2011.

22.4 ASSET AND LIABILITY VALUATION ADJUSTMENTS

Considering CVM Resolution No. 640/10, the Company created the account subgroup "Asset and Liability Valuation Adjustments" to record exchange rate gains (losses) on investments in subsidiaries abroad directly and indirectly held by the Company. Such accumulated effect will be transferred to the statement of income for the period as gain or loss only upon the disposal or write-off of the investment. Unrealised gains and losses on derivative financial instruments are also stated in this caption till they are realised, related to the net investment hedge effect.

22.5 CUMULATIVE TRANSLATION ADJUSTMENTS

According to Circular Letter CVM/SNC/SEP No. 01, of January 30, 2009, and CVM Resolution No. 640/10, the Company created a caption called "CumulativeTranslation Adjustments" to record exchange rate gains (losses) resulting from the translation of the foreign subsidiaries' financial statements. The investee's functional currency is different from that of the parent company.

## 22.6 DIVIDENDS

The Company's mandatory dividend is at least 25% of the adjusted net income determined in the parent company's financial statements, pursuant to Brazilian Corporate Law and the Company's by-laws. The annual statement of dividends, including their payment, in addition to mandatory minimum dividends, were approved at an Annual Shareholders' Meeting by majority voting of Marfrig's shareholders and will depend on various factors. Among these factors are the Company's operating results, financial conditions, cash needs, future prospects and others which Marfrig's Board of Directors and shareholders deem relevant.

At the Annual Shareholders' Meeting, held on April 30, 2011, shareholders approved proposal for distribution of dividends for 2010, which is stated below:

| Description | In thousands of reais |
|---|---|
| Net income before interest on equity | 146,094 |
| (-) Statutory reserve | (7,305) |
| Adjusted net income for dividend purposes | 138,789 |
| Mandatory dividends | 34,698 |
| (-) Net interest on equity | (29,833) |
| Dividends payable | 4,865 |

## 22.7 INTEREST ON EQUITY CAPITAL

Article 9 of Law No. 9.249 of December 26, 1995, with the modifications introduced by article 88, XXVI of Law No. 9.430/96 allowed the deductibility, for purposes of income and social contribution taxes, of interest on equity capital paid to shareholders, calculated according to the variation of the long-term interest rate – TJLP.

At the Annual Shareholders' Meeting, held on April 30, 2011, shareholders approved the proposal for the distribution of interest on equity capital to shareholders for 2010, which is stated below:

| Description | In thousands of reais |
|---|---|
| Shareholders' equity as of December 31, 2009 - before full adoption of CPCs | 4,076,440 |
| (x) Accumulated TJLP from January to December 2010 | 6.1678% |
| Limit established by law | 251,427 |
| Amount of interest on equity capital | 34,532 |
| (-) Withholding income tax - IRRF | (4,699) |
| | 29,833 |

22.8 MINORITY INTEREST

Refers to the interest of minority shareholders in the Company's equity.

## 23 NET SALES

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03.31.11 | 03.31.10 | 03.31.11 | 03.31.10 |
| **Revenue from sales of products** | | | | |
| Domestic sales | 767,897 | 546,329 | 3,628,326 | 1,953,690 |
| Foreign sales | 368,985 | 270,105 | 1,940,817 | 1,451,662 |
| | 1,136,882 | 816,434 | 5,569,143 | 3,405,352 |
| **Deductions from Gross Sales** | | | | |
| Taxes on sales | (34,615) | (477) | (195,278) | (105,250) |
| Returns and discounts | (34,374) | (47,703) | (121,720) | (104,171) |
| | (68,989) | (48,180) | (316,998) | (209,421) |
| NET OPERATING REVENUE | 1,067,893 | 768,254 | 5,252,145 | 3,195,931 |

## 24 RESULTS BY NATURE

The Company has decided to present the statements of income by function. The breakdown by nature is below:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03.31.11 | 03.31.10 | 03.31.11 | 03.31.10 |
| Cost of sales | | | | |
| Inventory costs | 785,742 | 575,041 | 3,751,705 | 2,165,263 |
| Depreciation | 16,082 | 12,803 | 107,243 | 68,249 |
| Amortization | - | - | 59,207 | 31,775 |
| Employee salaries and benefits | 38,385 | 63,104 | 605,222 | 384,347 |
| | 840,209 | 650,948 | 4,523,377 | 2,649,634 |
| Administrative expenses | | | | |
| Depreciation | 1,249 | 1,141 | 7,933 | 6,721 |
| Amortization | - | - | 2,156 | 497 |
| Employee salaries and benefits | 18,114 | 11,825 | 71,318 | 48,962 |
| Other | 22,955 | 12,317 | 114,500 | 47,696 |
| | 42,318 | 25,283 | 195,907 | 103,876 |
| Selling expenses | | | | |
| Depreciation | 67 | 118 | 1,604 | 1,015 |
| Amortization | - | - | 253 | 114 |
| Employee salaries and benefits | 6,569 | 5,034 | 43,926 | 26,788 |
| Other | 60,079 | 44,566 | 305,332 | 242,489 |
| | 66,715 | 49,718 | 351,115 | 270,406 |

## 25 MANAGEMENT'S COMPENSATION

The compensation policy is designed to establish the criteria, responsibilities and directions for the short- and long-term compensation program of Marfrig Group's Management (Bonus and Stock Option).

The purpose of this policy is to motivate the executive officers of Marfrig Group to grow and develop to achieve maximum performance, in line with the business objectives, through a short- and long-term reward payout.

The Corporate Governance and Compensation Committee is responsible for evaluating/analysing Management's compensation. The Committee is made up of a coordinator (Member of the Board of Directors), President and HR Officer. Meetings are held monthly to discuss strategic HR issues.

The parameters used to determine Management's compensation are based on market practices.

25.1 BOARD OF DIRECTORS

The Board of Directors' compensation consists of a fixed and variable pay.

Fixed pay – An annual amount is set for each member and paid on a monthly basis.

Variable pay – Stock Option-based payment. An annual amount convertible into stock is set for each member (Stock Option) – only long-term. The price of the share is based on the average of the last 20 trading sessions prior to March 3 of each year. There is no subsidy by the Company.

The option exercise is in 4 years (25% per year), in the same way as for officers appointed as per by-laws.

The board members' compensation is determined through market research with the major companies in the industry whereby a compensation base is defined and submitted to Marfrig's corporate governance and compensation committee for validation.

25.2 OFFICERS APPOINTED AS PER BY-LAWS

Fixed pay – An annual amount is set for each member and paid on a monthly basis.

Variable pay – Consists of short-term (bonus) and long-term (Stock Option) compensation. In general the goals set by the Company for Management evaluation refer to economic objectives (Division's EBITDA and Marfrig Group's net income) and individual goals.

The gain on the Stock Option Plan is tied to the appreciation of the market price of the share, i.e. the value added to the Company by the performance of the individual and the Management as a whole will reflect on the gain on the stock option plan. At the same time the employees' interests are aligned with the Company's interests in the long run.

The exercise price of the stock options is the average of the last 20 trading sessions prior to March 3 of each year and the grant price with a 50% discount starting with the grants in 2010.

The vesting period follows these criteria:

- 25% after 12 months of the grant;
- 25% after 24 months of the grant;
- 25% after 36 months of the grant;
- 25% after 48 months of the grant.

The officers' compensation is determined through market research with the major companies in the industry whereby measurement criteria are established according to the significance of the position within the organisation. The macro policies are approved by the corporate governance and compensation committee.

## 25.3 AUDIT COMMITTEE

The Audit Committee started its activities on April 30, 2010 after approval at the Annual Shareholders' Meeting on the same date. Fixed pay – An annual amount is set for each member and paid on a monthly basis. There is no variable pay.

Management compensation is made up of the compensation of three members of the Board of Directors (the other four opted for not receiving compensation as board members), six members of the Audit Committee (the other three are alternate members) and the officers appointed as per the Company's by-laws.

The added value of the compensation received by the Company's Management for their services is defined through market practices, with the participation of the Corporate Governance and Compensation Committee, made up of one Member of the Board of Directors (coordinator), President and Human Resources Officer.

| | 3/31/2011 | | |
|---|---|---|---|
| | Total compensation | | |
| Department | Fixed | Variable | Total |
| Board of directors | 369 | - | 369 |
| Management | 1,603 | | 1,603 |
| Audit Committee | 135 | - | 135 |
| | 2,107 | - | 2,107 |

## 25.4 STOCK OPTION PLAN

The Company has a long-term stock option-based variable compensation plan for its officers and board members, which is described in the Program Circular available at CVM/BM&FBOVESPA IPE system and its Investor Relations website.

As of March 31 2011, the Company's stock option plan had 147 participants.

In 2011, 73,275 shares were transferred to the Management of the Company under the stock option plans, representing a negative effect on accumulated earnings for the year of R$993.

The participation of current shareholders will not be diluted when share options are exercised at the vesting date, up to the limit of shares held in the treasury for this purpose.

Total unexercised stock options as of March 31 2011 were 826,697.

The fair value of the options was calculated according to the Black-Scholes method, based on TJLP (Long-Term Interest Rate) of 6% per year and with implicit volatility (adjusted beta calculated in the 12-month period from March 31 2010 and March 31 2011) of 82.1%. The value of the shares as of March 31 2011 in the different programs and maturities ranged between a maximum of R$9.7783 and a minimum of R$1.0030 per share for board members and between a maximum of R$13.9884 and a minimum of R$3.5640 per share for Management.

The table below shows the changes occurred in stock option plans in 2011:

| | |
|---|---|
| **Closing date** | 3/31/2011 |
| **Quote** | 14.59 |

**Stock Option Plan**

| | Single Beneficiaries | Stock option | Granting date | Period | No. of shares granted | No. of vested options | No. of options exercised in the period | No. of options exercised or canceled in previous periods | No. of implicit options - Outstanding Options |
|---|---|---|---|---|---|---|---|---|---|
| **Outstanding options - 12/31/2010** | **147** | | | | **1,198,330** | **343,533** | **173,608** | **125,000** | **899,722** |
| **Board of Directors** | 3 | MASTER 07-08 | 03/03/2008 | 03/04/2009 | 13,800 | 13,800 | - | 13,800 | - |
| | 3 | MASTER 07-08 | 03/03/2008 | 03/04/2010 | 13,800 | 13,800 | 9,200 | - | 4,600 |
| | 3 | MASTER 07-08 | 03/03/2008 | 03/04/2011 | 13,800 | - | - | - | 13,800 |
| | 3 | MASTER 07-08 | 03/03/2008 | 03/04/2012 | 13,800 | - | - | - | 13,800 |
| | | | | | - | | | | |
| **Board of Directors** | 3 | MASTER 08-09 | 07/28/2009 | 03/04/2010 | 27,900 | 27,900 | 27,900 | - | - |
| | 3 | MASTER 08-09 | 07/28/2009 | 03/04/2011 | 27,650 | - | - | - | 27,650 |
| | 3 | MASTER 08-09 | 07/28/2009 | 03/04/2012 | 27,650 | - | - | - | 27,650 |
| | 3 | MASTER 08-09 | 07/28/2009 | 03/04/2013 | 27,650 | - | - | - | 27,650 |
| | | | | | - | | | | |
| **Executives** | 15 | ESP II CP 08-09 | 07/28/2009 | 07/28/2009 | 80,200 | 80,200 | - | 80,200 | - |
| | 20 | ESP I LP 07-08 | 07/28/2009 | 07/28/2009 | 50,000 | 50,000 | - | 50,000 | - |
| | 20 | ESP I LP 07-08 | 07/28/2009 | 03/04/2010 | 50,000 | 50,000 | - | 50,000 | - |
| | 20 | ESP I LP 07-08 | 07/28/2009 | 03/04/2011 | 50,000 | 50,000 | 15,575 | - | 34,425 |
| | 20 | ESP I LP 07-08 | 07/28/2009 | 03/04/2012 | 50,000 | - | - | - | 50,000 |
| | 72 | ESP III LP 08-09 | 07/28/2009 | 03/04/2010 | 108,083 | 108,083 | 800 | 104,608 | 2,675 |
| | 72 | ESP III LP 08-09 | 07/28/2009 | 03/04/2011 | 108,083 | 108,083 | 18,650 | - | 89,433 |
| | 72 | ESP III LP 08-09 | 07/28/2009 | 03/04/2012 | 108,082 | - | - | - | 108,082 |
| | 72 | ESP III LP 08-09 | 07/28/2009 | 03/04/2013 | 108,082 | - | - | - | 108,082 |
| | 124 | ESP IV LP 09-10 | 07/01/2010 | 03/03/2011 | 80,000 | 80,000 | 1,150 | - | 78,850 |
| | 124 | ESP IV LP 09-10 | 07/01/2010 | 03/03/2012 | 80,000 | - | - | - | 80,000 |
| | 124 | ESP IV LP 09-10 | 07/01/2010 | 03/03/2013 | 80,000 | - | - | - | 80,000 |
| | 124 | ESP IV LP 09-10 | 07/01/2010 | 03/03/2014 | 80,000 | - | - | - | 80,000 |
| **Outstanding options 3/31/2011** | **147** | | | | **1,198,580** | **581,866** | **73,275** | **298,608** | **826,697** |

| | | | Exercise price | Option expiration date | Option Value on 3/31/2010 (Black Scholes) in R$ | Market value - options not vested on 3/31/2010 (R$ thousand) | Market value - outstanding vested options on 3/31/2010 (R$ thousand) | Effects on profit or loss on 3/31/2010 on booking |
|---|---|---|---|---|---|---|---|---|
| | | | | | | **13,480** | **181** | **(13,503)** |
| **Board of Directors** | 3 | MASTER 07-08 | 13.58700 | 09/02/2010 | 6.752 | - | - | - |
| | 3 | MASTER 07-08 | 13.58700 | 09/02/2010 | 6.752 | - | 5 | (23) |
| | 3 | MASTER 07-08 | 13.58700 | 09/02/2011 | 9.566 | 14 | - | (70) |
| | 3 | MASTER 07-08 | 13.58700 | 09/02/2012 | 11.665 | 71 | - | (70) |
| **Board of Directors** | 3 | MASTER 08-09 | 6.77830 | 03/03/2011 | 13.562 | - | - | - |
| | 3 | MASTER 08-09 | 6.77830 | 03/03/2012 | 14.186 | 216 | - | (328) |
| | 3 | MASTER 08-09 | 6.77830 | 03/03/2013 | 15.106 | 242 | - | (328) |
| | 3 | MASTER 08-09 | 6.77830 | 03/03/2014 | 15.901 | 270 | - | (328) |
| **Executives** | 15 | ESP II CP 08-09 | 1.03823 | 11/30/2009 | 13.5518 | - | - | - |
| | 20 | ESP I LP 07-08 | 0.75485 | 09/02/2010 | 13.8352 | - | - | - |
| | 20 | ESP I LP 07-08 | 0.75485 | 09/02/2010 | 13.8352 | - | - | - |
| | 20 | ESP I LP 07-08 | 0.75485 | 09/02/2011 | 13.8352 | - | 476 | 616 |
| | 20 | ESP I LP 07-08 | 0.75485 | 09/02/2012 | 13.8760 | 694 | - | (894) |
| | 72 | ESP III LP 08-09 | 0.67783 | 09/02/2010 | 13.9122 | - | 37 | (48) |
| | 72 | ESP III LP 08-09 | 0.67783 | 09/02/2011 | 13.9122 | - | 1,244 | (1,606) |
| | 72 | ESP III LP 08-09 | 0.67783 | 09/02/2012 | 13.9488 | 1,508 | - | (1,941) |
| | 72 | ESP III LP 08-09 | 0.67783 | 09/02/2013 | 13.9884 | 1,512 | - | (1,941) |
| | 124 | ESP IV LP 09-10 | 11.02605 | 09/02/2011 | 3.5640 | - | 281 | (600) |
| | 124 | ESP IV LP 09-10 | 11.02605 | 09/02/2012 | 6.2432 | 500 | - | (609) |
| | 124 | ESP IV LP 09-10 | 11.02605 | 09/02/2013 | 7.9231 | 634 | - | (609) |
| | 124 | ESP IV LP 09-10 | 11.02605 | 09/02/2014 | 9.1042 | 728 | - | (609) |
| **Outstanding options 3/31/2010** | **147** | | | | | **6,388** | **2,043** | **(10,622)** |

## 26 EARNINGS PER SHARE

The following table shows the calculation of earnings per share for the period ended March 31 2011 and March 31 2010 (in thousands, except when otherwise stated):

| | 2011 | 2010 |
|---|---|---|
| **Net income attributable to shareholders** | 23,502 | (50,125) |
| Weighted average number of shares in the period (in units) | 346,983,954 | 346,983,954 |
| Weighted average number of treasury shares, including stock option effect (in units) | 320,923 | 476,798 |
| Weighted average number of outstanding common shares (in units) | 346,663,031 | 346,507,156 |
| **Basic and diluted earnings per share (in R$)** | 0.0678 | (0.1447) |

The Company has debentures convertible to common shares, which are not added to the calculation of diluted earnings per share once they are non-dilutive.

## 27 SEGMENT REPORTING

Marfrig Alimentos is a multinational Brazilian-originated company dedicated to the production, processing and marketing in domestic and foreign markets of diversified food products, focussing on products of animal protein.

We have built an integrated business model, geographically diverse, consisting of production bases located in places with significant competitive advantages in cost and a distribution network with access to major consumer markets in the world.

We are strategically organised into two presentable areas, organised according to the animal protein that gives rise to revenue, with their own structures and professionalised and segmented into:

- Cattle, sheep and leather, with slaughter operations of animals found only in South America (Brazil, Argentina, Uruguay and Chile); and
- Poultry, pork and prepared & processed food products, with operations in Brazil, Europe, USA, Middle East and Asia.

Our global platform of distribution is present in all five continents, with 150 industrial facilities and offices in South and North America, Asia, Africa, Europe, Middle East and Oceania, with a distribution system that allows us to access to over 140 countries.

The Company provides information to the market, combined by segment of activity similar to that considered by its managers when taking strategic decisions.

| | 3/31/2011 | | | 12/31/2010 | | |
|---|---|---|---|---|---|---|
| | Cattle, Ovine and Leather | Poultry, pigs and prepared and processed products | Total | Cattle, Ovine and Leather | Poultry, pigs and prepared and processed products | Total |
| Assets | | | | | | |
| Current | 5,749,122 | 3,461,788 | 9,210,910 | 5,960,537 | 3,439,702 | 9,400,239 |
| Long-term receivables | 1,179,414 | 958,332 | 2,137,746 | 1,068,638 | 970,831 | 2,039,469 |
| Investments | 210 | 9,951 | 10,161 | 212 | 9,828 | 10,040 |
| Property, plant and equipment | 2,304,190 | 4,496,431 | 6,800,621 | 2,299,699 | 4,385,889 | 6,685,588 |
| Biological assets | 22,268 | 179,431 | 201,699 | 27,858 | 249,696 | 277,554 |
| Intangible assets | 1,156,838 | 2,885,487 | 4,042,325 | 1,163,385 | 3,023,311 | 4,186,696 |
| | 10,412,042 | 11,991,420 | 22,403,462 | 10,520,329 | 12,079,257 | 22,599,586 |
| Current liabilities | 3,206,531 | 3,465,535 | 6,672,066 | 3,323,134 | 3,625,425 | 6,948,559 |
| Non-current liabilities | 6,100,845 | 3,188,769 | 9,289,614 | 5,916,497 | 3,238,117 | 9,154,614 |
| | 9,307,376 | 6,654,304 | 15,961,680 | 9,239,631 | 6,863,542 | 16,103,173 |

| | 3/31/2011 | | | 3/31/2010 | | |
|---|---|---|---|---|---|---|
| | Cattle, Ovine and Leather | Poultry, pigs and prepared and processed products | Total | Cattle, Ovine and Leather | Poultry, pigs and prepared and processed products | Total |
| Net revenue | 1,923,779 | 3,328,366 | 5,252,145 | 1,356,514 | 1,839,417 | 3,195,931 |
| COGS | (1,574,923) | (2,948,454) | (4,523,377) | (1,119,885) | (1,529,749) | (2,649,634) |
| Financial income/(loss) | (94,044) | (84,866) | (178,910) | (266,469) | (44,438) | (310,907) |
| Profit (loss) | 97,962 | (74,460) | 23,502 | (108,238) | 58,113 | (50,125) |
| Depreciation | 27,607 | 150,789 | 178,396 | 24,879 | 83,492 | 108,371 |
| EBITDA | 157,300 | 179,997 | 337,297 | 122,112 | 197,121 | 319,233 |

## 28 INSURANCE COVER

It is the Company's policy to insure its property, plant and equipment and inventories at risk, for amounts deemed sufficient to cover possible disaster. All this is done taking into consideration the nature of its activities and the insurance advisors' opinion.

The risk assumptions adopted, given their nature, are not part of the scope of an audit of financial statements and, accordingly, were not examined by the Company's independent auditors.

Below is a summary of the amounts insured by the Company:

| | Company | | Consolidated | |
|---|---|---|---|---|
| Description | 03/31/11 | 12/31/10 | 03/31/11 | 12/31/10 |
| Meat packing buildings and facilities | 874,105 | 874,105 | 5,948,482 | 5,934,716 |
| Inventories and loss of profit | 203,973 | 203,973 | 2,414,542 | 2,397,176 |
| Third-party warehouse | 76,712 | 76,712 | 310,426 | 315,800 |
| Vehicles | 7,318 | 8,934 | 14,728 | 15,585 |
| Transportation of goods | 21,287 | 333,333 | 767,488 | 971,331 |
| Officers' endorsements | 50,000 | 50,000 | 91,585 | 91,631 |
| Civil liability | 550 | 550 | 358,445 | 336,493 |
| Other | 998,759 | 912,795 | 1,146,549 | 1,062,147 |
| | 2,232,704 | 2,460,402 | 11,052,245 | 11,124,879 |

## 29 FINANCIAL INSTRUMENTS - DERIVATIVES AND RISK MANAGEMENT - CONSOLIDATED

### 29.1 OVERVIEW

The Company and its subsidiaries are exposed to market risks related to exchange rate gains (losses), interest rate and commodities price fluctuations of a nature considered normal to their business. In order to minimise these risks, the Company has policies and procedures to minimise these exposures and may use hedging instruments, as long as previously approved by the Board of Directors.

Among the Company's policies we highlight: Monitoring levels of exposure to each market risk; measuring these risks; setting limits for making decisions and using hedging mechanisms, always aiming at minimizing the foreign exchange exposure of its debts, cash flows and interest rates.

Management is authorised to perform any and all acts listed below up to the amount equivalent to ten percent (10%) of the Company's equity based on the last financial statements disclosed in the market, except that for amounts higher than five percent (5%) of shareholder's equity, an additional authorisation from the Company's Finance Committee is necessary.

The Company's acts mentioned in the previous paragraph are as follows: (a) Offer guarantee for the obligations of the Company's subsidiaries and/or wholly owned subsidiaries; (b) approve the acquisition and/or sale of permanent asset items; (c) Approve financial transactions, including leases; and (d) Approve single or group of transactions involving the Company and related parties, directly or indirectly.

The Company does not enter into leveraged transactions with derivatives or similar instruments which do not offer a minimum protection against its exposure to other currencies, and also adopts a conservative policy of not entering into transactions that could affect its financial position.

The Company also has a sound financial policy, maintaining a high level of cash balance and short-term financial investments. At the same time, the maturity of the Company's long-term indebtedness is such that it does not impact a single year.

## 29.2 FINANCIAL INSTRUMENTS BY CATEGORY

The Company's financial assets and liabilities are classified as below:

Company

Financial assets

| | Loans and receivables | | Measured at fair value through profit or loss | | Held for trading | |
|---|---|---|---|---|---|---|
| | 03/31/2011 | 12/31/2010 | 03/31/2011 | 12/31/2010 | 03/31/2011 | 12/31/2010 |
| Cash and cash equivalents | 189.383 | 91.899 | - | - | - | - |
| Financial investments | 30.215 | 54.685 | - | - | 1.389.071 | 2.107.625 |
| Trade account receivables | 361.092 | 392.120 | - | - | - | - |
| Accounts receivable - derivatives | - | - | 10.911 | - | - | - |
| Related parties | 1.691.658 | 1.130.316 | - | - | - | - |
| Total financial assets | 2.272.348 | 1.669.020 | 10.911 | - | 1.389.071 | 2.107.625 |

Financial liabilities

| | Financial liabilities at amortised cost | | Measured at fair value through profit or loss | | Held to maturity | |
|---|---|---|---|---|---|---|
| | 03/31/2011 | 12/31/2010 | 03/31/2011 | 12/31/2010 | 03/31/2011 | 12/31/2010 |
| Suppliers | 292.694 | 341.911 | - | - | - | - |
| Loans and financings | 5.024.770 | 5.305.588 | - | - | - | - |
| Derivatives | - | - | 19.530 | 138.914 | - | - |
| Interest on debentures | - | - | - | - | 222.794 | 132.000 |
| Total financial liabilities | 5.317.464 | 5.647.499 | 19.530 | 138.914 | 222.794 | 132.000 |

Consolidated

Financial assets

| | Loans and receivables | | Measured at fair value through profit or loss | | Held for trading | |
|---|---|---|---|---|---|---|
| | 03/31/2011 | 12/31/2010 | 03/31/2011 | 12/31/2010 | 03/31/2011 | 12/31/2010 |
| Cash and cash equivalents | 857.576 | 682.364 | - | - | - | - |
| Financial investments | 30.215 | 54.685 | - | - | 2.282.942 | 3.146.997 |
| Accounts receivable - derivatives | - | - | 17.709 | - | | |
| Trade accounts receivable | 1.390.211 | 1.361.945 | - | - | - | - |
| Total financial assets | 2.278.002 | 2.098.994 | 17.709 | - | 2.282.942 | 3.146.997 |

Financial liabilities

| | Financial liabilities at amortized cost | | Measured at fair value through profit or loss | | Held to maturity | |
|---|---|---|---|---|---|---|
| | 03/31/2011 | 12/31/2010 | 03/31/2011 | 12/31/2010 | 03/31/2011 | 12/31/2010 |
| Suppliers | 2.366.274 | 2.310.763 | - | - | - | - |
| Loans and financings | 8.716.254 | 9.227.805 | - | - | - | - |
| Derivatives | - | - | 30.780 | 148.875 | - | - |
| Interest on debentures | - | - | - | - | 222.794 | 132.000 |
| Total financial liabilities | 11.082.528 | 11.538.568 | 30.780 | 148.875 | 222.794 | 132.000 |

Details of the accounting policies and methods used (including criteria for recognition, measurement bases and criteria for recognition of gains and losses) for each class of financial instruments and equity are presented in Note 3.

## 29.3 COMPARISON OF MARKET VALUE AND RESPECTIVE FAIR VALUES

Market values for the financial instruments are shown below:

| | Consolidated | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Book value | Market value | Book value | Market value |
| Cash and cash equivalents | 857.576 | 857.576 | 682.364 | 682.364 |
| Financial investments | 2.305.619 | 2.305.619 | 3.193.992 | 3.193.992 |
| Trade accounts receivables | 1.390.211 | 1.390.211 | 1.361.945 | 1.361.945 |
| Suppliers | 2.366.274 | 2.366.274 | 2.310.763 | 2.310.763 |
| Loans and financings | 8.716.254 | 8.716.254 | 9.227.805 | 9.227.805 |
| Derivatives | 30.780 | 30.780 | 148.875 | 148.875 |
| Interest on debentures | 222.794 | 222.794 | 132.000 | 132.000 |
| Debentures | 592.643 | 592.643 | - | - |

The fair value of financial instruments is similar to the book value and largely reflects the values that would be obtained if they were traded in the market. However, due to the lack of an active market, variations may occur if the Company and its subsidiaries decide to prepay them.

## 29.4 LIQUIDITY RISK

Liquidity risk arises from the Company's and its subsidiaries' working capital management and the amortisation of the principal and finance charges of debt instruments. This is the risk that the Company and its subsidiaries will find to settle its falling due payables.

The Company and its subsidiaries manage their capital based on parameters to optimise the shareholding structure focused on liquidity and leverage metrics that enable a return to shareholders over the medium term, consistent with the risks assumed in the transaction.

### 29.4.1 Capital management

| | Consolidated | |
|---|---|---|
| | 3/31/11 | 12/3110 |
| Cash and cash equivalents | 3.163.195 | 3.876.356 |
| Current loans and financings | 2.759.649 | 2.852.561 |
| Modified liquidity ratio | 1,15 | 1,36 |
| Leverage ratio | 3.24x | 3.07x |

The purpose of capital management is to define the best financing structure for the Company and its subsidiaries.

The main indicators for monitoring such management is the modified immediate liquidity ratio, which is the ratio between cash and cash equivalents and current indebtedness (short term) and monitoring the ratio of net debt (total debt indebtedness less cash and cash equivalents) to EBITDA at levels considered to be manageable for continuity of operations.

Based on the analysis of these indices, the management of working capital is defined so as to keep Company's and its subsidiaries' natural leverage at levels equal or lower than the leverage ratio deemed adequate.

The modified immediate liquidity ratio as of December 31, 2009 reflected the increase in cash and cash equivalents due to fundraising by public share offering in the last quarter of that year.

The following table presents contractual terms (representing undiscounted contractual cash flows) of financial liabilities:

| | | | | | | Consolidated |
|---|---|---|---|---|---|---|
| March 31, 2011 | 2011 | 2012 | 2013 | 2014 | After | Total |
| Suppliers | 2.366.274 | | | | | 2.366.274 |
| Loans and financings | 2.759.649 | 1.354.765 | 1.256.704 | 988.104 | 2.357.032 | 8.716.254 |
| Derivative financial liabilities | 15.501 | 1.416 | 2.017 | 11.846 | | 30.780 |
| Interest on debentures | 222.794 | | | | | 222.794 |
| Total | 5.364.218 | 1.356.181 | 1.258.721 | 999.950 | 2.357.032 | 11.336.102 |
| December 31, 2010 | 2011 | 2012 | 2013 | 2014 | After | Total |
| Suppliers | 2.310.763 | - | - | - | - | 2.310.763 |
| Loans and financings | 2.852.561 | 1.333.730 | 1.254.948 | 1.445.765 | 2.340.801 | 9.227.805 |
| Derivative financial liabilities | 134.808 | 8.236 | 4.238 | - | 1.593 | 148.875 |
| Interest on debentures | 132.000 | | | | | 132.000 |
| Total | 5.430.132 | 1.341.966 | 1.259.186 | 1.445.765 | 2.342.394 | 11.819.443 |

## 29.5 INTEREST RATE RISK MANAGEMENT

Interest rate risk refers to the Company's risk of incurring economic losses due to negative changes in interest rates. This exposure basically refers to changes in market interest rates which affect the Company's assets and liabilities indexed to the TJLP (long-term interest rate), LIBOR (London Interbank Offered Rate) or CDI (interbank deposit rate).

In order to reduce debt service costs, the Company and its subsidiaries continually monitor market interest rates to assess the need to enter into new derivative contracts to hedge its operations against the risk of fluctuations of these rates. The internal controls used when managing the risk and the cover are made through calculation spreadsheets with the appropriate follow-up of transactions conducted and the calculation of VaR (Value at Risk) for one day, with a confidence interval of 95%.

The risk of exposure to interest rate for the Company and its subsidiaries as of March 31 2011 and December 31, 2010 is as follows:

| **Exposure to CDI rate:** | **3/31/2011** | **12/31/2010** |
|---|---|---|
| NCE / Working capital / Other | 1,417,272 | 2,679,510 |
| (-) CDB-DI | (949,790) | (1,596,194) |
| **Subtotal** | 467,482 | 1,083,316 |
| **Exposure to LIBOR rate:** | | |
| Prepayment | 2,309,766 | 2,629,232 |
| Working capital | 1,022,671 | 186,758 |
| Other | 132,903 | 30,495 |
| **Subtotal** | 3,465,340 | 2,846,485 |
| **Exposure to TJLP rate:** | | |
| FINAME / FINEM / FINEP | 60,951 | 64,454 |
| **Subtotal** | 60,951 | 64,454 |
| **TOTAL** | 3,993,773 | 3,994,255 |

The Company entered into non-speculative swap contracts to minimize the effects of exchange rates fluctuations on the settlement of its loans and financing, as below:

| Instrument | Register | Maturity | Receivable | Payable | Consideration for principal amount | Notional value in US$ (2) | Fair value R$ (1) | 3/31/2011 Amount receivable (-) payable | 12/31/2010 Amount receivable (-) payable |
|---|---|---|---|---|---|---|---|---|---|
| Interest rate swap | (3) | 8/2/2012 | High Libor 2.02% | Low Libor 2.02% | BB Londres | 16,800 (2) | 27,362 (2) | (194) | (216) |
| Interest rate swap | (3) | 2/22/2012 | High Libor 2.08% | Low Libor 2.08% | BB Londres | 30,000 (2) | 48,861 (2) | (615) | (597) |
| Interest rate swap | (3) | 2/14/2013 | High Libor 2.40% | Low Libor 2.40% | BB Londres | 39,500 (2) | 64,334 (2) | (1,610) | (1,530) |
| Interest rate swap | (3) | 3/20/2013 | High Libor 2.38% | Low Libor 2.38% | BB Londres | 10,500 (2) | 17,101 (2) | (407) | (388) |
| Interest rate swap | (3) | 3/6/2015 | High Libor 0.65% | Low Libor 2.18% | BB Londres | 75,000 (2) | 122,153 (2) | (1,584) | (1,340) |
| Interest rate swap | (3) | 12/24/2012 | High Libor 2.10% | Low Libor 2.10% | BB Londres | 30,000 (2) | 48,861 (2) | (607) | (407) |
| Interest rate swap | CETIP | 8/14/2014 | High Libor 1.94% | Low Libor 1.94% | Citibank | 88,889 (2) | 144,774 (2) | (2,145) | (2,836) |
| Interest rate swap | CETIP | 8/14/2014 | High Libor 2.00% | Low Libor 2.00% | Citibank | 160,000 (2) | 260,592 (2) | (4,725) | (6,032) |
| Interest rate swap | CETIP | 11/9/2015 | High Libor 2.75% | Low Libor2.75% | Citibank | 45,000 (2) | 73,292 (2) | (2,600) | (3,154) |
| Interest rate swap | CETIP | 11/12/2014 | High Libor 3.30% | Low Libor 3.30% | Citibank | 75,000 (2) | 122,153 (2) | (5,044) | (6,034) |
| Interest rate swap | CETIP | 1/19/2015 | Low Exc. USD + 9.5% | High EV USD + 9.5% | Itaú | 149,800 (2) | 243,979 (2) | 3,900 | - |
| Interest rate swap | CETIP | 1/19/2015 | Low Exc. USD + 6.9% | High EV USD + 6.9% | Itaú | 224,841 (2) | 366,199 (2) | 7,010 | - |
| | | | | | Sub Total | 945,330 | 1,539,659 | (8,619) | (22,534) |
| Interest rate swap | (3) | 11/16/2012 | Low Libor 2.26% | High Libor 2.26% | ING | 50,000 | 81,435 | (2,146) | (2,548) |
| Interest rate swap | (3) | 11/16/2012 | Low Libor 2.21% | High Libor 2.21% | Sun Trust Bank | 50,000 | 81,435 | (2,148) | (2,531) |
| Interest rate swap | (3) | 3/16/2013 | Low Libor 3.0025% | High Libor 3.0025% | Sun Trust Bank | 25,000 | 40,718 | (1,786) | (2,098) |
| Interest rate swap | (3) | 4/1/2011 | Low 0.22% | High 2.75% | US Bank | 25,000 | 40,718 | (919) | - |
| | | | | | Sub Total | 150,000 | 244,305 | (6,999) | (7,177) |
| | | | | | Total | 1,095,330 | 1,783,964 | (15,618) | (29,711) |

(1) The amount informed is calculated through the mark-to-market method (MtM) plus the existing premium, which consists of calculating future value based on the conditions agreed and determining the present value based on market curves, from Bloomberg and BM&FBovespa data bases.

(2) The notional value is not linked to a hedge transactions This value is the basis of payment flows, which bear interest at Libor (Libor Interbank Offered Rate), which is fixed.

(3) Bilateral/over-the-counter transaction. Not registered with a clearing and depositary chamber.

## 29.6 COMMODITY PRICE RISK MANAGEMENT

During its activities, the Company and its subsidiaries purchase some commodities, such as: cattle, grains and energy, which are the biggest individual components of the production cost and are subject to certain variables.

The price of cattle acquired from third parties is directly related to market conditions, and is influenced by domestic availability and foreign market demand.

Maize and soya bean meal (“grains”) are subject to volatility resulting from weather conditions, crop yield, transport costs, warehousing costs, agricultural policy, exchange rates, international prices, among others, which is not under Management’s control.

There are exposures to variation in the price of gasoline and diesel fuel ("energy"), whose movements are due to factors out of Management’s control.

So as to reduce the impact over commodities, the Company and its subsidiaries manage inventory levels, keeps cattle in feedlots and trade derivative financial instruments in the futures market.

The internal controls used when managing the risk and the cover are made through calculation spreadsheets with the appropriate follow-up of transactions conducted and the calculation of VaR (Value at Risk) for one day, with a confidence interval of 95%.

The Company and its subsidiaries purchase financial instruments to reduce the price risk related to the needs for commodities within 12 months.

A substantial part of these financial instruments of protection come from the futures market, having the CBTO - Chicago Board of Trade as counterpart, whose physical deliveries ("deliverable") of non-financial items are accomplished. As of March 31 2011, financial instruments covered 15.5% of expected needs for the purchase of cattle in Brazil; in Keystone 88.9% of exposures of energy and 91.1% for the exposure of grain, for an anticipated need by 2011. In the last two cases they are made on behalf of customers.

Exposure to commodity risks for the Company and its subsidiaries, in Brazilian reais as of March 31 2011, for the periods of exposed needs is R$734,450.

## 29.7 MANAGEMENT OF CREDIT RISK

The Company and its subsidiaries are subject to credit risk. Credit risk deals with group's financial losses if a client or counterpart in a financial instrument fails to comply with contractual obligations, which arise from most receivables.

The Company and its subsidiaries limit their exposure by analysing credit and managing client's portfolio, seeking to minimise the economic exposure to a certain client and/or market that may represent significant losses.

Conducted evaluations are based on information flows and follow-up of the volume of purchases in the market. The internal controls cover the assignment of credit limits.

The maximum exposure to credit risk for the Company and its subsidiaries are the trade accounts receivable shown in note 5, where the value of the effective risk of possible losses is presented as provision for credit risk is also shown.

## 29.8 EXCHANGE RATE RISK MANAGEMENT

Exchange rate risk consists of the risk of foreign exchange fluctuations leading the Company and its subsidiaries to incur losses and causing a reduction in the values of assets or an increase in the values of liabilities. The Company's main current exchange rate exposure relates to the US dollar fluctuation against the Brazilian real.

Given that approximately 70% of the Company's revenues are denominated in currencies other than the Brazilian real, the Company has a natural *hedge* against the maturities of future obligations in foreign currency. The internal controls used when managing the risk and the cover are made through calculation spreadsheets with the appropriate follow-up of transactions conducted and the calculation of VaR (Value at Risk) for one day, with a confidence interval of 95%.

The Company also has a sound financial policy, maintaining a high level of cash balance and short-term financial investments with solid financial institutions.

We believe that the Company's and its subsidiaries' consistent financial policy, grounded in a well-distributed capital structure, allows it to consolidate synergies achieved through the acquisitions made.

Outstanding foreign currency and derivatives position

Assets and liabilities in foreign currency are presented as follows:

| | | | COMPANY |
|---|---|---|---|
| EXPOSURE | | | Effects of exchange rate gains (losses) |
| Description | 03/31/11 | 12/31/10 | 2011 |
| OPERATING | | | |
| Trade accounts receivable | 444,918 | 385,032 | 2,818 |
| ACE (advance on export contracts) | (303,696) | (230,860) | (10,968) |
| Imports payable | (22,941) | (45,746) | 428 |
| Subtotal | 118,281 | 108,426 | (7,722) |
| FINANCIAL | | | |
| Loans and financing | (3,275,544) | (3,658,436) | 78,557 |
| Notes payable | (6,607) | (8,842) | 142 |
| ACC (advance on exchange contracts) | (202,840) | (293,580) | 9,092 |
| Balances of banks and financial investments | 202,592 | 252,274 | (3,889) |
| Subtotal | (3,282,399) | (3,708,584) | 83,902 |
| TOTAL | (3,164,118) | (3,600,158) | 76,180 |
| Exchange rate gains | | | 91,037 |
| Exchange rate losses | | | (14,857) |
| Exchange rate gains (losses), net | | | 76,180 |

| | CONSOLIDATED | | |
|---|---|---|---|
| EXPOSURE | | | Effects of exchange rate gains (losses) |
| Description | 03/31/11 | 12/31/10 | 2011 |
| OPERATING | | | |
| Trade accounts receivable | 916,792 | 533,385 | (29,242) |
| ACE (advance on export contracts) | (589,947) | (281,291) | (10,968) |
| Imports payable | (80,235) | (182,389) | 2,016 |
| Subtotal | 20,252 | 25,447 | (2,340) |
| Subtotal | 266,862 | 95,152 | (40,534) |
| FINANCIAL | | | |
| Loans and financing | (5,884,748) | (6,224,551) | 82,378 |
| Notes payable | (47,500) | (49,664) | 1,026 |
| ACC (advance on exchange contracts) | (569,575) | (712,267) | 7,646 |
| Balances of banks and financial investments | 240,433 | 263,231 | (2,046) |
| Other | (27,572) | (19,262) | (650) |
| **Subtotal** | (6,288,962) | (6,742,513) | 88,354 |
| **TOTAL** | (6,022,100) | (6,647,361) | 47,820 |
| Exchange rate gains | | | 93,066 |
| Exchange rate losses | | | (45,246) |
| Exchange rate gains (losses), net | | | 47,820 |

## As of March 31 2011, outstanding derivatives are as follows:

| COMPANY | | | | | | | | | 31/03/2011 |
|---|---|---|---|---|---|---|---|---|---|
| Instrument | Register | Maturity | Term | Consideration for principal amount | Purchased currency | Sold currency | Notional value in USD | Fair value receivable (-) payable (1) - R$ - '000 | Fair value receivable (-) payable (1) - R$ - '000 |
| Forward | (2) | 04/15/2011 | 1,3547 | Citibank | USD | EUR | 1.000 | 1.629 | (78) |
| Forward | (2) | 04/15/2011 | 1,3720 | Citibank | USD | EUR | 2.000 | 3.257 | (113) |
| NDF | (2) | 04/13/2011 | 1,3770 | NBC | USD | EUR | 1.200 | 1.954 | (3) |
| NDF | (2) | 05/13/2011 | 1,3560 | Itaú | USD | EUR | 6.000 | 9.772 | (23) |
| NDF | (2) | 05/12/2011 | 1,3815 | NBC | EUR | USD | 1.800 | 2.932 | 4 |
| Forward | (2) | 06/15/2011 | 1,3967 | Citibank | USD | EUR | 4.200 | 6.841 | (103) |
| NDF | (2) | 04/15/2011 | 19,7800 | Citibank | UYU | USD | 2.100 | 3.420 | 97 |
| NDF | (2) | 05/17/2011 | 19,8600 | Citibank | UYU | USD | 2.100 | 3.420 | 91 |
| NDF | (2) | 06/15/2011 | 19,4800 | Citibank | UYU | USD | 2.100 | 3.420 | 4 |
| NDF | (2) | 04/15/2011 | 19,6700 | NBC | UYU | USD | 1.600 | 2.606 | 50 |
| NDF | (2) | 05/17/2011 | 19,7500 | NBC | UYU | USD | 1.800 | 2.932 | 53 |
| NDF | (2) | 06/15/2011 | 19,4300 | NBC | UYU | USD | 1.800 | 2.932 | 1 |
| NDF | (2) | 04/15/2011 | 19,6300 | Citibank | UYU | USD | 1.100 | 1.792 | 35 |
| NDF | (2) | 05/17/2011 | 19,7000 | Citibank | UYU | USD | 1.200 | 1.954 | 36 |
| NDF | (2) | 06/15/2011 | 19,4800 | Citibank | UYU | USD | 1.200 | 1.954 | 2 |
| NDF | (2) | 04/15/2011 | 19,6300 | Citibank | UYU | USD | 1.300 | 2.117 | 42 |
| NDF | (2) | 05/17/2011 | 19,7000 | Citibank | UYU | USD | 1.500 | 2.443 | 45 |
| NDF | (2) | 06/15/2011 | 19,4800 | Citibank | UYU | USD | 1.500 | 2.443 | 3 |
| NDF | (2) | 04/15/2011 | 19,6300 | Citibank | UYU | USD | 1.700 | 2.769 | 55 |
| NDF | (2) | 05/17/2011 | 19,7000 | Citibank | UYU | USD | 2.000 | 3.257 | 60 |
| NDF | (2) | 06/15/2011 | 19,4800 | Citibank | UYU | USD | 1.900 | 3.095 | 4 |
| Forward | (2) | 04/15/2011 | 1,3690 | BBVA | USD | EUR | 903 | 1.471 | (54) |
| Forward | (2) | 05/16/2011 | 1,3518 | BBVA | USD | EUR | 1.487 | 2.422 | (44) |
| Forward | (2) | 06/15/2011 | 1,3512 | BBVA | USD | EUR | 1.216 | 1.981 | (36) |
| Forward | (2) | 07/15/2011 | 1,3505 | BBVA | USD | EUR | 1.350 | 2.199 | (40) |
| Forward | (2) | 08/16/2011 | 1,3660 | BBVA | USD | EUR | 492 | 801 | (28) |
| Forward | (2) | 09/15/2011 | 1,4051 | BBVA | USD | EUR | 585 | 952 | 5 |
| Forward | (2) | 05/16/2011 | 1,3847 | BBVA | EUR | USD | 640 | 1.043 | 25 |
| Forward | (2) | 06/15/2011 | 1,3840 | BBVA | EUR | USD | 260 | 423 | 10 |
| Forward | (2) | 07/15/2011 | 1,3832 | BBVA | EUR | USD | 854 | 1.391 | 33 |
| Forward | (2) | 04/05/2011 | 480,0000 | BBVA | USD | CLP | 500 | 814 | (2) |
| Forward | (2) | 04/08/2011 | 480,0000 | BBVA | USD | CLP | 500 | 814 | (2) |
| Forward | (2) | 04/14/2011 | 478,3000 | BBVA | USD | CLP | 500 | 814 | 0 |
| Forward | (2) | 04/15/2011 | 483,8000 | BBVA | USD | CLP | 500 | 814 | 9 |
| Forward | (2) | 04/15/2011 | 479,7000 | BBVA | USD | CLP | 500 | 814 | (2) |
| Forward | (2) | 04/15/2011 | 476,0000 | BBVA | USD | CLP | 500 | 814 | 4 |
| Forward | (2) | 04/15/2011 | 475,0000 | BBVA | USD | CLP | 500 | 814 | 6 |
| Forward | (2) | 04/21/2011 | 484,0000 | BBVA | USD | CLP | 500 | 814 | (9) |
| Forward | (2) | 04/26/2011 | 476,9000 | BBVA | USD | CLP | 1.000 | 1.629 | 9 |
| Forward | (2) | 04/28/2011 | 486,2000 | BBVA | USD | CLP | 500 | 814 | 12 |
| Forward | (2) | 04/29/2011 | 484,0000 | BBVA | USD | CLP | 500 | 814 | 8 |
| Forward | (2) | 05/02/2011 | 486,5000 | BBVA | USD | CLP | 500 | 814 | (13) |
| Forward | (2) | 05/04/2011 | 477,1500 | BBVA | USD | CLP | 1.000 | 1.629 | 9 |
| Forward | (2) | 05/06/2011 | 480,0000 | BBVA | USD | CLP | 500 | 814 | (1) |
| Forward | (2) | 05/09/2011 | 477,4500 | BBVA | USD | CLP | 500 | 814 | 5 |
| Forward | (2) | 05/12/2011 | 480,0000 | BBVA | USD | CLP | 500 | 814 | (1) |
| | | | | | | Total | 57.886 | 94.280 | 167 |

(1) The amount informed is calculated through the "Market to Market" (MtM) method, plus any premium, which consists of calculating the future value based on contracted conditions and determine the present value based on market curves, extracted from Bloomberg and BM&FBovespa database.

(2) Bilateral/over-the-counter operation. There is no record in the custody/settlement chamber.

## 29.9 MARGINS GIVEN AS GUARANTEE

The Company has no monetary assets as collateral for derivative transactions conducted at futures and commodities exchanges as of March 31 2011.

## 29.10 SENSITIVIY ANALYSIS

To provide information about the behaviour of market risks that the Company and its subsidiaries are exposed to as of March 31 2011, three scenarios are considered and the probable scenario is the fair value as of March 31 2011 and two more scenarios with deterioration of 25% and 50% of the risk variable taken into account, denominated as Possible and Remote, respectively. The source of information was Bloomberg.

The market future curve of March 31 2011 was applied for currencies, with notional value of R$/US$1.6287. The interest rate considered the value as of March 31 2011 for 1 month Libor at 0.26%, for 3-month Libor at 0.30%, and for 9-month Libor at 0.46%.

Sensitivity scenarios are below:

| STRESS SCENARIO - SWAP | | | |
|---|---|---|---|
| Instrument | Probable scenario R$ thousand | Possible scenario R$ thousand | Remote scenario R$ thousand |
| Company | (8,619) | (46,372) | (81,799) |
| Subsidiaries | (6,999) | (7,405) | (7,587) |
| | (15,618) | (53,777) | (89,386) |

**Future curves from Bloomberg and deteriorated curves were used in the calculation of these scenarios. This result was discounted to present value

| STRESS SCENARIO - CURRENCY TERM | | | |
|---|---|---|---|
| Instrument | Probable scenario R$thousand | Possible scenario R$thousand | Remote scenario R$thousand |
| Subsidiaries | 167 | (6,593) | (12,538) |
| | 167 | (6,593) | (12,538) |

**Future curves from Bloomberg and deteriorated curves were used in the calculation of these scenarios. This result was discounted to present value.

The sensitivity analysis between derivatives and hedged item of the table below (foreign currency exposed loans and financing) was calculated for the year between the contract day and maturity, discounted to present value.

Hedge derivatives

| Transaction | Notional/ Exposure | Probable scenario | Possible scenario |
|---|---|---|---|
| | US$ thousand | R$ thousand | R$ thousand |
| Debt in foreign currency* | (130,439) | (1,579,360) | (3,006,367) |
| Net exposure | (130,439) | (1,579,360) | (3,006,367) |

* All foreign currency exposed contracts held by the Company

In the period ended March 31 2011, a net revenue of R$16,127 was incurred with derivatives, of which R$21,276 corresponded to expenses and R$37,403 to revenues.

Assets and liabilities presented on the balance sheet under “securities receivable” and "trade accounts payable" regarding derivative transactions, which are intended for equity hedging, are shown below:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/2011 | 12/31/2010 | 03/31/2011 | 12/31/2010 |
| Swap - Gains | 10,911 | - | 10,911 | - |
| Swap - Losses | (19,530) | (25,737) | (26,529) | (33,693) |
| Currency forward | . | (113,180) | 167 | (115,182) |
| | (8,619) | (138,917) | (15,451) | (148,875) |

## 29.11 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company and its subsidiaries use the Bloomberg's market curves for each derivative, brought to present value at the date of calculation, to obtain fair value, except for futures market derivatives whose fair values are calculated based on the on daily adjustments of variations in market prices of commodities and futures acting as consideration. The fair value of swap contracts for interest rate is obtained by calculating independently the active and liability positions, bringing them to their present value.

According to IFRS 7, the Company and its subsidiaries classify the measurement of fair value according to hierarchical levels which reflect the importance of indices used in such measurement, as follows:

Level 1: Prices quoted in (non-adjusted) active market for identical assets and liabilities;

Level 2 – Other available information, except those of Level 1, where quoted prices relate to similar assets and liabilities, whether directly, by obtaining prices in active markets, or indirectly, such as evaluation techniques using active market data.

Level 3 – Indices used for the calculation do not derive from an active market. The Company and its subsidiaries do not have instruments at this measurement level.

As previously mentioned, the fair value of financial instruments, except for those falling due in the short term, equity instruments without an active market and agreements with discretionary characteristics, where fair value cannot be reliably measured, are presented by hierarchical levels, according to the table below:

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Derivatives | (15,618) | - | - |

Management understands that the results obtained with derivative transactions are in line with the risk management strategy adopted by the Company and its subsidiaries.

## 30 INCOME AND SOCIAL CONTRIBUTION TAXES

Income and social contribution taxes were calculated according to prevailing legislation and the Temporary Taxation Scheme, provided for in Executive Act No. 449/2008.

Income and social contribution tax calculations and returns are open to review and final assessment by tax authorities for varying statutory years in relation to the payment or filing date.

Reconciliation of income and social contribution tax account records with the Taxable Income Computation Book is as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| Tax | 3/31/2011 | 3/31/2010 | 3/31/2011 | 3/31/2010 |
| Income (loss) before tax effects | 8,359 | (106,754) | (20,010) | (100,045) |
| Add-backs | - | 18,909 | - | - |
| Add-backs of corporate income tax (IRPJ) | 130,205 | - | 252,249 | 155,988 |
| Add-backs of social contribution tax (CSLL) | 130,205 | - | 240,015 | 137,642 |
| (-) Deductions | (281,034) | (41,766) | (646,927) | (554,339) |
| (-) Deductions from IRPJ | (140,517) | - | (323,464) | - |
| (-) Deductions from CSLL | (140,517) | - | (323,463) | - |
| Tax basis | - | - | - | - |
| Income tax basis | (1,953) | (89,787) | (91,225) | (498,396) |
| Social contribution tax basis | (1,953) | - | (103,458) | (516,742) |
| Companies with income tax loss | - | - | 113,353 | - |
| Companies with social contribution tax loss carryforwards | - | - | 113,638 | (3,539) |
| Calculation base after carry forwards of IRPJ | (1,953) | - | (20,743) | - |
| Calculation base after carry forwards of CSLL | (1,953) | - | (32,691) | - |
| (-) Carryforwards | - | - | (2,139) | - |
| (-) Tax loss carryforwards | - | | - | |
| (-) Social contribution negative basis | - | | - | |
| Calculation base after carry forwards | | (89,787) | | - |
| Calculation base after carry forwards of IRPJ | (1,953) | - | (21,688) | 17,520 |
| Calculation base after carry forwards of CSL | (1,953) | - | (33,885) | 17,520 |
| Income tax (15%) | - | - | (3,058) | (2,631) |
| Surtax (10%) | - | - | 288 | (1,699) |
| (-) PAT | - | - | (14) | 40 |
| Total income tax | - | - | (2,784) | (4,290) |
| Social contribution tax (9%) | - | - | 203 | (1,577) |
| | - | - | (2,581) | (5,867) |
| Rate difference on foreign results | - | - | 1,584 | (1,369) |
| Effect on the statement of income | - | - | (997) | (7,236) |
| Effect on Income Statement | - | | (1,924) | |

| Tax | Group | 3/31/2011 | 3/31/2010 | 3/31/2011 | 3/31/2010 |
|---|---|---|---|---|---|
| (-) Income tax - current | Current liabilities | - | - | (4,369) | 6,300 |
| Tax paid abroad | | - | - | 42 | 2,683 |
| Income tax - provision for contingencies | Non-current liabilities | - | - | (268) | - |
| Deferred tax assets - Revaluation (1) | Non-current liabilities | - | 3,776 | 1,139 | (4,249) |
| Deferred tax assets - Assets (2) | Non-current assets | 11,135 | 36,649 | 33,911 | 77,934 |
| Other provisions | Non-current liabilities | - | | 3,738 | (47,430) |
| Net | Income | 11,135 | 40,425 | 34,193 | 35,238 |
| (-) Social contribution tax - current | Current liabilities | - | - | (731) | (936) |
| Social contribution tax - provision for contingencies | Non-current liabilities | - | - | (97) | 207 |
| Deferred social contribution tax - Revaluation (1) | Non-current liabilities | - | 1,358 | - | 2,473 |
| Deferred social contribution tax - Other (2) | Non-current assets | 4,008 | 14,846 | 10,928 | 17,226 |
| Other provisions | Non-current liabilities | - | - | 932 | (6,200) |
| Net | Income | 4,008 | 16,204 | 11,032 | 12,770 |

(1) Refer to the reversal of deferred income and social contribution taxes stated in note 21, considering the addition of depreciation of revalued assets to taxable income and the social contribution tax basis.

(2) Refer to deferred income and social contribution taxes calculated on: taxes whose payment has been suspended (provisions), and which were added to the calculation of the taxable income and the social contribution tax basis; utilisation for tax purposes of the goodwill paid on future profitability and income and social contribution tax losses, which are stated in note 10.

## 31 SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

The Company has been fulfilling its social development role in all countries where it operates. In 2007 the Company created the Social Action Department responsible for developing social projects.

The Company has been contributing annually, with an increasing amount of funds and human resources, to hospitals, charitable entities and social projects, allocating part of its production to poor communities in various Brazilian regions.

To assure the sustainability of Marfrig Group's operations, the Company takes all the measures to preserve environmental conditions and generate a positive effect on the communities where the Company has activities.

Meetings are held with the presence of the Company's officers, where environmental projects are defined and goals established. Among the projects for reducing the emission of greenhouse gases (carbon credits) the following stand out: (i) electricity generation using biomass; (ii) the replacement of fossil fuel for tallow in the boilers of its facilities; and (iii) the treatment of wastewater in anaerobic reactors (bio-digesters) capturing and burning methane gas. In addition, we implemented the treatment of wastewater by means of bio-digesters in the industrial facilities of Bataguassu, Porto Murtinho, Tangará da Serra, Promissão I and II and, if found feasible by the development researches, it will also be implemented in the industrial facilities of Mineiros, Chupinguaia, Paranatinga and São Gabriel.

In relation to the purchase of cattle, the Company follows the policy of not acquiring it from farms included in the list of areas embargoed by Administrative Act No. 19, of IBAMA (Brazilian Institute of Environment and Natural Resources) of July 2, 2008 and Decree No. 6.321 of December 21, 2007 and respective amendments, as well as those included in the Black List of Slave-Like Work from the Labour Ministry (Administrative Act 540/2004 of October 15, 2004), proactively acting in relation to producers who violate current laws and arranging for their prompt withdrawal from the list of suppliers of animals for slaughter.

The Company adopts adequate practices in relation to prevailing environmental and labour regulations, besides being one of the parties to the National Agreement for Eradication of Slave-Like Working Conditions and the "Pacto Conexões Sustentáveis" (sustainability agreement) since October 2008, whereby it undertakes to inspect and keep its business relations under ethic and human respect codes.

Starting June 22, 2009, the Company undertook not to acquire, slaughter or sell cattle from the Amazonian Biome area that has been deforested, starting on that date, demonstrating the commitment to search for a sustainable development of livestock. In relation to that, beginning on the mentioned date, the Company requested independent auditors to conduct specific procedures to review cattle acquisitions and confirm the commitment undertaken.

The Company is committed to working in partnership with state governments, in special with the government of the State of Mato Grosso, in the MT Legal Program and with the Brazilian society in the development of a program to guarantee the origin of the animals, including the adhesion of the suppliers that make the fattening of cattle with animals from other properties, with the objective of:

- Assuring that the cattle for slaughter is not from areas embargoed by IBAMA or included in the black list of slave-like work of the Brazilian Labour Ministry.

- Implementing a plan of control over properties of suppliers, so that they do not acquire animals from farms included in the list of areas embargoed or black listed.

The following will also be among Marfrig's purposes, as part of its sustainability:

- Developing good social and environmental practices with cattle farmers.

- Implementing a Cattle Raising Boosting Program, which encourages and enhances training and recognition of good practices to improve productivity in the field, as already happens in the subsidiaries in Argentina and Uruguay.

- Making the results of the above-mentioned programmes available for consultation.

- Implementing a social-environmental mapping of the properties that supply cattle, increasing adequacy standards and assuring the commitment to sustainability in the whole chain.

The Company confirms that it already follows the strict conduct of not acquiring cattle from farms included in the list of embargoed areas, proactively acting in relation to producers that violate current laws and immediately excluding them from the list of suppliers of animals for slaughter and that it already adopts appropriate practices in relation to environmental and labour laws in effect.

## 32 SUBSEQUENT EVENTS

On April 11, 2011, Marfrig announced its plans of incorporating two joint ventures, through its Chinese subsidiary Keystone Foods, aiming at exploring the food supply opportunities and meet the growing demand for distribution on the Chinese market.

The first joint venture, COFCO Keystone Foods Supply Chain (China) Investment Company, signed on April 15 and investments estimated at US$252 million (45% Keystone – 55% COFCO) for a 10-year period, aims at exploring food logistics and distribution business opportunities. The project provides for the construction of six distribution centres, freight fleet and support information technology platform, with startup estimated as of 2012 in strategic sites located in China, including the capital city Beijing, besides the cities of Shenzhen, Chengdu, Shanghai, Shenyang and Wuhan.

The second joint venture, Keystone-Chinwhiz Poultry Vertical Integration (60% Keystone – 40% Chinwhiz), signed on April 17, was created aiming at verticalizing the poultry operation in China and meet Chinese customers needs of industrialized products. The joint venture, with estimated investment of US$57 million until the end of 2013, will have capacity to process 200,000 poultry/day and will be able to supply 50% of raw material needs of Keystone processing unit in China, which already supplies more than 2.6 thousand restaurants in China, Hong Kong and Japan.

In addition, in May 2011, the subsidiary Marfrig Holdings (Europe) B.V., issued Senior Notes in the USA for qualified institutional investors (as defined in Rule 144A issued by the U.S. Securities and Exchange Commission, "SEC"). The issue totalled US$750,000,000.00, with 8.375% interest rate and seven-year maturity term and fully secured by the Company and Seara Alimentos S.A., Unifred – União Frederiquense Participações Ltda. and Marfrig Overseas Limited, Company's subsidiaries. This issue's scope is to rollover the indebtedness profile and strength the Company's working capital.

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