BRF net revenue reaches R $ 8.8 billion in the third quarter of 2018

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The results achieved in the third quarter of 2018 begin to reflect BRF's recovery strategy, announced back in June: operating results with a better margin trend, active pricing of our products, an integrated production and sales planning strategy, as well as asset monetization. In this scenario, we emphasize our commitment to the 2018 deleveraging goal: leverage should be 4.35x the Company's adjusted EBITDA at year end, taking into consideration the execution of the Operating and Financial Restructuring Plan.

In the third quarter of 2018, despite the slight decrease of roughly 3% in sales volume compared to last year, we managed to increase net revenue to R$8.8 billion. This increase was due to the price adjustments we made in our product line, where NOR/kg was higher than R$7.00. When compared to 3Q17, this year's performance has been negatively impacted by grain prices, which rose 45% over the last 12 months, reducing our gross margin to 16%, representing a contraction of nearly 6 p.p. Consequently, adjusted EBITDA in 3Q18 was a little over R$600 million, down approximately 35% from the same period in 2017. On the other hand, when compared to the results posted in the previous quarter, our gross margin grew by significantly more than 8 p.p., reflecting better commercial execution and lower unit cost, both due to our short-term adjustments to supply. As a result, adjusted EBITDA grew 63% from 2Q18.

In the third quarter, BRF suffered a significant impact on its leverage, mainly due to the depreciation of the U.S. dollar. Net indebtedness amounted to R$16.3 billion, and net leverage, as measured by net-debt-to-adjusted EBITDA ratio over the last 12 months, stood at 6.74x. In addition to the effects from the exchange rate, , which ended 3Q18 at R$4.00, adjusted EBITDA in 3Q17 was also higher than in 3Q18, affecting the LTM accumulated amount. Note that after the conclusion of Brazil's elections, the foreign exchange rate is now back to the level of R$3.70-3.80/US$. If the exchange rate remains at this level at the end of the year, our leverage will decrease. In addition, margin reversals, as reported in 3Q18, should contribute to an increase in the 12-month adjusted EBITDA. These two factors, combined with the sale of assets comprised in our restructuring plan, should bring the Company's leverage to 4.35x by the end of 2018.

As a result of the adjustments to the Company's personnel and governance structures, during the last quarter we revised our organizational structure as well, reducing the number of vice presidents from 14 to 10. We focused our efforts on recruitment processes for vacant positions, seeking a balanced combination of comprehensive knowledge of the industry and proven experience in their respective fields of operation. We now have a complete team of vice presidents. We also hired people at other levels of the Company and organized a meeting between these leaders to strengthen their commitment, discuss our future, and reinforce our commitment to building a more profitable and sustainable business.

With regard to the divestment of assets located in Argentina, Europe and Thailand, the processes are in line with the original schedule. We have already strengthened our contact with potentially interested parties and have started to receive nonbinding proposals. As for the disposal of non-operating assets, we held several auctions and negotiated the sale of more than R$210 million of these assets so far. With regard to working capital initiatives, we have reduced the inventory levels of frozen raw materials by approximately 30% compared to June 2018. Working capital management became the Company's highest priority, in order to maintain working capital at the lowest possible level without compromising the business's seasonality. In terms of receivables securitization, we are actively working with the lead managers to structure a credit rights investment fund (FIDC) of R$750 million.

We also concluded our strategic planning process, which will guide us for the next five years. It was an effort of three and a half months, engaging over 100 employees across 15 different teams and evaluating more than 30 strategic approaches and 20 efficiency initiatives. All members of our Board of Directors participated in the process, as well as our executive committee and all of BRF's leaders. We developed a strong and consistent plan, which we believe will guide our operations for the coming years, detailing the fundamentals required for the Company's recovery. Over the next 12 months, we will focus our efforts on reversing the margin contraction trend, pursuing efficient operations and historically high profitability levels in 2020, and surpassing past profitability levels in 2021 and beyond.

We selected the Brazil Segment as the cornerstone of our strategy, strengthening the leadership of our brands and the branches of our distribution network. We will also increase the local production aimed at the Halal Segment, increasing our presence in the region and fostering more business opportunities. With regard to the International Segment, we revised our operational strategy and chose the Asian market as the most appropriate to replicate the model of significant share in final distribution, as the Halal Segment already has.

On October 15, 2018, Brazil's Federal Police issued a final report on investigations of the Trapaça Operation, in which 43 people were charged (14 of which were BRF employees). As a preventive measure and without prior judgment of the people involved, we announced the immediate dismissal of those who were still our employees. At the same time, we remain available to authorities, regulators and clients to provide any clarification deemed necessary. It is in BRF's best interest to clarify any issue under investigation and, above all, correct, improve and reinforce internal controls and compliance practices to strengthen our operations. We will not tolerate any deviation from our fundamental commitments to safety, quality and integrity.

With regard to our operations, we are currently reviewing our processesin detail and following the best management practices available. We will adopt the Good Distribution Practice (GDP) method, advised by consulting firm Falconi. We have identified a number of opportunities to gain efficiency in procurement, industrial and agricultural operation areas through the adoption of the Operational Excellence System - OES, which involves asset management, operational performance, product quality, health and safety, environment and human resources. The integrated planning department will cover the entire commercial strategy and operations, determining the best ways to optimize animal profitability and get the best results. We believe BRF's management system will be one of its strengths and value-creation differentiators that will support the Company's future endeavors.

As for corporate affairs, earlier this week we held an Extraordinary Shareholders' Meeting to approve the revision of our corporate bylaws. In general terms, we have adjusted our bylaws to the Novo Mercado Regulation, including the adoption of a rule determining a maximum tenure of one year for simultaneous occupation of the positions of Chairman of the Board of Directors and Global CEO. We will tirelessly pursue stability of the Company's management and leadership, avoiding disruption and abrupt change in the implementation of our long-term strategy. Moreover, we will call another shareholder meeting, to be held in December 2018, to discuss and vote on the incorporation of SHB, our subsidiary focused on the Halal Segment, into BRF. Our goal is to simplify our corporate structure, expedite decisions, optimize all of our processes, and build a single identity for BRF. We emphasize that this incorporation will have absolutely no impact on the Company's relationship with its own employees, integrated partners, suppliers and clients.

With regard to the recent decision by the Russian government to reopen its market to Brazilian pork meat, we believe that even though BRF has not been included in the preliminary list of establishments approved for export, this news is very positive. One reason is because it pavesthe way for usto continue negotiating the approval of our plants, and another that it represents a potential contraction in domestic supply, positively impacting prices and, consequently, pork profitability.

We see these initial results as consistent initiatives supported by long-term planning, but we know that BRF's recovery process will require discipline and ongoing commitment to the execution of the announced plans. We rely on a team of highly skilled professionals who are up for this challenge. The engagement and motivation of each of the more than 100,000 employees on this journey have motivated and encouraged us to believe that we will deliver increasingly better and more sustainable results.