**JBS S.A.**

**Financial statements and Independent auditors' review report**

As of June 30, 2014 and 2013

Tel.: +55 11 3848 5880
Fax: + 55 11 3045 7363
www.bdobrazilrcs.com.br

Rua Major Quedinho 90
Consolação – São Paulo, SP - Brasil
01050-030

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

**INDEPENDENT AUDITORS' REVIEW REPORT**

To the Shareholders, Board of Directors and Management of
**JBS S.A.**
São Paulo – SP

## 1. Introduction

We have reviewed the individual and consolidated interim financial information of **JBS S.A.** ("Company") contained within the Quarterly Information – ITR, identified as Company and Consolidated, respectively, for the quarter ended on June 30, 2014, which comprise the balance sheet on June 30, 2014 and the related statements of income and comprehensive income for the three and six-month periods ended, and changes in equity and cash flows for the six-month period then ended, as well as a summary of the significant accounting practices and other notes.

Management is responsible for the preparation of the individual interim financial information in accordance with Technical Pronouncement CPC 21 (R1) – Interim Financial Reporting and the consolidated interim financial information in accordance with the CPC 21 (R1) and with the International Accounting Standard (IAS) 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), and for the presentation of these interim financial information in accordance with the standards issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the Quarterly Information - ITR. Our responsibility is to express a conclusion on this interim financial information based on our review.

## 2. Scope of the review

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

## 3. Conclusion on the individual interim financial information

Based on our review, we are not aware of any fact that causes us to believe that the individual interim financial information included in the quarterly information referred to above were not prepared, in all material respects, in accordance with CPC 21 (R1) applicable to Quarterly Information and presented in accordance with the standards issued by the Brazilian Securities and Exchange Commission (CVM).

## 4. Conclusion on the consolidated interim financial information

Based on our review, we are not aware of any fact that causes us to believe that the consolidated interim financial information included in the quarterly information referred to above were not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34 applicable to Quarterly Information and presented in accordance with the standards issued by the Brazilian Securities and Exchange Commission (CVM).

## 5. Other issues

### 5.1. Interim statements of added value

We have also reviewed the individual and consolidated interim statement of added value for the six-month period ended June 30, 2014, prepared under the responsibility of the Company's management, 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 Financial Accounting Standards (IFRS), which do not require the disclosure of the Statement of Added Value. This statement 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 Individual and Consolidated interim financial information taken as a whole.

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

São Paulo, August 13, 2014.

**BDO RCS Auditores Independentes SS**
**CRC 2SP 013846/O-1**

**Paulo Sérgio Tufani**
**Accountant CRC 1SP 124504/O-9**

**Raul Corrêa da Silva**
**Accountant CRC 1SP 079028/O-1**

**JBS S.A.**

**Balance sheets**
**(In thousands of Reais)**

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| **ASSETS** | | | | | |
| **CURRENT ASSETS** | | | | | |
| Cash and cash equivalents | 5 | **5,511,099** | 5,223,978 | **10,297,747** | 9,013,147 |
| Trade accounts receivable, net | 6 | **3,912,729** | 4,087,073 | **8,748,807** | 8,919,926 |
| Inventories | 7 | **2,734,263** | 2,414,148 | **7,510,227** | 6,904,616 |
| Biological assets | 8 | **-** | - | **1,507,413** | 1,419,343 |
| Recoverable taxes | 9 | **1,269,180** | 1,275,614 | **1,858,582** | 2,003,256 |
| Prepaid expenses | | **20,325** | 10,171 | **178,674** | 152,425 |
| Other current assets | | **445,090** | 309,988 | **641,687** | 500,770 |
| **TOTAL CURRENT ASSETS** | | **13,892,686** | **13,320,972** | **30,743,137** | **28,913,483** |
| **NON-CURRENT ASSETS** | | | | | |
| **Long-term assets** | | | | | |
| Credits with related parties | 10 | **4,231,572** | 1,784,948 | **682,579** | 733,958 |
| Biological assets | 8 | **-** | - | **487,621** | 496,903 |
| Recoverable taxes | 9 | **726,805** | 682,571 | **1,180,176** | 1,149,725 |
| Other non-current assets | | **373,356** | 294,254 | **1,433,184** | 1,182,302 |
| **Total long-term assets** | | **5,331,733** | **2,761,773** | **3,783,560** | **3,562,888** |
| Investments in associate, subsidiaries and joint ventures | 11 | **9,297,029** | 11,594,353 | **288,884** | 277,571 |
| Property, plant and equipment, net | 12 | **10,020,992** | 9,392,336 | **21,534,933** | 20,940,616 |
| Intangible assets, net | 13 | **9,547,559** | 9,547,037 | **14,919,191** | 14,975,663 |
| **TOTAL NON-CURRENT ASSETS** | | **34,197,313** | **33,295,499** | **40,526,568** | **39,756,738** |
| **TOTAL ASSETS** | | **48,089,999** | **46,616,471** | **71,269,705** | **68,670,221** |

The accompanying notes are an integral part of the quarterly interim financial statements.

**JBS S.A.**

**Balance sheets**
**(In thousands of Reais)**

| | Note | Company | | Consolidated | |
|---|---|---|---|---|---|
| | | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| **LIABILITIES AND EQUITY** | | | | | |
| **CURRENT LIABILITIES** | | | | | |
| Trade accounts payable | 14 | **1,227,603** | 1,371,205 | **5,202,269** | 5,342,388 |
| Loans and financings | 15/16 | **8,292,318** | 6,839,122 | **9,894,847** | 9,430,892 |
| Income taxes | 17 | **-** | - | **302,182** | 19,760 |
| Payroll, social charges and tax obligation | 17 | **368,276** | 382,741 | **1,797,290** | 1,741,536 |
| Declared dividends | 18 | **609** | 220,494 | **609** | 220,494 |
| Payables related to facilities acquisitions | 19 | **92,001** | 95,853 | **301,498** | 264,264 |
| Other current liabilities | | **679,513** | 535,352 | **1,074,979** | 689,535 |
| **TOTAL CURRENT LIABILITIES** | | **10,660,320** | **9,444,767** | **18,573,674** | **17,708,869** |
| **NON-CURRENT LIABILITIES** | | | | | |
| Loans and financings | 15/16 | **13,911,632** | 13,753,849 | **25,117,282** | 23,330,449 |
| Payroll, social charges and tax obligation | 17 | **125,025** | 125,166 | **711,779** | 705,179 |
| Payables related to facilities acquisitions | 19 | **48,204** | 62,754 | **528,299** | 463,485 |
| Deferred income taxes | 20 | **1,102,578** | 1,090,973 | **1,798,297** | 2,119,594 |
| Provision for lawsuits risk | 21 | **170,601** | 164,051 | **834,006** | 849,324 |
| Other non-current liabilities | | **24,674** | 23,123 | **412,046** | 360,067 |
| **TOTAL NON-CURRENT LIABILITIES** | | **15,382,714** | **15,219,916** | **29,401,709** | **27,828,098** |
| **EQUITY** | 22 | | | | |
| Capital stock | | **21,506,247** | 21,506,247 | **21,506,247** | 21,506,247 |
| Treasury shares | | **(387,465)** | (595,849) | **(387,465)** | (595,849) |
| Capital transaction | | **91,741** | 86,444 | **91,741** | 86,444 |
| Capital reserve | | **211,879** | 211,879 | **211,879** | 211,879 |
| Revaluation reserve | | **90,099** | 92,227 | **90,099** | 92,227 |
| Profit reserves | | **2,705,084** | 2,705,084 | **2,705,084** | 2,705,084 |
| Valuation adjustments to equity in subsidiaries | | **116,696** | 132,787 | **116,696** | 132,787 |
| Accumulated translation adjustments in subsidiaries | | **(2,613,688)** | (2,187,031) | **(2,613,688)** | (2,187,031) |
| Retained earnings | | **326,372** | - | **326,372** | - |
| **Attributable to controlling interest** | | **22,046,965** | **21,951,788** | **22,046,965** | **21,951,788** |
| **Attributable to noncontrolling interest** | | **-** | **-** | **1,247,357** | **1,181,466** |
| **TOTAL EQUITY** | | **22,046,965** | **21,951,788** | **23,294,322** | **23,133,254** |
| **TOTAL LIABILITIES AND EQUITY** | | **48,089,999** | **46,616,471** | **71,269,705** | **68,670,221** |

The accompanying notes are an integral part of the quarterly interim financial statements.

**JBS S.A.**

## Statements of income for the six months period ended on June 30, 2014 and 2013
## (In thousands of Reais)

| | Note | Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 |
| **NET REVENUE** | 23 | **12,179,579** | **9,304,519** | **55,387,943** | **41,458,570** |
| Cost of goods sold | | **(9,414,829)** | (6,989,276) | **(47,711,171)** | (36,472,153) |
| **GROSS INCOME** | | **2,764,750** | **2,315,243** | **7,676,772** | **4,986,417** |
| **OPERATING INCOME (EXPENSE)** | | | | | |
| General and administrative expenses | | **(588,377)** | (504,733) | **(1,396,034)** | (1,136,141) |
| Selling expenses | | **(1,268,615)** | (962,650) | **(3,326,134)** | (2,213,251) |
| Financial expense, net | 24 | **(1,456,303)** | (615,835) | **(1,956,985)** | (737,792) |
| Equity in earnings of subsidiaries | 11 | **885,012** | 518,682 | **11,565** | 26,063 |
| Other income (expenses), net | 25 | **(7,531)** | (2,984) | **(2,130)** | 76,707 |
| | | **(2,435,814)** | **(1,567,520)** | **(6,669,718)** | **(3,984,414)** |
| **NET INCOME BEFORE TAXES** | 20 | **328,936** | **747,723** | **1,007,054** | **1,002,003** |
| Current income taxes | 20 | **1,096** | 1,195 | **(804,134)** | (53,776) |
| Deferred income taxes | 20 | **(5,788)** | (182,558) | **268,556** | (297,950) |
| | | **(4,692)** | **(181,363)** | **(535,578)** | **(351,726)** |
| **NET INCOME** | | **324,244** | **566,360** | **471,476** | **650,277** |
| **ATTRIBUTABLE TO:** | | | | | |
| Controlling interest | | | | **324,244** | 566,360 |
| Noncontrolling interest | | | | **147,232** | 83,917 |
| | | | | **471,476** | **650,277** |
| **Net income basic per shares - in reais** | 26 | **113.00** | 197.66 | **113.00** | 197.66 |
| **Net income diluted per shares - in reais** | 26 | **113.00** | 197.66 | **113.00** | 197.66 |

The accompanying notes are an integral part of the quarterly interim financial statements.

**JBS S.A.**

## Statements of income for the three months period ended June 30, 2014 and 2013
## (In thousands of Reais)

| | Note | Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 |
| **NET SALE REVENUE** | 23 | **6,428,867** | 4,790,562 | **28,968,867** | 21,930,994 |
| Cost of goods sold | | **(5,007,798)** | (3,602,992) | **(24,713,399)** | (18,981,123) |
| **GROSS INCOME** | | **1,421,069** | **1,187,570** | **4,255,468** | **2,949,871** |
| **OPERATING INCOME (EXPENSE)** | | | | | |
| General and administrative expenses | | **(295,007)** | (262,403) | **(707,989)** | (592,075) |
| Selling expenses | | **(668,024)** | (512,590) | **(1,721,752)** | (1,163,197) |
| Financial expense, net | 24 | **(827,423)** | (564,584) | **(1,087,659)** | (659,577) |
| Equity in earnings of subsidiaries | 11 | **636,114** | 530,860 | **6,872** | 24,399 |
| Other income (expenses), net | 25 | **(6,905)** | (5,051) | **2,408** | 71,508 |
| | | **(1,161,245)** | **(813,768)** | **(3,508,120)** | **(2,318,942)** |
| **NET INCOME BEFORE TAXES** | | **259,824** | **373,802** | **747,348** | **630,929** |
| Current income taxes | 20 | **547** | 592 | **(580,891)** | (34,970) |
| Deferred income taxes | 20 | **(6,106)** | (35,927) | **185,008** | (187,909) |
| | | **(5,559)** | **(35,335)** | **(395,883)** | **(222,879)** |
| **NET INCOME** | | **254,265** | **338,467** | **351,465** | **408,050** |
| **ATTRIBUTABLE TO:** | | | | | |
| Controlling interest | | | | **254,265** | 338,467 |
| Noncontrolling interest | | | | **97,200** | 69,583 |
| | | | | **351,465** | **408,050** |
| **Net income basic per thousand shares - in reais** | 26 | **88.61** | 118.13 | **88.61** | 118.13 |
| **Net income diluted per thousand shares - in reais** | 26 | **88.61** | 118.13 | **88.61** | 118.13 |

The accompanying notes are an integral part of the quarterly interim financial statements.

**JBS S.A.**

**Statement of comprehensive income for the six months period ended on June 30, 2014 and 2013**
**(In thousands of Reais)**

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Net income** | **324,244** | **566,360** | **471,476** | **650,277** |
| **Other comprehensive income** | | | | |
| Valuation adjustments to equity in subsidiaries | **(16,091)** | 121,720 | **(16,091)** | 121,720 |
| Accumulated adjustment of conversion in subsidiaries | **(47,768)** | (260,360) | **(47,768)** | (260,360) |
| Exchange variation in subsidiaries | **(378,889)** | 357,475 | **(378,889)** | 357,475 |
| **Total of comprehensive income** | **(118,504)** | **785,195** | **28,728** | **869,112** |
| **Total of comprehensive income attributable to:** | | | | |
| Controlling interest | **(118,504)** | 785,195 | **(118,504)** | 756,955 |
| Noncontrolling interest | **-** | - | **147,232** | 112,157 |
| | **(118,504)** | **785,195** | **28,728** | **869,112** |

The accompanying notes are an integral part of the quarterly interim financial statements.

**JBS S.A.**

## Statement of comprehensive income for the three months period ended June 30, 2014 and 2013
**(In thousands of Reais)**

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Net income** | **254,265** | **338,467** | **351,465** | **408,050** |
| **Other comprehensive income** | | | | |
| Valuation adjustments to shareholders' equity in subsidiaries | **(6,555)** | 106,075 | **(6,555)** | 106,075 |
| Accumulated adjustment of conversion in subsidiaries | **(2,941)** | (189,801) | **(2,941)** | (189,801) |
| Exchange variation in subsidiaries | **(166,427)** | 423,473 | **(166,427)** | 423,473 |
| **Total of comprehensive income** | **78,342** | **678,214** | **175,542** | **747,797** |
| **Total of comprehensive income attributable to:** | | | | |
| Controlling interest | **78,342** | 678,214 | **78,342** | 620,278 |
| Noncontrolling interest | **-** | - | **97,200** | 127,519 |
| | **78,342** | **678,214** | **175,542** | **747,797** |

The accompanying notes are an integral part of the quarterly interim financial statements.

**JBS S.A.**

**Statements of changes in equity for the six months period ended on June 30, 2014 and 2013**
**(In thousands of Reais)**

| | Capital stock | Capital transactions | Capital reserve | Revaluation reserve | Profit reserves: Legal | Profit reserves: For expansion | Treasury shares | Valuation adjustments to equity | Accumulated translation adjustments | Retained Earnings | Total | Noncontrolling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCE AS OF DECEMBER 31, 2012** | **21,506,247** | **77,374** | **211,879** | **96,847** | **43,715** | **1,949,982** | **(776,526)** | **92,999** | **(2,591,970)** | **-** | **20,610,547** | **822,759** | **21,433,306** |
| Capital transaction | - | 5,540 | - | - | - | - | - | - | - | - | **5,540** | - | 5,540 |
| Transfer of treasury shares | - | - | - | - | - | - | 173,454 | - | - | - | **173,454** | - | 173,454 |
| Realization of revaluation reserve | - | - | - | (2,318) | - | - | - | - | - | 2,318 | **-** | - | - |
| Valuation adjustments in subsidiaries equity | - | - | - | - | - | - | - | 121,720 | - | - | **121,720** | - | 121,720 |
| Accumulated translation adjustments in subsidiaries equity | - | - | - | - | - | - | - | - | (260,360) | - | **(260,360)** | - | (260,360) |
| Investments exchange rate variations, net | - | - | - | - | - | - | - | - | 357,475 | - | **357,475** | - | 357,475 |
| Net income | - | - | - | - | - | - | - | - | - | 566,360 | **566,360** | 83,917 | 650,277 |
| Noncontrolling interest | - | - | - | - | - | - | - | - | - | - | **-** | 90,355 | 90,355 |
| **BALANCE AS OF JUNE 30, 2013** | **21,506,247** | **82,914** | **211,879** | **94,529** | **43,715** | **1,949,982** | **(603,072)** | **214,719** | **(2,494,855)** | **568,678** | **21,574,736** | **997,031** | **22,571,767** |
| **BALANCE AS OF DECEMBER 31, 2013** | **21,506,247** | **86,444** | **211,879** | **92,227** | **90,060** | **2,615,024** | **(595,849)** | **132,787** | **(2,187,031)** | **-** | **21,951,788** | **1,181,466** | **23,133,254** |
| Capital transactions | - | 5,297 | - | - | - | - | - | - | - | - | **5,297** | - | **5,297** |
| Transfer of treasury shares | - | - | - | - | - | - | 208,384 | - | - | - | **208,384** | - | **208,384** |
| Realization of revaluation reserve | - | - | - | (2,128) | - | - | - | - | - | 2,128 | **-** | - | **-** |
| Valuation adjustments in subsidiaries equity | - | - | - | - | - | - | - | (16,091) | - | - | **(16,091)** | - | **(16,091)** |
| Accumulated translation adjustments in subsidiaries equity | - | - | - | - | - | - | - | - | (47,768) | - | **(47,768)** | - | **(47,768)** |
| Investments exchange rate variations, net | - | - | - | - | - | - | - | - | (378,889) | - | **(378,889)** | - | **(378,889)** |
| Net income | - | - | - | - | - | - | - | - | - | 324,244 | **324,244** | 147,232 | **471,476** |
| Noncontrolling interest | - | - | - | - | - | - | - | - | - | - | **-** | (81,341) | **(81,341)** |
| **BALANCE AS OF JUNE 30, 2014** | **21,506,247** | **91,741** | **211,879** | **90,099** | **90,060** | **2,615,024** | **(387,465)** | **116,696** | **(2,613,688)** | **326,372** | **22,046,965** | **1,247,357** | **23,294,322** |

The accompanying notes are an integral part of the quarterly interim financial statements.

**JBS S.A.**

## Statements of cash flows for the six months period ended on June 30, 2014 and 2013
## (In thousands of Reais)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Cash flow from operating activities** | | | | |
| Net income attributable to controlling interest | **324,244** | 566,360 | **324,244** | 566,360 |
| Adjustments to reconcile net income to cash provided on operating activities | | | | |
| . Depreciation and amortization | **280,815** | 248,757 | **1,220,447** | 895,626 |
| . Allowance for doubtful accounts | **-** | 375 | **13,827** | 2,751 |
| . Equity in earnings of subsidiaries | **(885,012)** | (518,682) | **(11,565)** | (26,063) |
| . Loss (gain) on assets sales | **2,678** | 1,772 | **(1,181)** | (1,918) |
| . Deferred income taxes | **5,788** | 182,558 | **(268,556)** | 297,950 |
| . Current and non-current financial charges | **(387,246)** | 711,838 | **(169,151)** | 860,870 |
| . Provision for lawsuits risk | **6,550** | 4,086 | **14,766** | 9,862 |
| . Gain on bargain purchase | **-** | - | **-** | (72,337) |
| | **(652,183)** | **1,197,064** | **1,122,831** | **2,533,101** |
| **Decrease (increase) in operating assets** | | | | |
| Trade accounts receivable | **354,858** | (228,935) | **97,610** | (652,154) |
| Inventories | **(320,115)** | (237,125) | **(798,958)** | (676,851) |
| Recoverable taxes | **(36,751)** | 21,607 | **137,554** | (26,772) |
| Other current and non-current assets | **(224,356)** | (139,243) | **(476,814)** | (184,293) |
| Related party receivable | **638,312** | (288,177) | **17,142** | (116,609) |
| Biological assets | **-** | - | **(393,809)** | (266,200) |
| **Increase (decrease) operating liabilities** | | | | |
| Trade accounts payable | **(129,493)** | (76,648) | **(3,265)** | 176,213 |
| Other current and non-current liabilities | **77,115** | 72,803 | **950,929** | 139,841 |
| Noncontrolling interest | **-** | - | **147,232** | 83,917 |
| Valuation adjustments to equity in subsidiaries | **-** | - | **(148,544)** | (64,894) |
| **Changes in operating assets and liabilities** | **359,570** | **(875,718)** | **(470,923)** | **(1,587,802)** |
| **Net cash provided by (used in) operating activities** | **(292,613)** | **321,346** | **651,908** | **945,299** |
| **Cash flow from investing activities** | | | | |
| Additions to property, plant and equipment and intangible assets | **(900,949)** | (432,094) | **(1,471,179)** | (652,179) |
| Net effect of Joint Venture deconsolidation | **-** | - | **-** | (8,623) |
| Decrease (increase) in investments in subsidiaries | **(13,738)** | (969,696) | **-** | 1,540 |
| Net effect of working capital of acquired / merged company | **-** | 915 | **(266,550)** | (227,406) |
| **Net cash used in investing activities** | **(914,687)** | **(1,400,875)** | **(1,737,729)** | **(886,668)** |
| **Cash flow from financing activities** | | | | |
| Proceeds from loans and financings | **6,966,164** | 4,196,469 | **12,935,620** | 9,373,074 |
| Payments of loans and financings | **(5,251,858)** | (2,582,398) | **(10,136,843)** | (7,569,732) |
| Payments of dividends | **(219,885)** | (170,396) | **(219,885)** | (170,396) |
| Capital transactions | **-** | - | **5,297** | 5,540 |
| Shares acquisition of own emission | **-** | (9,587) | **-** | (9,587) |
| **Net cash provided by financing activities** | **1,494,421** | **1,434,088** | **2,584,189** | **1,628,899** |
| **Effect of exchange variation on cash and cash equivalents** | **-** | **-** | **(213,768)** | **132,307** |
| Variance in cash and cash equivalents | **287,121** | 354,559 | **1,284,600** | 1,819,837 |
| Cash and cash equivalents at the beginning of the year | **5,223,978** | 3,564,984 | **9,013,147** | 5,383,087 |
| **Cash and cash equivalents at the end of the year** | **5,511,099** | **3,919,543** | **10,297,747** | **7,202,924** |

The accompanying notes are an integral part of the quarterly interim financial statements.

**JBS S.A.**

**Economic value added for the six months period ended on June 30, 2014 and 2013**
**(In thousands of Reais)**

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Revenue** | | | | |
| Sales of goods and services | **12,740,849** | 9,832,181 | **56,382,614** | 42,058,421 |
| Other net income | **1,762** | 1,489 | **3,956** | 55,481 |
| Allowance for doubtful accounts | **-** | (375) | **(13,827)** | (2,751) |
| | **12,742,611** | **9,833,295** | **56,372,743** | **42,111,151** |
| **Goods** | | | | |
| Cost of services and goods sold | **(8,033,408)** | (5,711,724) | **(37,287,439)** | (28,583,102) |
| Materials, energy, services from third parties and others | **(1,523,416)** | (1,566,145) | **(7,775,728)** | (5,977,169) |
| Losses/Recovery of amounts | **-** | - | **(4,666)** | - |
| | **(9,556,824)** | **(7,277,869)** | **(45,067,833)** | **(34,560,271)** |
| **Gross added value** | **3,185,787** | **2,555,426** | **11,304,910** | **7,550,880** |
| **Depreciation and Amortization** | **(280,815)** | (248,757) | **(1,220,447)** | (895,626) |
| **Net added value generated by the company** | **2,904,972** | **2,306,669** | **10,084,463** | **6,655,254** |
| **Net added value by transfer** | | | | |
| Equity in earnings of subsidiaries | **885,012** | 518,682 | **11,565** | 26,063 |
| Financial income | **3,235,071** | 1,430,564 | **3,395,953** | 1,842,008 |
| Others | **4,235** | 3,227 | **111,471** | 34,359 |
| **NET ADDED VALUE TOTAL TO DISTRIBUTION** | **7,029,290** | **4,259,142** | **13,603,452** | **8,557,684** |
| **Distribution of added value** | | | | |
| **Labor** | | | | |
| Salaries | **949,188** | 775,741 | **4,561,743** | 3,454,123 |
| Benefits | **109,265** | 94,011 | **845,361** | 710,742 |
| FGTS (Brazilian Labor Social Charge) | **43,536** | 38,438 | **54,482** | 45,549 |
| | **1,101,989** | **908,190** | **5,461,586** | **4,210,414** |
| **Taxes and contribution** | | | | |
| Federal | **212,968** | 241,390 | **955,000** | 448,423 |
| State | **658,775** | 460,957 | **876,151** | 515,634 |
| Municipal | **9,382** | 8,599 | **11,010** | 8,770 |
| | **881,125** | **710,946** | **1,842,161** | **972,827** |
| **Capital Remuneration from third parties** | | | | |
| Interests | **4,668,915** | 2,028,761 | **5,384,840** | 2,539,708 |
| Rents | **35,441** | 34,729 | **180,185** | 140,481 |
| Others | **17,576** | 10,156 | **263,204** | 43,977 |
| | **4,721,932** | **2,073,646** | **5,828,229** | **2,724,166** |
| **Owned capital remuneration** | | | | |
| Net income attributable to controlling interest | **324,244** | 566,360 | **324,244** | 566,360 |
| Noncontrolling interest | **-** | - | **147,232** | 83,917 |
| | **324,244** | **566,360** | **471,476** | **650,277** |
| **ADDED VALUE TOTAL DISTRIBUTED** | **7,029,290** | **4,259,142** | **13,603,452** | **8,557,684** |

The accompanying notes are an integral part of the quarterly interim financial statements.

## 1 Operating activities

JBS S.A (JBS, the Company) is a listed company in the "Novo Mercado" segment, based in the city of São Paulo, Brazil, which requires the highest level of corporate governance in the Brazilian market and its shares are traded on the BM&F Bovespa S.A - Stock Exchange, Commodity and Forward as ticker symbol "JBSS3" and American Depository Receipts traded over the counter as "JBSAY".

The Company and its subsidiaries have the following operational activities:

**a) Activities in Brazil**

**In Company**

The Company is engaged in the operation of slaughter facilities, cold storage of cattle meat, meat processing operations for the production of beef, meat by-products and canned goods, through fifty-one industrial facilities based in the States: Acre, Bahia, Goiás, Maranhão, Minas Gerais, Mato Grosso do Sul, Mato Grosso, Pará, Rio de Janeiro, Rondônia and São Paulo.

The Company distributes its products through thirteen distribution centers based in the States of Amazonas, Bahia, Ceará, Minas Gerais, Pernambuco, Paraná, Rio de Janeiro, Rio Grande do Sul, Santa Catarina, São Paulo and Distrito Federal.

The Company has strong leather tanning operations, most of its production intended to export in the segments of leather for furniture, automotive, footwear and artifacts, in the stages of Wet Blue, Semi Finished and Finished. The structure is composed of twenty-one industrial facilities based in the States of Bahia, Ceará, Espírito Santo, Goiás, Maranhão, Mato Grosso, Mato Grosso do Sul, Minas Gerais, Pará, Rio Grande do Sul, Rondônia, São Paulo and Tocantins. JBS has one distribution center based in the State of Mato Grosso do Sul and a warehouse in the State of São Paulo.

Additionally, the Company operates in the segment of steel cans production, industrial waste management and plastic resin manufacturing; bar soap and soap production for its own brands of cleaning and hygiene segment; production of biodiesel, glycerin, olein and fatty acid; purchase and sale of soybeans, tallow, palm oil, caustic soda, stearin; industrialization and sale of cattle tripe; own transport operations for retail sale, cattle for slaughter and export products; industrialization of collagen; industrialization of dog biscuits. The Company also has stores named "Mercado da Carne" that sell meat and barbecue related items directly to customers. The Company is also engaged in the production and distribution of electric power and cogeneration.

**In subsidiaries / Joint Ventures**

JBS Confinamento Ltda. (JBS Confinamento) is based in the State of São Paulo in the city of Castilho and Guaiçara, State of Goiás in the city of Nazário and Aruanã, in the State of Mato Grosso in the city of Lucas do Rio Verde and also in the State of Mato Grosso do Sul in the city of Terenos, is engaged in the activity of buying and reselling for fattening beef and providing services of fattening beef and third party cattle for slaughtering.

The indirect subsidiary Meat Snacks Partner do Brasil Ltda (Meat Snacks), a joint venture with shared control between JBS's subsidiary JBS Handels GMBH and the third party company Jack Link Beef Jerky, based in Santo Antônio da Posse and Lins, State of São Paulo, produces Beef Jerky purchasing fresh meat in the domestic market and exports to the United States of America.

Excelsior Alimentos S.A. (Excelsior) (direct subsidiary of the Company and indirect of the holding Baumhardt Comércio e Participação Ltda (Baumhardt)), based in the State of Rio Grande do Sul, in the city of Santa Cruz do Sul, has as main activity the production of industrialized products. It operates an industrial facilities of built-in meat in the State of Rio Grande do Sul.

Brazservice Wet Leather S.A. (Brazservice), based in the State of Mato Grosso, in the city of Pedra Preta, has as main activity the process of leather industrialization and marketing.

In JBS Foods S.A., the subsidiary Seara Alimentos Ltda. (Seara Alimentos) based in the city of São Paulo, explores the activity of industrialization and commercialization of food products, breeding activity of broiler chickens and hogs for slaughtering, production of pet food and concentrates and meat industrialization. It operates thirty industrial facilities based in the States of Bahia, Minas Gerais, Mato Grosso, Mato Grosso do Sul, Paraná, Rio de Janeiro, Rio Grande do Sul, Santa Catarina, São Paulo and Distrito Federal and twelve warehouses in the States of Bahia, Ceará, Minas Gerais, Mato Grosso, Mato Grosso do Sul, Pernambuco, Rio de Janeiro, Paraná, Rio Grande do Sul, Rio Grande do Norte, São Paulo and Distrito Federal. It also has a private warehouse based in the State of Santa Catarina.

In JBS Foods S.A., the subsidiary JBS Aves Ltda. (JBS Aves), based in State of São Paulo, explores the activity of industrialization and commercialization of food products, breeding activity of broiler chickens and hogs for slaughtering, production of pet food and meat industrialization. It operates seven industrial facilities base in the States of Rio Grande do Sul, Santa Catarina, Paraná e Mato Grosso do Sul and two warehouses in the States of Rio Grande do Sul and São Paulo. JBS Aves also operates the activities of exploring warehouses through the subsidiary Agil Armazéns Gerais Imbituba Ltda.

In JBS Foods S.A., the subsidiary Braslo de Produtos de Carnes Ltda. (Braslo), based in the State of São Paulo, has as main activity the industrialization and commercialization of food products in two industrial facilities based in the State of São Paulo e Distrito Federal.

In JBS Foods S.A., the subsidiary Comércio e Indústria de Massas Alimentícias - Massa Leve Ltda. (Massa Leve), based in the State of São Paulo, has as main activity the industrialization and market of fresh pasta and industrialized products. It operates in two industrial facilities based in the States of São Paulo and Pernambuco.

**b) Activities abroad**

JBS Argentina S.A. (JBS Argentina), an indirect wholly-owned subsidiary of the Company, based in Argentina, operates slaughter facilities and cold storage facilities for the production of beef, canned goods, fat, pet food and beef products, and has six industrial facilities based in the provinces of Buenos Aires, Santa Fé and Córdoba.

Due to the unfavorable scenario in the meat industry in Argentina since the year 2008, the Company decided temporarily to discontinue its operations of the plants in Colonia Caroya (Province of Córdoba), Consignaciones Rurales (Province of Buenos Aires) in 2010 and Venado Tuerto (Province of Santa Fé) in 2011.

JBS USA Holdings Inc. (JBS USA) and its subsidiaries process and prepare fresh, further processed and value-added beef, pork, chicken and lamb products for sale to customers in the United States of America and in international markets. Additionally, through its subsidiaries JBS USA offers transport services as well as importing activities of manufactured products, processed meat, and other food items for sale in the North American market and Europe.

In the United States of America, JBS USA operated nine beef processing facilities, three pork processing facilities, one lamb slaughter facility, one value-added facility and eleven feedyards which one was leased to and operated by a third party. The Company operated ten processing facilities, three value-added facilities and four feedyards in Australia. One of the processing facilities in Australia process lamb, four processes lamb and meat, and the remaining five facilities process solely beef. JBS USA operated one beef processing facility and one feedyards in Canada.

(Expressed in thousands of reais)

JBS USA divides its operation into three categories: Beef, operating the segment of bovine products, Pork, operating the segment of pork and lamb products and chicken, operating the segment of chicken acquired through the business combination of Pilgrim´s Pride (PPC).

Part of JBS USA, Pilgrim's Pride - PPC based in Greeley, Colorado, United States of America is one of the largest chicken processors in the United States of America, listed company in NASDAQ, with operations in Mexico and Puerto Rico. Exporting commodities to over ninety countries, the main products are "in-natura", whole chilled or chilled parts. The main customers are restaurant chains, food processors, distributors, supermarkets, wholesalers, distributors and other retail, and export to Eastern Europe (including Russia), Far East (including China), Mexico and other world markets. The Company also operated twenty seven chicken processing facilities, supported by twenty eight feed mills, thirty six hatcheries, eight rendering facilities and five pet food facilities in the United States and Mexico.

The indirect subsidiary Nawelur S.A., based in São José, Uruguay, is engaged in the trading of leathers in the local market.

Toledo International NV (Toledo), an indirect wholly-owned subsidiary of the Company, based in Belgium, has basically trading operations for the european and african markets, selling cooked meat. Additionally, it develops logistics operations, warehousing, customization and new products development.

JBS Paraguay S.A (JBS Paraguay), an indirect wholly-owned subsidiary of the Company, based in Assunção, as well as in San Antonio, slaughters and processes chilled and frozen beef and raw leather. Most of its production is destined to export to others subsidiaries of JBS Group. It is licensed to export to the European Union, Chile, Russia and other markets.

Frigorífico Canelones S.A (Frigorífico Canelones), an indirect wholly-owned subsidiary of the Company, based in Canelones, Uruguay, slaughters and processes “in natura” beef for export, and for local markets. Also sells meat cuts with bones, mainly to the local market.

Rigamonti Salumificio SpA (Rigamonti), an indirect wholly-owned subsidiary of the Company, based in Italy, leads the Italian market in the production and sale of Bresaola (bovine cured beef). Additionally, Rigamonti is engaged in the production and sales of beef jerky and flat cured pork belly (bacon), as well as the commercialization of cured ham.

Trump Asia Enterprises Limited (Trump), an indirect wholly-owned subsidiary of the Company, has one leather processing plants, based in Bien Hoa, Vietnam, engaged in the leather industrialization for the furniture market. It has two sales offices in Hong Kong and Dongguan, which sell in the Asian market and buy most of its products from JBS Group and third parties.

JBS Leather Italia S.R.L. (JBS Leather Italia), based in the city of Arzignano with another plant in the city of Matera, both in Italy, operates in the leather segment, buying leather from JBS Group and trading in domestic and European market, producing leather in Semi Finished and Finished stages.

Capital Joy Holding Limited (Capital Joy), based in British Virgin Islands, has a leather processing plant in the city of Juangmen in China, whose activity consists in the process of leather industrialization to be sold mostly to the Asian market of production of shoes and artifacts, buying the "Wet Blue" stage from JBS Group.

Columbus Netherlands B.V. (Columbus), based in Netherlands, operates in its subsidiaries the activity of production and marketing of leather in stages of Semi Finished and Finished to the markets of shoes and furniture. In addition, it manufactures finished leathers for the automotive industry. It operates units located in Uruguay, Argentina, Mexico and South Africa, and distribution centers in the United States and Germany.

The indirect subsidiary Seara Holding Europe B.V. (Seara Holding), based in the city of Amsterdam, operates in its subsidiaries the activity of sale e purchase of products to the foreign market, which main activity is in the European market. It also operates with two commercial offices, based in Japan and Singapore.

**c) Acquisition of the operations of Zenda's Group and Seara's Group:**

The consolidated quarterly interim financial statements of the Company as of June 30, 2014, as well as the consolidated financial statements as of December 31, 2013, reflect the acquisitions of Zenda's Group (through by the holding Columbus) and Seara's Group (through the holdings JBS Foods Ltda., Seara Holding and Baumhardt), which are recorded as an acquisition in accordance with IFRS 3 (R)/CPC 15 R1.

Due to the fact of the participation of these investments have not been consolidated in the comparative six months period ended on June 30, 2013 and were consolidated in the six months period ended as on June 30, 2014, for comparison purposes, below is present the Statement of income excluding the carrying amounts of the consolidated participations on June 30, 2014, allowing readers and users a better comparability.

**Statements of Income (Consolidated) for the six months period ended on June of:**

| | 2014 | | | | 2013 |
|---|---|---|---|---|---|
| | **Consolidated** | **Seara's Group** | **Zenda's Group** | **Consolidated excluding Seara and Zenda Group** | **Consolidated excluding Seara and Zenda Group** |
| Net sales revenue | **55,387,943** | 4,538,972 | 278,847 | **50,570,124** | **41,458,570** |
| Cost of goods sold | **(47,711,171)** | (3,387,840) | (249,493) | **(44,073,838)** | **(36,472,153)** |
| **GROSS INCOME** | **7,676,772** | **1,151,132** | **29,354** | **6,496,286** | **4,986,417** |
| General, administrative and selling expenses | **(4,722,168)** | (752,315) | (22,886) | **(3,946,967)** | **(3,349,392)** |
| Financial expense, net | **(1,956,985)** | (116,065) | 177 | **(1,841,097)** | **(737,792)** |
| Other income (expenses), net | **(2,130)** | (8,709) | (1,493) | **8,072** | **76,707** |
| Equity in earnings of subsidiaries | **11,565** | - | - | **11,565** | **26,063** |
| Income taxes | **(535,578)** | (84,828) | (3,020) | **(447,730)** | **(351,726)** |
| **NET INCOME** | **471,476** | **189,215** | **2,132** | **280,129** | **650,277** |
| **ATTRIBUTABLE TO:** | | | | | |
| Controlling interest | **324,244** | 189,860 | 2,132 | **132,252** | **566,360** |
| Noncontrolling interest | **147,232** | (645) | - | **147,877** | **83,917** |
| Net income | **471,476** | **189,215** | **2,132** | **280,129** | **650,277** |

* Composed by the results of the subsidiaries Baumhardt, Seara Holding and JBS Foods Ltda.

## 2 Elaboration and presentation of quarterly interim financial statements

**a. Declaration of conformity**

These quarterly interim financial statement includes:

- The Company quarterly interim financial statements were prepared and in accordance with International Financing Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and also in accordance with pronouncements, interpretations and orientations of Brazilian Accounting Pronouncements Committee (Comitê de Pronunciamentos Contábeis - CPC) approved by resolutions of the Brazilian Federal Accounting Council (Conselho Federal de Contabilidade - CFC) and requirements of the Brazilian Securities Commission - CVM.

- The individual quarterly interim financial statements were prepared in accordance with accounting practices adopted in Brazil, in compliance with the Law of joint stock companies (Lei das sociedades por ações - Leis das SA's), considering the amendments made by Brazilian Laws 11.638/07 and 11.941/09 and pronouncements, interpretations and orientations of Brazilian Accounting Pronouncements Committee (Comitê de Pronunciamentos Contábeis) - CPC approved by resolutions of the Brazilian Federal Accounting Council (Conselho Federal de Contabilidade) - CFC, and requirements of the Brazilian Securities Commission - CVM.

The individual quarterly interim financial statements present the evaluation of investments in associates, subsidiaries and joint ventures by the equity method, according to Brazilian legislation. Thereby the quarterly interim financial statements are not in accordance with the IFRS, which requires the evaluation of these investments in the individual company's quarterly interim financial statements measured at their fair value or at cost.

The quarterly interim financial statements of subsidiaries presented prior to the first time adoption of IFRS are adjusted to the policies adopted by the Group - International Financing Reporting Standards (IFRS).Thus, the balance sheets of subsidiaries have been prepared with international accounting uniform policies and practices. Similarly, for the new investments acquisitions after adoption of IFRS, IFRS 3 (R)/CPC 15 R1 - Business Combinations is applied, which presents investment of fair value, subsequently, evaluating its investments.

Since there is no difference between the consolidated equity and the consolidated profit/loss attributable to shareholders of Company, presented in the consolidated quarterly interim financial statements prepared in accordance with IFRSs and constants in the individual quarterly interim financial statements prepared in accordance with accounting practices adopted in Brazil (BR GAAP), the Company opted to present these statements in a single set side by side.

**b. Normative Statement nº 1.397 and Law 12.973/14 (conversion of Provisory Measure (Medida Provisória - MP) nº 627 of 2013)**

In November 11, 2013 the Provisory Measure (Medida Provisória - MP) nº 627 was published, in which the conversion into Law 12.973 occurred in May 13, 2014. This Law brings relevant changes for the federal tax rules, among which stands out the following: (i) repeal of Transition Tax Regime (Regime Tributário de Transição - RTT); (ii) changes in Decree-law nº 1.598/77 dealing with the Corporate Income Tax (IRPJ and CSLL); (iii) definition that changes and new accounting practices issued through administrative acts after the issuance of this Provisory Measure, will have no implication in the determination of federal taxes until tax law regulates the matter, (iv) inclusion of specific treatment on the taxation of profits or dividends, (v) inclusion of provisions on the calculation of interest on equity, and (vi) new considerations of investments valued at equity method.

The providences of Provisory Measure will take effect in 2015, however it is allowed that the taxpayer opts for anticipating the effects in 2014, in this way the Company and its subsidiaries, based on the opinion of legal advisors, is evaluating its adoption for the Financial Statements as of June, 2014, but it is not expected that its adoption has relevant effects under the Financial Statements of the Company.

**c. Approval of quarterly interim financial statements**

The approval of these quarterly interim financial statements was given at the Board of Directors' meeting held on August 13, 2014.

**d. Functional and presentation currency**

These individual and quarterly interim financial statements are presented in Reais (R$), which is the Company's functional currency. All financial information is presented in thousands of reais.

## 3 Significant accounting policies

The main accounting policies used in the preparation of these quarterly interim financial statements, as described below, have been consistently applied over all the reported periods, unless otherwise stated.

**a) Statements of income**

Revenue and expenses are recorded on the accrual basis. Revenue is measured at the fair value of the payment received or receivable for sale of products and services in the Company normal course of business and its subsidiaries.

In the income statement revenue is net of taxes, returns, rebates and discounts, as well as of intercompany sales. On note 23 is presented net revenue reconciliation.

In accordance with IAS 18/CPC 30 R1 - Revenues, the Company recognizes revenue when, and only when:

(i) the amount of revenue can be measured reliably;
(ii) the entity has transferred to the buyer the significant risks and rewards incidental to ownership over the goods;
(iii) it is probable that the economic benefits will flow to the Company and its subsidiaries;
(iv) the entity neither maintains involvement in the Management of product sold at levels normally associated with ownership nor effective control of such cost of good sold; and
(v) expenses incurred or to be incurred related to the transaction, can be reliably measured.

The expenses are recorded on the accrual basis.

**b) Accounting estimates**

In the process of applying the Company's accounting policies, Management made the following judgments which can eventually have a material impact on the amounts recognized in the quarterly interim financial statements:

- impairment of non-financial assets;
- impairment of recoverable taxes;
- retirement benefits;
- measurement at fair value of items related to business combinations;
- fair value of financial instruments;
- provision for tax, civil and labor risks;
- impairment of financial assets;
- biological assets; and
- useful lives of property, plant and equipment.

The Company reviews its estimates and underlying assumptions used in its accounting estimates on a quarterly basis. Revisions to accounting estimates are recognized in the quarterly interim financial statements in the period in which the estimates are revised.

The settlement of transactions involving these estimates may result in different amounts due to potential inaccuracies inherent in the process of its determination.

**c) Cash and cash equivalents**

Cash and cash equivalents include cash balances, banks and financial investments with original maturities of three months or less from the date of the contract. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value in accordance with IAS 7/CPC 03 R2 - Statement of Cash Flows. These investments are designed to satisfy the cash commitments of short-term (daily management of financial resources of the Company and its subsidiaries) and not for investment or other purposes.

**d) Trade accounts receivable**

Trade accounts receivable correspond to amounts owed by customers in the ordinary course of business of the Company. If the due date is equivalent to one year or less, the account receivable is classified as current assets. Otherwise, the corresponding amount is classified as noncurrent assets.

Accounts receivable are initially recognized at fair value, subsequently measured at amortized cost, less any impairment. In practice, they are recognized at the invoiced amount, adjusted to its recoverable value.

**e) Allowance for doubtful accounts**

Allowance for doubtful accounts of accounts receivable are calculated based on the analysis of the aging list, provisioning the items of long standing, and considering the probable estimated losses, which the amount is considered sufficient by the Management to cover probable losses on accounts receivable based on historical losses.

Allowance for doubtful accounts expenses with the constitution of the provision for adjustment to recoverable value are recorded under the caption "Selling Expenses" in the individual and consolidated statements of income. When no additional recoverability is expected, the account receivable is derecognized.

**f) Inventories**

In accordance with IAS 2/CPC 16 R1 - Inventories, the inventories are stated at the lower of the average cost of acquisition or production, and the net realizable value. The cost of inventories is recognized in the income statement when inventories are sold or perishing.

**g) Biological assets**

In accordance with IAS 41/CPC 29 - Biological Assets, companies that operate with agricultural activities, such as grain crops, increased herd (of cattle feedlot operations or livestock grazing), and various agriculture crops are required to mark to market these assets, which effect shall be recorded in the income statement of the year.

The evaluation of biological assets is done on a quarterly basis by the Company, and the gain or loss on change in fair value of biological assets is recognized in the income statement in the period in which it occurs, in specific line as a reduction of gross revenue.

The registration of biological assets is done through the concept of market to market and cost, according to the criteria defined in the Note 8.

**h) Investments in associates, subsidiaries and joint ventures**

In the individual quarterly interim financial statements of the Company, the investments in associates, subsidiaries and joint ventures are recognized by the equity method.

In accordance with IAS 28/CPC 18 R2 - Investments in Associates, Subsidiaries and Joint Ventures, Associate is an entity over which an investee has significant influence, being the power to participate in the financial and operating policy decisions of the investee (but not control or joint control).

According to IAS 31/CPC 19 R2 - Interests in joint venture, Joint ventures are business jointly controlled whereby parties that hold the joint control have rights to the net assets of the business . The interests in joint ventures are treated as investment and recorded by the equity method, in accordance with IAS28/CPC 18 R2 - Investments in associates, subsidiaries and joint ventures.

Exchange differences on foreign currency investments are recognized in equity in the accumulated translation adjustments.

**i) Property, plant and equipment - PP&E**

The items of property, plant and equipment are valued at historical cost of acquisition or construction, net of accumulated depreciation and impairment.

The interest on loans that are directly attributable to fixed assets acquisition or construction of assets are capitalized as part of the costs of these assets. Borrowing costs that are not directly related to specific assets (but related to more than one asset) are capitalized based on average interest rate on the balance of construction in progress. These costs are amortized according to the estimated useful lives of the related assets.

Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, so that the value of cost less its residual value after the useful life is fully depreciated (except for land and construction in progress). The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date and the effect of any changes in estimates are accounted for prospectively.

An item is disposed when of there are no future economic benefits resulting from its continued use. Any gains or losses on sale or disposal of fixed assets are determined by the difference between the amounts received against the carrying value and are recognized in the income statement.

**j) Assets leased**

Leases under which the Company assumes the risks and benefits of ownership are classified as financial leases. After initial recognition, the asset is in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and the leased assets are not recognized on the balance sheet of the Company, being recorded in the Statement of income as an expense in accordance with the payments. The Company has only operating leases.

**k) Intangible assets**

Consist mostly of goodwill recorded in accordance with IAS 38/CPC 4 R1 - Intangible assets by cost or formation, less amortization and any applicable losses due to impairment. Amortization, when applicable, is recognized using straight-line method based on the useful lives of assets. The estimated useful lives and amortization method are reviewed at the end of each financial year and the effect of any changes in estimated are accounted for prospectively.

Goodwill arising from business combination

Goodwill resulting from business combinations is stated at cost at the date of business combination, net of accumulated impairment.

Goodwill is subject to annual impairment testing or more frequently when impairment indications are identified. If the recoverable amount of the cash-generating unit is less than the carrying value, an impairment loss is recorded. Any impairment loss on the recoverable amount of goodwill is directly recognized in income statement. The impairment loss is not reversed in subsequent periods.

At the sale of the corresponding cash-generating unit, the goodwill is included in the calculation of profit or loss on disposal.

Impairment of tangible and intangible assets, excluding goodwill

Property, plant and equipment, intangible assets with defined useful lives and other assets (current and noncurrent) are tested for impairment, if indications of potential impairment exist. Intangible assets are tested for impairment when an indication of potential impairment exists or on an annual basis, regardless of whether or not there is any indication of impairment, pursuant to IAS 38/CPC 4 R1- Intangible Assets.

After each year end a review is made of the carrying value of tangible and intangible assets to determine whether there is some indication that those assets have suffered any impairment. If such indication is indentified, the recoverable amount of the asset is estimated in order to measure the amount of such loss, if any.

The recoverable amount is the higher amount between fair value less costs to sell and value in use. In evaluation of value in use, the estimated future cash flows are discounted to present value by the discount rate before tax that reflects current market assessment of the time value of money and the specific risks to the asset.

If the recoverable amount of an asset is lower than its carrying value, the asset is reduced to its recoverable amount. The loss on the impairment is recognized immediately in the statement of income and is reversed if there has been a change in the estimates used to determine the recoverable amount. When an impairment loss is subsequently reversed, there is an increase in amount of the asset due to the revised estimate of its recoverable amount, but it does not exceed carrying amount that would have been determined if no loss on the impairment had been recognized for the asset in prior years. Reversal of loss on the impairment is recognized directly in the income statement.

**l) Other current and noncurrent assets**

Other current and noncurrent assets are stated at cost or realizable value including, if applicable, income earned through the reporting date.

**m) Trade accounts payable**

Correspond to the amounts owed to suppliers in the ordinary course of business of the Company. If the payment period is equivalent to one year or less, suppliers are classified as current liabilities. Otherwise, the corresponding amount is classified as noncurrent liabilities. When applicable, are added interest, monetary or exchange rate.

**n) Loans and financings**

Loans and financings are recognized at fair value upon receipt of the proceeds, net of transaction costs, when applicable, plus charges, interests and monetary and exchange rate variation contractually defined, incurred until the end of each period, as shown in note 15.

**o) Income tax and social contribution**

**Current taxes**

Current taxes are computed based on taxable income at tax rates in effect, according to prevailing legislation.

**Deferred taxes**

Deferred income tax (deferred tax) is calculated on the temporary differences between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is determined using tax rates enacted and expected to be applied when the deferred tax assets are realized or when the income tax liability is settled.

Deferred tax assets are recognized only in proportion to the expectation or likelihood that future taxable income will be available against which the temporary differences, tax losses and tax credits can be used.

Deferred tax assets and liabilities are offset if there is a legal right to offset current tax assets and liabilities, and they are related to income taxes levied by the same taxation authority on the same taxable entity.

**p) Dividends**

Dividend distribution, when applicable, proposed by Management is equivalent to the mandatory minimum dividend of 25% and is recorded under the caption "Declared Dividends" in liabilities since it is considered a legal obligation established by the Company's laws.

**q) Current and noncurrent liabilities**

Current and noncurrent liabilities are stated at known or estimated amounts, including, if applicable, charges and monetary or exchange rate variations.

**r) Noncontrolling interest**

According to IAS 1/CPC 26 R1, Presentation of quarterly interim financial statements, noncontrolling interests are presented in the quarterly interim financial statements within equity, with respective effects included in the statement of income.

**s) Contingent assets and liabilities**

According to IAS 37/CPC 25 -Provisions, Contingent Liabilities and Contingent Assets, contingent assets are recognized only when their realization is "virtually certain", based on favorable final judicial decision. Contingent assets are disclosed where an inflow of economic benefits is probable.

Contingent liabilities are accrued when losses are probable and the amounts can be estimated reliably. Contingent liabilities classified as possible are only disclosed and contingent liabilities classified as remote are neither accrued nor disclosed.

**t) Adjustment of assets and liabilities to present value**

The Company presents, when relevant, assets and liabilities at present value long-term assets and liabilities, according to CPC12 - Present value adjustment. The present value is calculated timely by the Company, and recorded if relevant, being detailed in the notes in which these assets and liabilities refers to.

In the present value calculation adjustment the Company consider the following assumptions: (i) the amount to be discounted; (ii) the dates of realization and settlement; and (iii) the discount rate.

The discount rate assumption relies on current market valuations as to time value of money and specific risks for each asset and liability.

**u) Consolidation**

The quarterly interim financial statements includes individual quarterly interim financial statements of the Company, its subsidiaries and joint controlled entities (proportionally consolidated). Control is obtained when the Company has the power to control financial and operating policies of an entity so as to obtain benefits from its activities.
When necessary, the quarterly interim financial statements of subsidiaries are adjusted according to the accounting policies established by the Group. All transactions, balances, income and expenses between Group companies are eliminated in the quarterly interim financial statements. Consolidated subsidiaries are detailed described on note 11.

The quarterly interim financial statements of the foreign subsidiaries are originally prepared in the currency of the country in which they are based and, subsequently, are adjusted to IFRS and translated to Brazilian reais using the exchange rate in effect at the reporting date for assets and liabilities, the historical exchange rate for changes in equity and the average exchange rate for the period for income and expenses when it is appropriate. Exchange gains and losses are recognized in equity under the caption "accumulated translation adjustments" in accordance with IAS 21/CPC 2 R2 - The effects of changes in foreign exchange rates.

**v) Foreign currency translation**

**Functional and reporting currency**

Transactions in foreign currencies are translated to the respective functional currencies of the Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

The items of the quarterly interim financial statements of the subsidiaries are measured using the currency of the primary economic environment in which the subsidiaries operate ("functional currency"), being adjusted to IFRS and translated to Brazilian Real at the corresponding exchange rate of the reporting period for assets and liabilities, the historical rate for equity and the average exchange rate of the period for the income statement, if applicable, and with the exchange rate effects recognized in comprehensive income.

**w) Earning per share**

According to with IAS 33/CPC 41 - Earnings per share, the Company presents the basic and diluted earnings per share data for its common shares:

Basic: Calculated by dividing net income allocated to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

Diluted: Calculated by dividing net income of the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for the effects of all dilutive potential common shares, adjusted for own shares held.

**x) Financial instruments**

Subsequent measurement of financial instruments occurs at each reporting date, according to the rules for each category of financial assets and liabilities.

**• Financial assets at fair value through profit or loss**

Financial asset are classified by its fair value on the financial report if it is classified as held for trading or designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair values in accordance with a documented risk management and investment strategy of the Company. Transaction costs, after initial recognition are recognized in income statement when incurred. Financial assets recorded at fair value through profit or loss are measured at fair value and changes in fair value of these assets are recognized in statement of income of the period. The financial instruments classified in this category are "Financial investments" and "Derivatives".

**• Loans and receivables**

Loans and receivables are financial assets with fixed or estimated payment amounts that are not quoted in an active market. Such assets are initially recognized at fair value plus any attributable transaction costs. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, decreased by any loss on the impairment. The main assets of the Company classified in this category are "cash and cash equivalents", "trade accounts receivables" and "credits with related parties".

**• Held to maturity**

In the case when the Company intends and is able to hold bonds to maturity, then such financial assets are classified as held to maturity. Investments held to maturity are initially recognized at fair value plus any directly attributable transaction costs. After initial recognition, investments held to maturity are measured at amortized cost using the effective interest method, decreased by any loss on the impairment. The Company has no financial instruments in this category.

**• Non derivative financial liabilities**

The Company recognizes debt securities and subordinated debt on the date on which they originated. All other financial liabilities (including liabilities designated at fair value recorded in income) are initially recognized on the trade date on which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are canceled or expired. The Company has the following non-derivative financial liabilities: loans, financing, trade accounts payable, debts with related parties, declared dividends, payables related to facilities acquisitions and other payables.

**• Impairment of financial assets**

Financial assets, except those designated at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Impairment loss is recognized if, and only if there is any indication that an asset may be impaired as a result of one or more events that occurred after initial recognition, and had an impact on the future cash flows estimated of this asset.

The financial asset carrying value is reduced directly by the loss of the impairment for all financial assets, except accounts receivable in which the carrying value is reduced by a loss estimate. Subsequent recoveries of amounts previously written off are credited to the loss estimate. Changes in the carrying value of the loss estimate are recognized in statement of income.

**• Derivatives**

The Company and subsidiaries recognize and disclose financial instruments and derivatives according to IAS 39/CPC 38 - Financial Instruments: Recognition and Measurement, IFRIC 9 - Assessment of embedded derivatives and IFRS 7/CPC 40 R1 - Disclosure of Financial Instruments. Financial instruments are recognized after the Company and its subsidiaries become a party to the contractual provisions at the instruments.

Based on a risk management policy of the JBS Group, the Company and/its subsidiaries, contract financial derivatives instruments in order to minimize the risk of losses due to the exposure to fluctuation in exchange rates, interest rates, commodities prices, and others, which can affect the valuation of current and noncurrent assets, future cash flow and profit.

The fair value of derivative instruments is calculated by the treasury department, based on information of each contracted transaction and market information on the reporting dates such as interest rates and exchange rates.

**y) Business combinations**

According to IFRS 3 (R)/CPC 15 R1 - Business Combination, business acquisitions are accounted for using the acquisition method at the acquisition date, which is the date on which control is transferred to the Group . The consideration transferred in a business combination is measured at fair value, which is calculated by adding the fair values of assets transferred, liabilities incurred on the acquisition date to the previous owners of the acquired shares issued in exchange for control of the acquired. The acquisition-related costs are generally recognized in income when incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the recognized amount of noncontrolling interests in the acquired business plus the fair value of the existing equity interest in the acquired less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. If the excess is negative, a gain on bargain is recognized immediately in income as a gain.

If the initial accounting for a business combination is incomplete at the closing of the period in which the business combination has occurred, the recording of the temporary values of items whose accounting is incomplete are made. These temporary figures are adjusted during the measurement period (which shall not exceed one year from the date of acquisition), or additional assets and liabilities are recognized to reflect new information relating to facts and circumstances existing at the acquisition date which, if known, would have affected the amounts recognized on that date.

**z) Employee benefits**

**Defined Contribution Plans:**

A defined contribution plan is a plan for post-employment benefits under which an entity pays fixed contributions into a separate entity (Provident Fund) and has no legal or constructive obligation to pay additional amounts. Obligations for contributions to pension plans to defined contribution plans are recognized as expenses for employee benefits in income in the periods during which employees render services. Prepaid contributions are recognized as an asset upon condition that reimbursement of cash or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employee renders service are discounted to their present values.

**Defined benefit plans**

The amount of the defined benefit plans that will be received by the beneficiaries are previously defined, calculated individually for each of the plan by using actuarial assumptions. The contributions can be adjusted in order to guarantee the payment of these benefits.

The recognized obligation for these contributions is the present value of the obligation defined in the closing, less the fair value of the assets of the plan, adjusted by actuarial gains or losses and past service costs.

The discount rate is yield at the reporting date on funds that have maturity dates approximating the terms of the appropriate subsidiary's obligation and that are denominated in the same currency in which benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the calculation results in a benefit for the indirect subsidiary, the asset to be recognized is limited to the total cost of any unrecognized past service and present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan . To calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in indirect subsidiary. An economic benefit is available to the indirect subsidiary if it is achievable during the life of the plan or the liquidation of the plan liabilities.

When the benefits of a plan are increased, the portion of the increased benefit relating to past service by employees is recognized in the straight-line method over the average period until the benefits become vested. To the extent the benefits become vested immediately, the expense is recognized immediately in income.

All actuarial gains and losses arising from defined benefit plans are accounted for in other comprehensive income.

**aa) Segment reporting**

In accordance with IFRS 8/CPC 22 - Segment reporting - Segment reporting is presented consistently with the internal reports provided to the entity's chief operating decision maker to make decisions about resources allocations, performance evaluation by segment and strategic decision making process.

**ab) Statements of Cash flow**

The statements of cash flows have been prepared by the indirect method in accordance with the instructions contained in IAS 7/CPC 3 R2 - Statement of Cash Flows.

**ac) Statement of comprehensive income**

According to IAS 1/CPC 26 R1 - Presentation of quarterly interim financial statements - The statement of comprehensive income is composed by the conversion rate of foreign currency investments abroad and equity valuation in investments.

**ad) Economic Value Added**

In accordance with CPC 9 (No correlation to IFRS) - Statement of Economic Value Added, the Company included in the quarterly interim financial statements, the Statement of Value Added (EVA), and as additional information in the quarterly interim financial statements, because it is not a compulsory statement according to IFRS.

The Economic Value Added Statement, aims to demonstrate the value of the wealth generated by the Company and its subsidiaries, its distribution among the elements that contributed to the generation of it, such as employees, lenders, shareholders, government and others, as well as the share of wealth not distributed.

**ae) New IFRS pronouncements, issues, changes and interpretations issued by the IASB applicable to quarterly interim financial statements**

The following new rules, changes and interpretations of standards were issued by IASB and have initial adoption on January 1, 2014.

• IAS 32 – “Financial Instruments: Presentation” provides further clarification in addition to the application guidance in IAS 32 on the requirement to offset financial assets and liabilities in the balance sheets. The standard will be applicable as of January 1, 2014. This IAS's adoption did not have any relevant effects on the reported numbers for the six months period ended on June 30, 2014.

• IAS 36 - "Impairment of Assets", In May, 2013, IASB issued a revised IAS 36. This change requires disclosure of discount rates that were used in the current and previous evaluation of impairment of assets, if the recoverable amount of the asset is based on a valuation technique to present value based on the fair value less the disposal. This standard is effective for annual periods beginning on or after January 1, 2014. This IAS's adoption did not have any relevant effects on the reported numbers for the six months period ended on June 30, 2014.

• IAS 39 - "Novation of Derivatives and Continuation of Hedge Accounting", in June 2013, the IASB issued a revised IAS 39. This change is intended to clarify when an entity is required to discontinue a hedge, in situations where this instrument expires, is sold, terminated or exercised. This standard is effective for annual periods beginning on or after January 1, 2014. This IAS's adoption did not have any relevant effects on the reported numbers for the six months period ended on June 30, 2014.

• IFRS 10, IFRS 12 and IAS 27 - "Invest entities", on October, 2012, the IASB issued a revised IFRS 10, IFRS 12 and IAS 27, which define entity of investment and introduced an exception to the consolidation entity controlled by investment, establishing the accounting treatment in these cases. These changes are effectives for annual periods beginning on or after January 1, 2014. This IAS's adoption did not have any relevant effects on the reported numbers for the six months period ended on June 30, 2014.

• IFRIC 21 - "Taxes", in May 2013, the IASB issued an interpretation of IFRIC 21. This interpretation addresses issues related to the recognition of a tax liability when it originates from application of IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. This interpretation is effective for annual periods beginning on or after January 1, 2014. This IAS's adoption did not have any relevant effects on the reported numbers for the six months period ended on June 30, 2014.

**af) Rules, changes and interpretations of standards that are not yet in force**

The following new rules, changes and interpretations of standards were issued by IASB, but were not adopted by CPC:

• IFRS 9 – “Financial Instruments” outlines the requirements for the classification, measurement and recognition of financial assets and liabilities IFRS 9 was issued in November 2009 and October 2010 and substitutes the paragraphs in IAS 39 related to the classification and measurement of financial instruments. IFRS 9 required classification of financial assets into two categories: measured at fair value and measured at amortized cost.

Classification is determined when the financial asset is initially recognized. Classification depends on the business model of the entity and the characteristics of the cash flow arrangements of the financial instruments. For financial liabilities, the standard maintains most of the requirements under IAS 39.

The main change is when the fair value option is adopted for financial liabilities, in which case the portion of change in fair value that is attributable to changes in the credit risk of the entity is registered in other comprehensive income and not in the statement of operations, except for cases in which this results in accounting mismatches. The Company does not expect any impact related to the adoption of this review in its interim financial statements.

• IFRS 14 – "Regulatory Deferral Accounts", in January, 2014, the IASB issued a standard IFRS 14, which has the specific purpose of regulating the recognition of regulatory assets and liabilities upon the first adoption of IFRS. This standard is effective for annual periods beginning on/after January 1, 2016. The Company does not expect any impact related to the adoption of this review in its interim financial statements.

• IFRS 11 – “Joint Arrangements”, in May, 2014, the IASB issued a revised IFRS 11. The changes of the standard IFRS 11 outlines the criteria related to the accounting treatment for acquisitions of interests in sharing agreements that constitute a business in accordance with the concepts contained in IFRS 3. This change in standard is effective for annual periods beginning on/after January 1, 2016. The Company does not expect any impact related to the adoption of this review in its interim financial statements.

• IFRS 15 – “Revenue from Contracts with Customers”, in May, 2014, the IASB issued a revised IFRS 15. The standard replaces IAS 18 - "Revenue" and IAS 11 - "Construction Contracts" and a number of interpretations related to income. This standard is effective for annual periods beginning on/after January 1, 2017. The Company does not expect any impact related to the adoption of this review in its interim financial statements.

• IAS 16 and IAS 41 – "Property, Plant and Equipment and Agriculture", in July, 2014, the IASB issued a review of IAS 16 and IAS 41 - Property, Plant and Equipment and Agriculture, to include the Biological Assets that meet the definition of “Bearer plants” (which are used solely to grow produce over several periods), this amendment requires that “Bearer plants” are recorded as fixed assets in accordance with IAS 16, recording the historical cost rather than being measured at fair value, as is required by IAS 41. Revised standard is effective for annual periods beginning on/after July 1, 2016. The Company does not expect any impact related to the adoption of this review in its interim financial statements.

(Expressed in thousands of reais)

• IAS 19 - "Employee benefits", on November, 2013 the IAS issued a revised IAS 19. This change is intended to clarify the aspects related to the recognition of the contributions of employees or third parties and their impacts in the cost of service and period service. This standard is effective for annual periods beginning on or after July 1, 2014. The Company does not expect any impact related to the adoption of this review in its interim financial statements.

• Annual Improvements to IFRS December, 2013 - In December, 2013, the IASB issued a revised version of IFRS 1, IFRS 2, IFRS 3, IFRS 8, IFRS 12, IFRS 13, IAS 16, IAS 24, IAS 38 and IAS 40 standards. These standards are effective for annual periods beginning in or after July 1, 2014. The Company does not expect any impact from the adoption of this review in its interim financial statements.

## 4 Business Combination

According to IFRS 3 (R)/CPC 15 R1 - Business Combination, business acquisitions are accounted for using the acquisition method at the acquisition date, which is the date on which control is transferred to the Group . The consideration transferred in a business combination is measured at fair value, which is calculated by adding the fair values of assets transferred, liabilities incurred on the acquisition date to the previous owners of the acquired shares issued in exchange for control of the acquired. The acquisition-related costs are generally recognized in income when incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the recognized amount of noncontrolling interests in the acquired business plus the fair value of the existing equity interest in the acquired less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. If the excess is negative, a bargain purchase gain is recognized immediately in income as a gain.

If the initial accounting for a business combination is incomplete at the closing of the period in which the business combination has occurred, the recording of the temporary values of items whose accounting is incomplete are made. These temporary figures are adjusted during the measurement period (which shall not exceed one year from the date of acquisition), or additional assets and liabilities are recognized to reflect new information relating to facts and circumstances existing at the acquisition date which, if known, would have affected the amounts recognized on that date.

**In subsidiaries**

**4.1) Sul Valle's acquisition**

In JBS Foods S.A., the indirect subsidiary Seara Alimentos Ltda. (Seara Alimentos) assumed the control of Sul Valle Alimentos Ltda (Sul Valle) in March, 2014, by the total amount of R$ 24,000. In the consolidated, liabilities related to this transaction is kept under the caption Payables related to facilities acquisitions.

Seara Alimentos continues to evaluate the impacts of the operation and the allocation of the purchase price is preliminary, remained pending completion of the assessments of the assets acquired and liabilities assumed, including deferred taxes. The allocation of the purchase price is subject to the following changes, which can occur within a year, as defined in IFRS 3 (R)/CPC 15 R1. The amounts below reflect the estimated fair value of individual assets and liabilities assumed on June 30, 2014:

| | |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | 1,000 |
| Inventories and biological assets | 10,105 |
| Recoverable taxes | 21,839 |
| Prepaid expenses and other assets | 139 |
| Property, plant and equipment, net | 20,212 |
| Intangible assets, net | 21 |
| **TOTAL ASSETS** | **53,316** |
| **LIABILITIES AND EQUITY** | |
| Trade accounts payable | 9,000 |
| Loans and financings | 23,542 |
| Payroll, social charges and tax obligation | 3,229 |
| Equity | 17,545 |
| **TOTAL LIABILITIES AND EQUITY** | **53,316** |

Estimated value of goodwill to expectation of future earnings:

Below, we present the goodwill to expectation of future earnings, which corresponds to the difference between the amount paid for controlling acquisition over the acquired equity, calculated based on the identified assets and liabilities assumed in a business combination:

| | |
|---|---|
| Total amount paid | 24,000 |
| Estimated fair value of net assets acquired | 17,545 |
| Estimated Goodwill to expectation of future earnings (note 13) | 6,455 |

**4.2) Frinal S.A.'s acquisition**

In JBS Foods S.A., the indirect subsidiary JBS Aves assumed the shares of Frinal S.A., in April, 2014, after the CADE's approval, in which occurred in the beginning of the same month, by the total amount of R$ 59,926. In the consolidated, liabilities related to this transaction is kept under the caption Payables related to facilities acquisitions.

(Expressed in thousands of reais)

JBS Aves continues to evaluate the impacts of the operation and the allocation of the purchase price is preliminary, remained pending completion of the assessments of the assets acquired and liabilities assumed. The allocation of the purchase price is subject to the following changes, which can occur within a year, as defined in IFRS 3 (R)/CPC 15 R1. The amounts below reflect the estimated fair value of individual assets and liabilities assumed on April 30, 2014:

| | |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | 10,530 |
| Trade accounts receivable | 14,524 |
| Inventories and biological assets | 24,848 |
| Recoverable taxes | 14,396 |
| Prepaid expenses, other assets and investments | 319 |
| Property, plant and equipment, net | 29,415 |
| Intangible assets, net | 359 |
| **TOTAL ASSETS** | **94,391** |
| **LIABILITIES AND EQUITY** | |
| Trade accounts payable | 21,723 |
| Loans and financings | 49,110 |
| Payroll, social charges and tax obligation | 11,468 |
| Provision for lawsuits risk and other liabilities | 4,959 |
| Equity | 7,131 |
| **TOTAL LIABILITIES AND EQUITY** | **94,391** |

Estimated value of goodwill to expectation of future earnings:

Below, we present the goodwill to expectation of future earnings, which corresponds to the difference between the amount paid for controlling acquisition over the acquired equity, calculated based on the identified assets and liabilities assumed in a business combination:

| | |
|---|---|
| Total amount paid | 59,926 |
| Estimated fair value of net assets acquired | 7,131 |
| Estimated Goodwill to expectation of future earnings (note 13) | 52,795 |

### 4.3) Massa Leve's acquisition

In JBS Foods S.A., the indirectly subsidiary Seara Alimentos, assumed the control of Massa Leve in June, 2014, after the CADE's (Administrative Council for Economic Defense) approval occurred in the end of May, 2014, by the total amount of R$ 258,618, in which part of the payment was made by the quantity of 26,295,997 of JBS S.A.'s treasury shares and the remaining balance in cash.

Seara Alimentos continues to evaluate the impacts of the operation and the allocation of the purchase price is preliminary, remained pending completion of the assessments of the assets acquired and liabilities assumed. The allocation of the purchase price is subject to the following changes, which can occur within a year, as defined in IFRS 3 (R)/CPC 15 R1. The amounts below reflect the estimated fair value of individual assets and liabilities assumed on June 30, 2014:

| | |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | 1,463 |
| Trade accounts receivable | 38,442 |
| Inventories | 9,641 |
| Recoverable taxes | 12,626 |
| Prepaid expenses and other assets | 1,149 |
| Property, plant and equipment, net | 29,783 |
| Intangible assets, net | 1,571 |
| **TOTAL ASSETS** | **94,675** |
| **LIABILITIES AND EQUITY** | |
| Trade accounts payable | 23,528 |
| Loans and financings | 13,970 |
| Payroll, social charges and tax obligation | 10,040 |
| Provision for lawsuits risk and other liabilities | 21,226 |
| Equity | 25,911 |
| **TOTAL LIABILITIES AND EQUITY** | **94,675** |

Estimated value of goodwill to expectation of future earnings:

Below, we present the goodwill to expectation of future earnings, which corresponds to the difference between the amount paid for controlling acquisition over the acquired equity, calculated based on the identified assets and liabilities assumed in a business combination:

| | |
|---|---|
| Total amount paid | 258,618 |
| Estimated fair value of net assets acquired | 25,911 |
| Estimated Goodwill to expectation of future earnings (note 13) | 232,707 |

## 5 Cash and cash equivalents

Cash, bank accounts and short-term investments are the items of the balance sheets presented in the statements of the cash flows as cash and cash equivalents, as described below:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Cash and banks | **3,138,386** | 1,789,254 | **7,068,719** | 4,713,369 |
| CDB-DI (bank certificates of deposit) | **1,957,100** | 3,148,005 | **2,080,704** | 3,236,034 |
| Investment funds | **-** | - | **732,711** | 777,025 |
| National treasury bill - LFT | **415,613** | 286,719 | **415,613** | 286,719 |
| | **5,511,099** | **5,223,978** | **10,297,747** | **9,013,147** |

CDB-DI (bank certificates of deposit) are held by financial institutions, with floating-rate and yield an average of 100% of the variation of the interbank deposit certificate (Certificado de Depósito Interbancário - CDI).

National treasury bill (LFT) – Correspond to purchased bonds with financial institutions, whose conditions and characteristics are similar to the CDB's.

**Investments funds - Consolidated**

It is composed entirely of investments of the indirect subsidiary JBS Project Management GMBH (subsidiary of JBS Holding GMBH) in mutual investment funds nonexclusive, whose investments are performed by JP Morgan as part of a cash management service.

## 6 Trade accounts receivable, net

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Current receivables | **3,823,014** | **3,981,264** | **8,001,644** | **7,866,991** |
| Overdue receivables: | | | | |
| From 1 to 30 days | **92,053** | 111,388 | **620,738** | 840,843 |
| From 31 to 60 days | **12,797** | 9,527 | **101,376** | 109,287 |
| From 61 to 90 days | **7,902** | 2,990 | **39,952** | 80,982 |
| Above 90 days | **65,548** | 70,489 | **193,748** | 232,266 |
| Allowance for doubtful accounts | **(88,585)** | (88,585) | **(208,651)** | (210,443) |
| | **89,715** | **105,809** | **747,163** | **1,052,935** |
| | **3,912,729** | **4,087,073** | **8,748,807** | **8,919,926** |

Pursuant to IFRS 7/CPC 39 - Financial Instruments, below are the changes in the allowance for doubtful accounts:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| **Initial balance** | **(88,585)** | **(96,933)** | **(210,443)** | **(131,688)** |
| Additions | **-** | **-** | **(13,827)** | (97,729) |
| Exchange variation | **-** | - | **(6,453)** | (3,901) |
| Write-offs | **-** | 8,348 | **22,072** | 22,875 |
| **Final balance** | **(88,585)** | **(88,585)** | **(208,651)** | **(210,443)** |

## 7 Inventories

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Finished products | **2,048,871** | 1,796,484 | **5,301,893** | 4,713,790 |
| Work in process | **192,023** | 169,326 | **568,486** | 507,475 |
| Raw materials | **360,890** | 314,429 | **790,332** | 830,847 |
| Warehouse spare parts | **132,479** | 133,909 | **849,516** | 852,504 |
| | **2,734,263** | **2,414,148** | **7,510,227** | **6,904,616** |

## 8 Biological assets

The Company's biological assets are composed by live animals, which detail is as follows:

| | Consolidated | | | |
|---|---|---|---|---|
| | June 30, 2014 | | December 31, 2013 | |
| **Current biological assets (consumable):** | Amount | Quantity (in thousands) | Amount | Quantity (in thousands) |
| Chicken and eggs | **961,322** | **427,356** | 923,778 | 415,306 |
| Cattle | **119,243** | **66** | 61,371 | 39 |
| Hogs and lambs | **424,827** | **2,310** | 430,645 | 2,414 |
| Plants for harvest | **2,021** | **-** | 3,549 | - |
| | **1,507,413** | **429,732** | **1,419,343** | **417,759** |

| | Consolidated | | | |
|---|---|---|---|---|
| | June 30, 2014 | | December 31, 2013 | |
| **Non-Current biological assets (bearer assets):** | Amount | Quantity (in thousands) | Amount | Quantity (in thousands) |
| Chicken and eggs | **428,138** | **28,868** | 442,966 | 28,286 |
| Hogs and lambs | **59,483** | **186** | 53,937 | 188 |
| | **487,621** | **29,054** | **496,903** | **28,474** |
| | **1,995,034** | **458,786** | **1,916,246** | **446,233** |

| **Changes in biological assets:** | **Current** | **Non-current** |
|---|---|---|
| **Current amount on December 31, 2013** | **1,419,343** | **496,903** |
| Increase by reproduction (born) and costs absorptions | **6,914,613** | 385,923 |
| Increase by Purchase | **221,334** | 118,315 |
| Fair value (Mark to market) | **10,625** | 233 |
| Changes from current to noncurrent | **170,543** | (170,543) |
| Decrease by Death | **(3,296)** | (982) |
| Reduction for slaughter, sale or consumption | **(7,204,713)** | (48,227) |
| Exchange rate variation | **(41,651)** | (10,310) |
| Amortization | **-** | (290,024) |
| Impact of Sul Valle's acquisition | **7,407** | 3,098 |
| Impact of Frinal S.A.'s acquisition | **13,208** | 3,235 |
| **Current amount on June 30, 2014** | **1,507,413** | **487,621** |

The current biological assets consist mainly of eggs awaiting hatching and animals, mostly of feedlots and maturity period for slaughtering, which remain in developmen for a period of 30 to 48 days, for chicken, and 90 to 120 days, mainly cattle and 170 to 175 days, for hogs and lambs, until they reach maturity and therefore sent for slaughter units.

Noncurrent biological assets are composed of layer and breeder chicken and hogs that are intended for breeding. The lifetime of these animals for breeding is approximately 68 weeks for chickens and 28 months for hogs, and for this reason, classified under non-current assets accounts.

Below, details of the biological assets of the Company:

| | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| **COMPANIES IN UNITED STATES OF AMERICA** | Amount | Quantity (in thousands) | Amount | Quantity (in thousands) |
| **Current biological assets (consumable):** | | | | |
| Chicken and eggs | **655,920** | **239,089** | 624,274 | 231,481 |
| Cattle | **6,326** | **3** | 8,891 | 3 |
| Hogs and lambs | **30,381** | **105** | 50,457 | 183 |
| **Total biological assets valued at cost** | **692,627** | **239,197** | **683,622** | **231,667** |
| **Noncurrent biological assets (bearer assets):** | | | | |
| Chicken and eggs | **278,352** | **17,788** | 297,503 | 17,660 |
| **Total biological assets valued at cost** | **278,352** | **17,788** | **297,503** | **17,660** |

Chicken and eggs – PPC has breeding activity of broiler chickens for slaughtering (current) for production of fresh meat and / or industrialized products, and breeder chicken (noncurrent) that are intended for breeding.

Cattle - A subsidiary JBS USA keeps cattle in feedlots between the period of 75-100 days. The active market for cattle in feedlot just over 180 days.

Hogs and lambs - JBS USA keeps hogs and lambs in the feedlot system.

Due to the fact there is no active market for these biological assets, the fair value of these biological assets is substantially represented by its acquisition cost plus accumulated absorption, due to the short life cycle and by the fact that the profit margin is substantially representative only in the process of industrialization. Thereby, the current assets are maintained at cost and the non-current assets besides being maintained at cost, are amortized according to the lifetime of the animals.

| | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| **COMPANIES IN BRAZIL** | Amount | Quantity (in thousands) | Amount | Quantity (in thousands) |
| **Current biological assets (consumable):** | | | | |
| Cattle | **112,917** | **63** | 52,480 | 36 |
| **Biological assets valued at market:** | **112,917** | **63** | **52,480** | **36** |
| Chicken and eggs | **305,402** | **188,267** | 299,504 | 183,825 |
| Hogs and lambs | **394,446** | **2,205** | 380,188 | 2,231 |
| Plants for harvest | **2,021** | **-** | 3,549 | - |
| **Biological assets valued at cost:** | **701,869** | **190,472** | **683,241** | **186,056** |
| **Total current biological assets** | **814,786** | **190,535** | **735,721** | **186,092** |
| **Noncurrent biological assets (bearer assets):** | | | | |
| Chicken and eggs | **149,786** | **11,080** | 145,463 | 10,626 |
| Hogs and lambs | **59,483** | **186** | 53,937 | 188 |
| **Total noncurrent biological assets valued at cost** | **209,269** | **11,266** | **199,400** | **10,814** |

The operations relating to activities of cattle in Brazil are represented mainly by cattle in feedlots (intensive) and cattle in pastures (extensive), whose valuation at market is reliably measured due to the existence of active markets.

The operations relating to chicken activities in Brazil, are divided among broiler chicken for slaughtering (current) for production "in natura" and/or industrialized products, and layer and breeder chicken (noncurrent) that are intended for breeding. For both cases, the fair value of these biological assets is substantially represented by its acquisition cost plus accumulated absorption, due to the short life cycle and by the fact that the profit margin is substantially representative only in the process of industrialization. Thereby, the current assets are maintained at cost and the non-current assets besides being maintained at cost, are amortized according to the lifetime of the animals.

Operations related to hogs of activities in Brazil, are similar to the activities of chicken, divided among hogs for slaughtering (current) for production "in natura" and/or industrialized products, and layer and breeder hogs (non-current) that are intended for breeding. For both cases, the fair value of biological assets is substantially represented by its acquisition cost plus accumulated absorption. Thereby, the current assets are maintained at cost and the noncurrent assets besides being maintained at cost, are amortized according to the lifetime of the animals.

The balances plants for harvest, consist of corn, soybeans and grass, which will be used in the preparation of ration for cattle. The Management chose to keep the measurement of biological assets at their cost values, due to the immateriality of the balances, since the efforts needed to develop and measure these assets at their fair values overcome the benefits expected by Management.

## 9 Recoverable taxes

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Value-added tax on sales and services (ICMS / IVA / VAT / GST) | **943,764** | 919,691 | **1,638,513** | 1,460,744 |
| Excise tax - IPI | **45,509** | 43,937 | **111,323** | 109,792 |
| Social contribution on billings - PIS and COFINS | **761,117** | 720,362 | **939,955** | 975,294 |
| Withholding income tax - IRRF/IRPJ | **179,220** | 164,310 | **229,624** | 425,600 |
| Reintegra | **62,358** | 105,917 | **75,863** | 124,753 |
| Other | **4,017** | 3,968 | **43,480** | 56,798 |
| | **1,995,985** | **1,958,185** | **3,038,758** | **3,152,981** |
| **Current and Long-term:** | | | | |
| Current | **1,269,180** | 1,275,614 | **1,858,582** | 2,003,256 |
| Noncurrent | **726,805** | 682,571 | **1,180,176** | 1,149,725 |
| | **1,995,985** | **1,958,185** | **3,038,758** | **3,152,981** |

**Value-added tax on sales and services (ICMS / IVA / VAT/GST)**

Recoverable ICMS refers to excess of credits derived from purchases of raw materials, packaging and other materials over tax charges due on domestic sales, since exports are tax-exempted.

The Company expects to recover the total amount of the tax credit, including the ICMS credits from other states (difference between the statutory rate for tax bookkeeping and the effective rate for ICMS collection in the state of origin).

**Social contribution on billings - PIS and COFINS**

Refers to non-cumulative PIS and COFINS credits arising from purchases of raw materials, packaging and other materials used in the products sold in the foreign market.

**Withholding income tax - IRRF/IRPJ**

Refers mainly to withholding income tax levied on short-term investments, deductions and remittance of dividends to its subsidiary JBS USA and prepayments of income tax and social contribution paid by estimate, which can be offset against income tax payable on profits.

**Reintegration of the Special Tax Values - Reintegra**

The credit of Reintegra was instituted on December, 2011 and refers to a 3% rate applied over the revenue from the exportation of determined industrialized products. The compensation of such credit is done with others federal taxes or is paid in cash.

According to the Brazilian Law nº 12.546 from December 14, 2011, 3rd article, item I, the Reintegra was applicable to the exportation made up to December 31, 2013.

(Expressed in thousands of reais)

**General comments**

Company and JBS Embalagens recorded the monetary adjustment of their PIS, COFINS, IPI and IRPJ tax credits based on SELIC (Sistema Especial de Liquidação e de Custódia - Special Settlement and Custody System), in the amount of R$ 198,278. As of this amount the Company received R$ 51,787 and the remaining balance is R$ 146,491.

Annually, Company's management, supported by its tax and legal counsel, evaluates the segregation between current and noncurrent of tax credits according to their attainment.

## 10 Related parties transactions

Refers to agreements between related parties recorded on the balance sheet of the Company as credits and debits with related parties, as follows:

| COMPANY | Currency | Maturity | Management and borrowing costs | June 30, 2014 | December 31, 2013 |
|---|---|---|---|---|---|
| **Direct subsidiaries** | | | | | |
| JBS Confinamento Ltda. | R$ | Jan 1, 2016 | Corresponds to CDI + 1% p.m. | **95,034** | 81,349 |
| JBS Embalagens Metálicas Ltda. | R$ | Jan 1, 2016 | Corresponds to CDI + 1% p.m. | **82,561** | 75,309 |
| JBS USA, Inc | US$ | Mar 25, 2016 | Corresponds to Libor + 2.5% to 3% p.y. | **(489,336)** | (201,070) |
| JBS USA, Inc (1) | US$ | - | - | **(692,019)** | - |
| Brazservice Wet Leather S.A. | R$ | Jan 1, 2016 | Corresponds to CDI + 1% p.m. | **8,603** | - |
| JBS Global Meat S.A. (2) | R$ | - | - | **102,667** | 87,862 |
| JBS Foods S.A. (3) | R$ | Sep 30, 2014 | - | **2,798,418** | - |
| JBS Holding Internacional S.A. | R$ | - | - | **90** | - |
| **Indirect subsidiaries** | | | | | |
| Zenda Leather S.A. | US$ | Jan 1, 2016 | Corresponds to 3% p.y. | **24,846** | 26,082 |
| Seara Alimentos Ltda | R$ | Jan 1, 2016 | Corresponds to CDI | **931,595** | 679,386 |
| Beef Snacks Brasil Ind.Com. S.A. | R$ | Jan 23, 2015 | Corresponds to CDI | **112,198** | 107,768 |
| Beef Snacks International BV | US$ | Dec 31, 2014 | Corresponds to Libor + 2% to 3% p.y. | **5,904** | 6,117 |
| JBS Aves Ltda. | R$ | Jan 1, 2016 | Corresponds to CDI | **670,007** | 622,946 |
| JBS Argentina S.A. (2) | R$ | - | - | **32,365** | - |
| Seara Alimentos Ltda (3) | R$ | Jan 1, 2016 | - | **474,882** | 220,751 |
| Zenda Leather S.A. | US$ | - | - | **73,757** | 78,448 |
| | | | | **4,231,572** | **1,784,948** |

(1) - Refers to payment made by JBS USA on behalf of JBS S.A., referring to the partial payment of JBS S.A.'s Notes 2016 and Bertin S.A.'s Notes 2016 (and others expenses related to this transaction). This payment does not incur in interest, once it will be converted into capital reduction (investment) in JBS USA during the period.

(2) - Advances made with the purpose of further capitalization.

(3) - Refers to credits related to the selling of the equity participation and assets (according to note 11 - Investments in associate, subsidiaries and joint ventures).

(Expressed in thousands of reais)

Intercompany balances shown in the balance sheet of the Company and statement of operations are as follows:

| | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| **COMPANY** | **Trade accounts receivable** | **Trade accounts payable** | **Trade accounts receivable** | **Trade accounts payable** |
| **Direct subsidiaries** | | | | |
| JBS Confinamento Ltda. | **876** | **18,263** | 355 | 44,778 |
| JBS Leather Itália SRL | **365** | **-** | 3,466 | - |
| Brazservice Wet Leather S.A. | **227** | **1,260** | - | - |
| **Indirect subsidiaries** | | | | |
| JBS Global (UK) Limited | **47,008** | **27** | 52,470 | - |
| JBS Argentina S.A. | **-** | **587** | - | 48 |
| Global Beef Trading SU Lda. | **303** | **-** | 2,798 | - |
| Austrália Meat | **-** | **1,686** | - | 1,804 |
| Toledo International NV | **28,566** | **-** | 15,990 | - |
| JBS Aves Ltda. | **1,875** | **136,179** | 1,524 | 109,790 |
| Weddel Limited | **7,265** | **-** | 2,118 | - |
| Sampco Inc. | **39,667** | **-** | 33,904 | - |
| JBS Leather Europe | **-** | **2** | 4,255 | - |
| Meat Snacks Partners do Brasil Ltda | **7,877** | **75** | 9,989 | 113 |
| Frigorífico Canelones S.A. | **-** | **597** | - | - |
| Rigamonti Salumificio Spa | **-** | **8** | - | 20 |
| Trump Asia Enterprise Ltd | **4,752** | **-** | 6,197 | 701 |
| JBS Paraguay | **2,651** | **1,532** | - | 1,415 |
| Zenda Leather S.A | **668** | **-** | 2,713 | - |
| Braslo Produtos de Carnes Ltda | **6,082** | **-** | 2,894 | - |
| Excelsior Alimentos S.A. | **4** | **-** | 7 | - |
| Seara Alimentos Ltda | **5,454** | **33,144** | 2,265 | 69,429 |
| MBL Alimentos S.A | **-** | **-** | 23 | - |
| JBS Leather Uruguay | **222** | **-** | - | - |
| **Other related parties** | | | | |
| S.A. Fabrica de Prod. Alimentícios Vigor | **4,574** | **17,475** | 4,057 | 18,547 |
| J&F Floresta Agropecuária Ltda | **66** | **100** | 181 | - |
| Flora Produtos de Hig. Limp. S.A. | **8,542** | **-** | 5,453 | 1 |
| Flora Dist. Produtos de Hig. Limp. S.A. | **16,786** | **54** | 11,932 | 58 |
| Itambé Alimentos S.A. | **55** | **51,461** | 1 | 13,884 |
| | **183,885** | **262,450** | **162,592** | **260,588** |

(Expressed in thousands of reais)

Impacts of related party transactions on Income Statements of the Company:

| | For the six months period ended on June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Financial income (expenses) | Purchases | Sales of products | Financial income (expenses) | Purchases | Sales of products |
| **Direct subsidiaries** | | | | | | |
| JBS Confinamento Ltda. | 6,484 | 95,714 | 3,381 | 7,948 | 66,671 | 4,844 |
| JBS Embalagens Metálicas Ltda. | 7,032 | - | - | 4,943 | - | - |
| JBS USA, Inc | (3,312) | - | - | 5,912 | - | - |
| JBS Slovakia Holdings s.r.o. | - | - | - | (758) | - | - |
| JBS Leather Itália SRL | - | - | 46,643 | - | - | 55,040 |
| Novaprom Food Ingredients Ltda | - | - | - | (18) | 2,098 | 7,559 |
| Brazservice Wet Leather S.A. | 717 | 25,865 | 18,304 | - | - | - |
| **Indirect subsidiaries** | | | | | | |
| JBS Global (UK) Limited | - | 90 | 82,437 | - | - | 64,666 |
| JBS Argentina S.A | - | 4,390 | - | - | 5,624 | - |
| Global Beef Trading SU Lda. | - | 1,731 | 43,919 | - | 1,843 | 36,942 |
| Beef Snacks Brasil Ind.Com. S.A. | 5,340 | - | - | 3,481 | - | - |
| Beef Snacks International | (6) | - | - | 325 | - | - |
| JBS Aves Ltda. | 22,122 | 341,857 | 16,893 | 24,634 | 41,635 | 11,905 |
| Australia Meat | - | 13,099 | - | - | 12,935 | - |
| Toledo International BV | - | - | 97,592 | - | - | 121,363 |
| JBS Leather Europe | - | - | - | - | - | 336 |
| Meat Snacks Partners do Brasil Ltda | - | 578 | 77,823 | - | - | 52,160 |
| JBS Chile Ltda | - | - | - | - | - | 306 |
| Agrovêneto S.A. Indústria de Alimentos | - | - | - | - | 1,209 | 2,121 |
| Weddel Limited | - | - | 15,982 | - | - | 6,514 |
| Sampco Inc. | - | - | 93,752 | - | - | 98,759 |
| Frigorífico Canelones S.A. | - | 4,813 | - | - | 7,785 | 562 |
| Trump Asia Enterprise Ltd | - | - | 142,524 | 45 | 30 | 124,362 |
| JBS Paraguay | - | 33,624 | 2,680 | - | 38,692 | - |
| Zenda Leather S.A. | 374 | - | 17,477 | - | - | - |
| Braslo Produtos de Carnes Ltda | - | 22 | 44,011 | - | - | - |
| Excelsior Alimentos S.A | - | - | 32 | - | - | - |
| Seara Alimentos Ltda | 37,231 | 102,502 | 61,526 | - | - | - |
| JBS Leather Uruguay | - | - | 11,286 | - | - | - |
| MBL Alimentos S.A | - | - | 460 | - | - | - |
| **Other related parties** | | | | | | |
| S.A. Fabrica de Prod. Alimentícios Vigor | - | 36,741 | 26,833 | - | 250 | 34,105 |
| J&F Floresta Agropecuária Ltda | - | 5,851 | 191 | - | 3,335 | 118 |
| Flora Produtos de Hig. Limp. S.A. | - | 91 | 37,057 | - | 10,053 | 39,482 |
| Flora Dist. Produtos de Hig. Limp. S.A. | - | 216 | 66,932 | - | 163 | 60,858 |
| Itambé Alimentos S.A. | - | 123,137 | 44 | - | - | - |
| | 75,982 | 790,321 | 907,779 | 46,512 | 192,323 | 722,002 |

**Guarantees provided and / or received**

The Company guarantees the amount of notes 8.25% issued by its direct subsidiary JBS USA, expiring in 2020.

The Company guarantees the amount of notes 7.25% issued by its direct subsidiary JBS USA, expiring in 2021.

JBS USA, JBS USA Holdings and Swift Beef Company, along with JBS Hungary Holdings are guarantors of the amount of the notes 2016, recorded in the Company.

JBS Hungary Holdings guarantees the amount of notes 2016 (of the incorporated Bertin), 2018 and 2023, recorded in the Company.

JBS Hungary Holdings guarantees the amount of the notes 2024, recorded in the Company.

JBS USA Holdings and JBS S.A., along with JBS Hungary Holdings are guarantors of the notes 5.875% recorded in its indirect subsidiaries JBS USA, LLC and JBS USA Finance, expiring in 2024.

**Details of transactions with related parties**

The main assets and liabilities balances, as well as the transactions that had impact on income statements related with related parties transactions, which Management considers that were accomplished in the usual market conditions for similar types of operations of trade accounts receivable and trade accounts payable and for related parties operations of only pass the borrowing costs, in addition to the operational expenses that support these contracts.

Among the transactions between related parties more representative, we emphasize the purchase of cattle for slaughter between the Company and it subsidiary JBS Confinamento, related party J&F Floresta Agropecuária Ltda. Such transactions are made at regular price and market conditions in their region because it takes the market prices applied with other suppliers (third parties not JBS Group). The number of cattle supplied by these related parties is irrelevant comparing to the demanded volume by the Company.

On the related parties contracts are calculated management and borrowing costs, exchange rate and interests, when applicable.

No allowance for doubtful accounts or bad debts expenses relating to related-party transactions were recorded for the periods ended on June 30, 2014 and December 31, 2013.

(Expressed in thousands of reais)

**Consolidated - Credits with related parties**

The consolidated amount of credits with related parties, of R$ 682,579 in June 30, 2014 (R$ 733,958 in December 31, 2013) arises from the use of the credit of up to US$ 450 million between the indirect subsidiary JBS Five Rivers (subsidiary of JBS USA) and J&F Oklahoma (subsidiary of J&F Participações S.A., which is not consolidated in the Company).

This transaction has interest and J&F Oklahoma uses this credit to purchase cattle for fattening, which are allocated in the JBS Five Rivers feedyards for fattening until ready for slaughter.

J&F Oklahoma is still part in 2 commercial agreements with subsidiaries of the Company:

i) Cattle supply and feeding agreement with JBS Five Rivers, where it takes the responsibility for the cattle from J&F Oklahoma and collects the medicinal and adding value costs, besides a daily fee of rent in line with market terms;
ii) Sales and purchase cattle agreement with JBS USA of at least 500,000 animals/year, starting from 2009 up to 2016.

JBS Five Rivers also guarantee in third degree, after guarantee of the assets from J&F Oklahoma and its parent company, up to US$ 250 million in a line of credit of J&F Oklahoma.

In June 2011, J&F Australia entered into a purchase and sale of cattle to JBS Australia, according to this agreement, J&F Australia should sell for JBS Australia and this one should buy at least 200,000 head of cattle from J&F Australia per year.

In January 2013, J&F Canada entered into a purchase and sale of cattle to JBS Canada, according to this agreement, J&F Canada should sell for JBS Canada and this one should buy at least 50,000 head of cattle from J&F Canada per year.

**Remuneration of key management**

Company's management includes the Executive Board and the Board of Directors. The aggregate amount of compensation received by the members of Company's management for the services provided in their respective areas of business in the six months period ended on June 30, 2014 and 2013 is the following:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Members** | **Value** | **Members** | **Value** |
| Executive Board and Board of Directors | **13** | **3,605** | 13 | 3,650 |
| | **13** | **3,605** | **13** | **3,650** |

The alternate members of the Board of Directors are paid for each meeting of Council in attendance.

The Institutional Relations Executive Officer, Administrative and Control Director and Investor Relations Director are part of the employment contract regime *CLT* (which is the Consolidation of Labor Laws), which follows all the legal prerogatives of payments and benefits. Not included any remuneration bonuses of the Company or other corporate benefits to additional employees or that should be extended to their family.

In accordance with IAS 24(R)/CPC 05 R1 - Related parties, except for those described above, the other members of the Executive Board, and Management Board are not part of any employment contract or any other contracts for additional business benefits such as post-employment benefits or other long-term benefits, termination of work that does not conform to those requested by the *CLT* , where applicable, or payment based on shares.

## 11 Investments in associate, subsidiaries and joint ventures

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Investments in subsidiaries, associates and joint ventures | **8,598,715** | 9,457,375 | **288,884** | 277,571 |
| Goodwill (note 13) | **698,314** | 2,136,978 | **-** | - |
| | **9,297,029** | **11,594,353** | **288,884** | **277,571** |

Relevant information about investments in the in the period of June 30, 2014:

| | Participation | Total assets | Capital stock | Equity | Net revenue | Net income (loss) |
|---|---|---|---|---|---|---|
| **Controlled:** | | | | | | |
| JBS Embalagens Metálicas Ltda. | 99.00% | 88,273 | 2 | (2,443) | - | (6,193) |
| JBS Global Investments S.A. | 100.00% | 2,348 | 160,783 | 2,348 | - | (16) |
| JBS Holding Internacional S.A. | 100.00% | 515,935 | 1,415,387 | 318,147 | 455,497 | (19,895) |
| JBS USA, Inc. | 100.00% | 22,761,767 | 2,254,646 | 4,961,933 | 36,249,577 | 583,476 |
| JBS Confinamento Ltda. | 100.00% | 646,909 | 533,401 | 458,845 | 41,910 | (6,260) |
| JBS Slovakia Holdings, s.r.o. | 100.00% | 40,917 | 6,862 | 33,931 | - | (437) |
| JBS Leather Italia S.R.L. | 100.00% | 205,671 | 35,221 | 26,535 | 81,291 | (79) |
| JBS S/A (DMCC Branch) | 100.00% | 259 | 2,545 | 156 | - | (513) |
| JBS Leather Paraguay | 97.50% | 1,768 | 20 | 4 | 1,374 | (7) |
| JBS Holding GMBH | 100.00% | 4,514,093 | 513,383 | 1,231,443 | 997,084 | 52,380 |
| JBS Global Luxembourg S.à.r.l. | 100.00% | 323,257 | 104,572 | 55,908 | 503,322 | (8,160) |
| FG Holding III Ltda. | 100.00% | 67 | 53 | 67 | - | (1) |
| JBS Global Meat S.A | 100.00% | 266,263 | 135,001 | 135,001 | - | - |
| Columbus Netherlands B.V. | 100.00% | 521,069 | 155,265 | 106,535 | 278,847 | 2,131 |
| Baumhardt Com. e Particip. Ltda. * | 73.94% | 90,708 | 1,240 | 46,414 | 64,513 | 4,447 |
| Brazservice Wet Leather S.A. | 100.00% | 36,174 | 23,063 | (5,780) | 22,350 | (3,831) |
| JBS Foods S.A. (1) | 100.00% | 11,364,109 | 841,035 | 970,359 | 3,084,468 | 158,191 |
| **Associates:** | | | | | | |
| Vigor Alimentos S.A. | 21.12% | 3,456,682 | 1,191,378 | 1,245,900 | 874,916 | 27,497 |

(Expressed in thousands of reais)

In consolidated interim quarterly interim financial statements, goodwill is recorded in the Intangible assets due to expected profitability of the acquired subsidiary, assets and liabilities are consolidated with the Individual Statement. In the balance sheets of the Company, this goodwill is recorded on Investments, the same group of noncurrent assets, because, for the Company it is part of its investment on subsidiary acquisition, not being its intangible assets (as stated above, the expectation of future earnings - the genuine intangible - is the subsidiary). In the company the intangible goodwill arising from the merger of Bertin, and the rest allocated to investments. Consolidated all goodwill re recorded as intangible. The Company presents only the intangible goodwill arising from the merger of Bertin and the remaining amounts are allocated in investments.

* Includes direct and indirect participation of Company in Excelsior.

**In the Company:**

| | | | | Equity in subsidiaries | | |
|---|---|---|---|---|---|---|
| | December 31, 2013 | Addition (disposal) | Exchange rate variation (i) | Equity in subsidiaries (ii) | Income Statements | June 30, 2014 |
| JBS Embalagens Metálicas Ltda. | **3,713** | - | - | - | (6,132) | **(2,419)** |
| JBS Global Investments S.A. | **2,513** | - | (149) | - | (16) | **2,348** |
| JBS Holding Internacional S.A. | **433,319** | 9,069 | - | (104,345) | (19,895) | **318,148** |
| JBS Aves Ltda [(1)] | **62,819** | (110,877) | - | - | 48,058 | **-** |
| JBS USA, Inc. | **4,590,739** | - | (299,916) | 87,632 | 583,476 | **4,961,931** |
| JBS Confinamento Ltda. | **465,105** | - | - | - | (6,260) | **458,845** |
| JBS Slovakia Holdings, s.r.o. | **36,630** | - | (2,383) | 121 | (437) | **33,931** |
| JBS Leather Italia S.R.L | **28,477** | - | (1,863) | - | (79) | **26,535** |
| JBS S/A (DMCC Branch) | **33** | 646 | (10) | - | (513) | **156** |
| JBS Leather Paraguay | **11** | - | - | - | (6) | **5** |
| JBS Holding GMBH | **1,212,493** | 5,971 | (41,316) | 1,915 | 52,380 | **1,231,443** |
| JBS Global Luxembourg S.à.r.l. | **70,893** | - | (4,263) | (2,562) | (8,160) | **55,908** |
| FG Holding III Ltda. | **68** | - | - | - | (1) | **67** |
| JBS Global Meat S.A | **135,001** | - | - | - | - | **135,001** |
| Vigor Alimentos S.A. | **257,376** | - | - | - | 5,809 | **263,185** |
| Columbus Netherlands B.V. | **110,523** | - | (6,716) | 597 | 2,131 | **106,535** |
| Seara Holding Europe B.V. [(1)] | **652,530** | (636,555) | (22,273) | 224 | 6,074 | **-** |
| Baumhardt Com. Particip. Ltda | **31,030** | - | - | - | 3,288 | **34,318** |
| JBS Foods Particip. Ltda. [(1)] | **1,364,102** | (1,421,759) | - | (13,278) | 70,935 | **-** |
| Brazservice Wet Leather S.A. | **-** | (1,948) | - | - | (3,831) | **(5,779)** |
| JBS Foods S.A. [(1)] | **-** | 841,034 | - | (28,866) | 158,191 | **970,359** |
| **Subtotal** | **9,457,375** | **(1,314,419)** | **(378,889)** | **(58,562)** | **885,012** | **8,590,517** |
| Accrual for loss on investments Brazservice and JBS Embalagens | **-** | | | | | **8,198** |
| **Total** | **9,457,375** | | | | | **8,598,715** |

**In the Consolidated:**

| | | Equity in subsidiaries | | |
|---|---|---|---|---|
| | December 31, 2013 | Equity in subsidiaries (ii) | Income Statements | June 30, 2014 |
| Vigor Alimentos S.A. | **257,376** | - | 5,809 | **263,185** |
| Meat Snacks Partners Ltda. | **20,195** | (252) | 5,756 | **25,699** |
| **Total** | **277,571** | **(252)** | **11,565** | **288,884** |

**(i) -** As defined in IAS 21/CPC 2 R1 - The effects of changes in foreign exchanges rates, refers to the exchange rate variation of foreign currency investments that are accounted under the equity method, which was accounted directly to equity of the Company on the line "Accumulated translation adjustments".

**(ii) -** Refers to the reflex of valuation adjustments and exchange rate variation of foreign investments and capital transactions, accounted in valuation adjustments to equity in the subsidiaries, whose effect is being recognized when calculating the equity in subsidiaries, directly to equity of the Company.

**Below is presented the breakdown of main additions and disposals of investments during the period:**

[(1)] - On March 31, 2014 a corporate restructuring was effected through sale by book value, of the company JBS Foods Ltda and capitalization of the Company's investments in the subsidiaries JBS Aves and Seara Holding to JBS Foods S.A., created to receive these operations. The total amount of the sale of investment in JBS Foods Ltda was in the amount of R$ 1,421,759 plus goodwill in the amount of R$ 1,376,660 summarizing the total amount of R$ 2,798,419 and the capitalization of the investments in JBS Aves and Seara Holding in the total amount of R$ 841,034.

**Subsequent events:** As announced to the Market on July 28, 2014, the Company, along with its indirect subsidiary Pilgrim's Pride Corporation (PPC) signed a definitive agreement for the acquisition of all the chicken activities of Tyson Foods, Inc. in México and in Brasil. The business operation of México will be acquired by PPC, and the business operation of Brazil will be acquired by JBS Foods S.A. The total amount to be paid is US$ 575 million (US$ 400 million for the business operation of México and US$ 175 million for the business operation of Brazil), being subject to the approvals of the regulatory authorities.

(Expressed in thousands of reais)

## 12 Property, plant and equipment, net

| Company | Cost | Revaluation | Accumulated depreciation | Net amount June 30, 2014 | Net amount December 31, 2013 |
|---|---|---|---|---|---|
| Buildings | 3,129,581 | 116,615 | (513,804) | **2,732,392** | 2,757,435 |
| Land | 1,101,140 | 9,305 | - | **1,110,445** | 988,544 |
| Machinery and equipment | 4,758,269 | 44,354 | (1,358,905) | **3,443,718** | 3,424,150 |
| Facilities | 1,170,339 | 21,737 | (279,959) | **912,117** | 826,721 |
| Computer equipment | 194,942 | 688 | (107,475) | **88,155** | 96,871 |
| Vehicles | 545,637 | 33 | (149,896) | **395,774** | 293,104 |
| Construction in progress | 1,144,559 | - | - | **1,144,559** | 828,605 |
| Other | 228,592 | 1,237 | (35,997) | **193,832** | 176,906 |
| | **12,273,059** | **193,969** | **(2,446,036)** | **10,020,992** | **9,392,336** |

| Consolidated | Cost | Revaluation | Accumulated depreciation | Net amount June 30, 2014 | Net amount December 31, 2013 |
|---|---|---|---|---|---|
| Buildings | 8,799,918 | 116,615 | (1,732,829) | **7,183,704** | 7,369,250 |
| Land | 2,620,609 | 9,305 | - | **2,629,914** | 2,399,488 |
| Machinery and equipment | 12,112,181 | 44,354 | (4,948,274) | **7,208,261** | 7,337,010 |
| Facilities | 1,734,195 | 21,737 | (475,603) | **1,280,329** | 1,195,665 |
| Computer equipment | 449,582 | 688 | (268,454) | **181,816** | 200,588 |
| Vehicles | 814,606 | 33 | (353,041) | **461,598** | 352,418 |
| Construction in progress | 1,945,870 | - | - | **1,945,870** | 1,430,774 |
| Other | 1,007,200 | 1,237 | (364,996) | **643,441** | 655,423 |
| | **29,484,161** | **193,969** | **(8,143,197)** | **21,534,933** | **20,940,616** |

The Company annually accompanies the useful lives of fixed assets and no significant differences were indentified during the period. The weighted average depreciation rates of assets that make up each group are as follows:

| | Average annual depreciation rates as of June 30, 2014 | | 2013 | |
|---|---|---|---|---|
| | Company | Consolidated | Company | Consolidated |
| Buildings | **3.09%** | **3.79%** | 2.99% | 4.54% |
| Land | **0.00%** | **0.00%** | 0.00% | 0.00% |
| Machinery and equipment | **6.48%** | **9.12%** | 6.34% | 8.33% |
| Facilities | **5.24%** | **5.55%** | 5.25% | 5.06% |
| Computer equipment | **11.94%** | **15.26%** | 12.41% | 15.88% |
| Vehicles | **10.07%** | **9.85%** | 11.51% | 10.78% |
| Other | **2.37%** | **7.86%** | 3.32% | 1.51% |

**Changes in property, plant and equipment**

| Company | December 31, 2013 | Additions net of transferences | Disposals | Depreciation | June 30, 2014 |
|---|---|---|---|---|---|
| Buildings | 2,757,435 | 25,152 | (49) | (50,146) | **2,732,392** |
| Land | 988,544 | 121,901 | - | - | **1,110,445** |
| Machinery and equipment | 3,424,150 | 179,491 | (4,380) | (155,543) | **3,443,718** |
| Facilities | 826,721 | 116,788 | (145) | (31,247) | **912,117** |
| Computer equipment | 96,871 | 3,046 | (84) | (11,678) | **88,155** |
| Vehicles | 293,104 | 148,005 | (17,849) | (27,486) | **395,774** |
| Construction in progress (1) | 828,605 | 315,954 | - | - | **1,144,559** |
| Other | 176,906 | 19,743 | (87) | (2,730) | **193,832** |
| | **9,392,336** | **930,080** | **(22,594)** | **(278,830)** | **10,020,992** |

(1) - Additions of construction in progress are presented for quarterly interim financial statements purposes, net of transfers, being composed in June 30, 2014 as follow:

( + ) Additions in the period: R$ 428,287
( - ) Transfer to a proper property plant item: (R$ 112,333);
( = ) Additions net of transfers: (R$ 315,954).

(Expressed in thousands of reais)

| Consolidated | December 31, 2013 | Acquisitions [(1)] | Additions net of transferences [(2)] | Disposals | Depreciation | Exchange rate variation | June 30, 2014 |
|---|---|---|---|---|---|---|---|
| Buildings | 7,369,250 | 23,851 | 146,359 | (6,423) | (169,024) | (180,309) | **7,183,704** |
| Land | 2,399,488 | 12,424 | 259,357 | (5,451) | - | (35,904) | **2,629,914** |
| Machinery and equipment | 7,337,010 | 25,748 | 524,921 | (4,216) | (554,617) | (120,585) | **7,208,261** |
| Facilities | 1,195,665 | 7,248 | 128,298 | (1,888) | (48,733) | (261) | **1,280,329** |
| Computer equipment | 200,588 | 168 | 19,020 | (456) | (34,354) | (3,150) | **181,816** |
| Vehicles | 352,418 | 804 | 179,169 | (28,839) | (40,110) | (1,844) | **461,598** |
| Construction in progress | 1,430,774 | 103 | 520,208 | - | - | (5,215) | **1,945,870** |
| Other | 655,423 | 9,064 | 50,825 | (5,817) | (39,626) | (26,428) | **643,441** |
| | **20,940,616** | **79,410** | **1,828,157** | **(53,090)** | **(886,464)** | **(373,696)** | **21,534,933** |

[(1)] - The acquisitions of R$ 79,410 refers to Sul Valle and Massa Leve by the indirect subsidiary Seara Alimentos and Frinal S.A. by the indirect subsidiary JBS Aves.

[(2)] - The additions of R$ 1,828,157 are composed by various acquisitions and pulverized construction in progress, including the amount of R$ 158,922 in the Company referring to a beef processing facility implementation recently acquired, awaiting physical inventory by a specialized company, including Kaiowa, R$ 215,062 in the subsidiary JBS Foods S.A. related to the acquisition of the plant in Carambeí and R$ 131,262 related to the ending of the business combination of the Global Meat and Midtown's acquisition, where the preliminary goodwill was allocated in a final way as a fair value on the fixed asset, according to note 13 - Intangible assets, net.

The balance of construction in progress refers to investments for expansion, modernization and adaptation of plants for the maintenance, increasing productivity and obtaining new certifications required by the market. When these assets are concluded and start operating, they will be transferred to a proper property, plant and equipment account and then will be subject to depreciation.

Part of the increase in construction in progress in the Company as reflected in the consolidated, is result of recent acquisitions of assets by the Company. The assets are recorded as construction in progress and subsequently transferred to their balance account referred to, see note 19.

Until December 2007, revaluations were performed on property, plant and equipment items of several Company's plants, and offsetting entries were made to the revaluation reserve account and the provision for deferred income and social contribution taxes. The method and assumption applied to estimate the fair value of the assets were determined based on current market prices. As of June 30, 2014, the total amount of property, plant and equipment revaluation is R$ 193,969, which the revaluation reserve is R$ 90,099 and the provision for deferred income and social contribution taxes is R$ 41,841. For revalued property, plant and equipment, the Company recorded accumulated depreciation of R$ 62,029.

The Company and its subsidiaries reviewed the useful lives of their property, plant and equipment, by hiring a specialized company. Significant differences were not found in comparison with the useful lives adopted as of December 31, 2009. From January 1, 2010 new acquisitions are made with estimated useful lives, annually the useful lives are reviewed and when applicable adjusted.

**Interest capitalization - Borrowing costs**

Pursuant to IAS 23/CPC 20 R1 – Borrowing costs, the Company capitalized those borrowing costs directly and indirectly attributable to the construction of qualifying assets, which are exclusively represented by construction in progress. The borrowing costs allocated to the qualifying assets as of June 30, 2014 and December 31, 2013 are shown below:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Construction in progress | **1,094,872** | 788,961 | **1,845,713** | 1,345,960 |
| (+) capitalized borrowing costs | **49,687** | 39,644 | **100,157** | 84,814 |
| | **1,144,559** | **828,605** | **1,945,870** | **1,430,774** |

In the period ended on June 30, 2014, the amount of capitalized interest on construction in progress including the amount of the additions is R$ 14,724. in the Company.

**Impairment test of assets**

In compliance with the requirements of IAS 36/CPC 01 R1 - Impairment of assets, the Company performed the annual impairment test of the tangible and intangible assets on December 31, 2013, which were estimated based on the values in use of its various cash-generating units using the discounted cash flows, and showed that the estimated market value is higher than the net book value at the valuation date and, during the year there was no evidence of loss of value of individual assets or group of relevant assets. Potential impacts of loss recover them are highlighted in the notes, where relevant. The assumptions of the annual test of recovery are described in note 13.

**Subsequent events: As announced to the Market on** July 14, 2014, the subsidiary JBS Foods S.A., along with its subsidiary Seara Alimentos Ltda., signed a Binding Memorandum of Understanding with Céu Azul Alimentos Ltda. and individuals and entities jointed ("Céu Azul's Group"), in regards to the acquisition of two chicken slaughter facilities, including two pet food facilities and three hatcheries. The estimated amount to be paid is R$ 246 million, being subject to the approvals of the regulatory authorities.

(Expressed in thousands of reais)

## 13 Intangible assets, net

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Goodwill (incorporations and subsidiaries) | **9,085,970** | 9,085,970 | **12,732,036** | 12,702,971 |
| Trademarks | **452,578** | 452,578 | **1,536,442** | 1,553,916 |
| Software | **9,011** | 8,489 | **42,296** | 34,672 |
| Water rights | **-** | - | **70,703** | 74,844 |
| Client portfolio | **-** | - | **531,127** | 603,152 |
| Other | **-** | - | **6,587** | 6,108 |
| | **9,547,559** | **9,547,037** | **14,919,191** | **14,975,663** |

The amortization, when applicable, is recognized linearly based on the estimated useful lives. The estimated useful life and the amortization method are reviewed at each year end and the effect of any changes in the estimates are recorded prospectively. The average amortization rates of assets comprising each group are as follows:

| | Average annual amortization rates as of June 30, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | Company | Consolidated | Company | Consolidated |
| Trademarks | **-** | **9%** | - | 9% |
| Software | **20%** | **23%** | 20% | 26% |
| Water rights | **-** | **9%** | - | 9% |
| Client portfolio | **-** | **13%** | - | 12% |
| Other | **-** | **23%** | - | 24% |

**Changes in intangible assets**

| Company | December 31, 2013 | Additions | Disposal | Amortization | June 30, 2014 |
|---|---|---|---|---|---|
| Goodwill | 9,085,970 | - | - | - | **9,085,970** |
| Trademarks | 452,578 | - | - | - | **452,578** |
| Software | 8,489 | 3,502 | (995) | (1,985) | **9,011** |
| | **9,547,037** | **3,502** | **(995)** | **(1,985)** | **9,547,559** |

| Consolidated | December 31, 2013 | Sul Valle, Frinal and Massa Leve's Acquisition | Additions [1] | Disposal [2] | Amortization | Exchange rate variation | June 30, 2014 |
|---|---|---|---|---|---|---|---|
| Goodwill | 12,702,971 | - | 291,957 | (194,617) | - | (68,275) | **12,732,036** |
| Trademarks | 1,553,916 | 124 | - | - | (629) | (16,969) | **1,536,442** |
| Software | 34,672 | 690 | 14,684 | (997) | (4,994) | (1,759) | **42,296** |
| Water rights | 74,844 | - | - | - | (51) | (4,090) | **70,703** |
| Client portfolio | 603,152 | - | - | - | (37,821) | (34,204) | **531,127** |
| Other | 6,108 | 1,137 | - | - | (464) | (194) | **6,587** |
| | **14,975,663** | **1,951** | **306,641** | **(195,614)** | **(43,959)** | **(125,491)** | **14,919,191** |

(1) - The additions in goodwill for the period refers to the goodwill arising by the indirect subsidiary Seara Alimentos by the Sul Valle's acquisition in the amount of R$ 6,455 and Massa Leve's acquisition in the amount of R$ 232,707; and by the indirect subsidiary JBS Aves by the Frinal's acquisition in the amount of R$ 52,795.

(2) - The disposal in the intangible asset in the line of Goodwill is reflected as a fixed asset addition and refers to the finalization of the business combination of the Global Meat and Midtown's acquisition, where the preliminary goodwill was allocated in a final way as a fair value on the fixed asset, being recorded as tangible asset, according to note 12.

Amortization expenses are recorded in the accounts of "Cost of goods sold" and "General and administrative expenses".

Goodwill: According to technical interpretation ICPC 09 - Individual quarterly interim financial statements, Separate Statements, Consolidated Statements and Application of Equity Method, in the consolidated goodwill is recorded in the Intangible assets due to expected profitability of the acquired subsidiary, assets and liabilities are consolidated with the Individual Statement. In the balance sheets of the Company, this goodwill is recorded on Investments, the same group of noncurrent assets, because, for the Company it is part of its investment on subsidiary acquisition, not being its intangible assets (as stated above, the expectation of future earnings - the genuine intangible - is the subsidiary).

In the company the intangible goodwill arising from the merger of Bertin and Novaprom, and the rest allocated to investments. Consolidated all goodwill are recorded as intangible.

**Goodwill**

**Company- Recorded as intangible (Goodwill)**

In December 2009 the Company merged Bertin. The market value of this operation was ascertained based on an appraisal report prepared by a valuation company. The fair value of share exchange between the companies amounted to R$ 11,987,963, generating goodwill based on future profitability of R$ 9,069,926. Pursuant to IFRS 3 (R)/CPC 15 R1 – Business combinations, represents the residual amount in determining the fair value of net assets acquired. In Business Combination was allocated an amount of R$ 414,111 for the intangible and property, plant and equipment accounts.

The Company incorporated all the shares of Novaprom, which owned a goodwill based on expected future earnings of R$ 16,044. Upon such incorporation, the Company goodwill is transferred from investment line and is allocated as an intangible item.

**Company- Recorded as investment (Goodwill in subsidiaries)**

In July 2007 the Company acquired a 100% interest in Swift Foods Company, currently known as JBS USA , with goodwill of R$ 906,481, based on expected future earnings, which was being amortized over 5 years. Accumulated amortization until December 31, 2008 was R$ 248,654, showing a net carrying amount of R$ 657,827 as of June 30, 2014.

In September 2013, a preliminary goodwill was calculated arising from the acquisition of Columbus, holding of Zenda's Group in the amount of R$ 40,292 subject to changes which may occur within maximum of one year, pursuant defined in IFRS 3 (R)/CPC15 R1.

In September 2013, a preliminary goodwill was calculated arising from the acquisition of Excelsior through Baumhardt, in the amount of R$ 195 subject to changes that may occur within a year, as defined in IFRS 3 (R)/R1 CPC15.

**Consolidated- Recorded as intangible (Goodwill)**

JBS USA has goodwill of US$ 223,549 thousand, equivalent to R$ 492,367 as of June 30, 2014, arising mainly from the acquisition in 2008 of Smithfield beef, Tasman and Five Rivers, based on the appreciation of the acquired assets.

In 2007, JBS Holding Internacional S.A., through its subsidiaries JBS Argentina S.A. and JBS Mendoza S.A., acquired 100% of the capital stock of Consignaciones Rurales S.A. and Argenvases S.A.I.C. and, in 2008, through the same subsidiaries, acquired 100% of the capital stock of Colcar S.A., with total goodwill of $ 14,110 thousand Argentinean pesos, equivalent to R$ 3,821 as of June 30, 2014. Goodwill is based upon expected future earnings of the acquired businesses.

JBS Global Luxembourg has goodwill of EUR 5,188 thousands, equivalent to R$ 15,642 as June 30, 2014, arising from the acquisition of the Toledo Group , based on the appreciation of the assets.

The indirect subsidiary JBS Foods Ltda. possesses other goodwill arising from the acquisition of companies, and based on expectation of future earnings in the amount of R$ 951,050, as follows:

i) Parc Castell by acquisition of Valores Catalanes S.A. in the amount of R$ 447,506
ii) Seara Alimentos by acquisition of the subsidiary Massa Leve - R$ 232,707
iii) Frigorífico Mabella Ltda by acquisition of the subsidiaries Pena Branca, MBL, Mas do Brasil, Braslo and Brusand - R$ 123,124
iv) JBS Aves by acquisition of the subsidiary Frinal S.A. - R$ 52,795
v) JBS Aves by acquisition of the subsidiary Agrovêneto - R$ 33,618
vi) Masfrangos Part. Ltda by acquisition of Agrofrango - R$ 28,343
vii) Babicora Holding Part. Ltda by acquisition of Seara Alimentos - R$ 11,111
viii) Mas do Brasil Part Ltda by acquisition of Penasul Ltda - R$ 9,974
ix) Seara Alimentos by acquisition of the subsidiary Sul Valle - R$ 6,455
x) Brusand LTD by acquisition of the subsidiary Penasul UK - R$ 5,370
xi) JBS Aves by acquisition of the subsidiary Agil - R$ 47

JBS Foods S.A. also has a goodwill in the amount of R$ 1,376,660, based on the expectation of future earnings arising from JBS Foods Ltda, acquired by the Company.

The others Company's subsidiaries have another goodwill arising from the acquisition of companies, based on expected future earnings of R$ 108,212, for the following investments:

i) JBS Handels GmbH by acquisition of the subsidiary Holding Inc. - R$ 25,204
ii) Itaholb International B.V. by acquisition of the subsidiary Rigamonti - R$ 69,755
iii) Capital Joy Holding Limited - R$ 5,820
iv) Trump Asia Enterprises Ltd by acquisition of the subsidiary Wonder Best - R$ 2,167
v) JBS Paraguay S.A. by acquisition of the subsidiary IFPSA - R$ 5,266

In accordance with CVM decision No. 565, dated December 17, 2008, and CVM Decision No. 553, dated November 12, 2008, since January 1, 2009 the Company has adopted the criteria of not amortize goodwill based upon expected future earnings, which is in line with IFRS 3 (R) /CPC 15 R1 - Business combination. Under these CVM decisions and the IFRS, intangible assets with indefinite life can no longer be amortized.

Goodwill and intangible assets with no estimated useful lives are tested for impairment at least once a year, in accordance with IFRS 3 (R)CPC 15 R1 – Business combinations.

**Impairment test of goodwill**

The Company tested the recovery of the goodwill using the concept of "value in use" through models of discounted cash flow, representing the group of tangible and intangible assets used in the development and sale of products to its customers.

The process of determining the value in use involves the use of assumptions, judgments and estimates about cash flows, such as rates of revenue growth, costs and expenses, estimates of investment, future working capital and discount rates. The assumptions about growth projections, cash flow and future cash flows are based on Management's best estimates, as well as comparable information from market, economic conditions that will exist during the economic life of the group of assets that provides the generation of the cash flows. The future cash flows were discounted based on the representative rate of the cost of capital (WACC).

Consistent with the techniques of economic evaluation, assessment of the value in use is effected for a period of 10 years, and after, considering the perpetuity of the premises in view of the indefinite business continuity capability. The Management judged appropriate to use the period of 10 years based on their past experience in designing accurately projected cash flows. This understanding is in accordance with paragraph 35 of IAS 36/CPC 01 R1 - Impairment of Assets.

The growth rates used to extrapolate the projections after the period of 10 years ranged from 3% to 4% at year in nominal values. The estimated future cash flows were discounted using discount rates ranging from 8.9% to 10.2% at year, also in nominal values. The principal assumptions used in estimating the value in use are as follows:

• Sales Revenue - Revenues are projected from 2014 to 2022 considering the growth in volume of different products of Cash Generating Units.

(Expressed in thousands of reais)

• Operating costs and expenses - The costs and expenses were projected accordance with historical performance of the Company and, with the historical growth in revenues. In addition, we considered efficiency gains derived from business combinations of synergies and process improvements.

• Capital investment - Investment in capital goods were estimated considering the maintenance of existing infrastructure and expectations required to enable the supply of products.

Key assumptions were based on historical performance of the Company and reasonable macroeconomic assumptions reasoned basis on projections of the financial market, documented and approved by management.

Based on the annual test for impairment of the Company's intangible assets, prepared with the projections made on the quarterly interim financial statements of December 31, 2013, growth prospects and results of operations for the year ended on June 30, 2014, there were no indications of possible losses or losses, as the estimated value in use is higher than the carrying amount at the valuation date.

## 14 Trade accounts payable

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Commodities - cattle | **574,539** | 770,546 | **1,709,019** | 1,902,201 |
| Materials and services | **603,375** | 541,944 | **3,293,007** | 3,096,015 |
| Finished products | **49,689** | 58,715 | **200,243** | 344,172 |
| | **1,227,603** | **1,371,205** | **5,202,269** | **5,342,388** |

## 15 Loans and financings

The Company discloses below the operations in foreign and local currency, considering the functional currency of each subsidiary. Local currency indicates loans denominated in the functional currency of the borrower.

**Current liabilities**

| | | Company | |
|---|---|---|---|
| **Type** | **Annual rate of interest and commissions** | June 30, 2014 | December 31, 2013 |
| **Foreign currency** | | | |
| ACC - (advances on exchange contracts) | Exchange variation + interest from 1.98% to 3.60% | **4,178,050** | 3,008,575 |
| Prepayment | Exchange variation, Libor and interest from 1% to 8.75% | **1,170,745** | 1,300,677 |
| 144-A | Exchange variation + interest from 6.25% to 10.50% | **194,253** | 199,341 |
| Credit note - export | Exchange variation + interest of 7.85% or 118% CDI | **47,423** | 12,025 |
| | | **5,590,471** | **4,520,618** |
| **Local currency** | | | |
| FINAME | TJLP and interest from 1% to 8.5% | **85,356** | 77,967 |
| BNDES automatic - TJLP | TJLP and interest from 3.1% to 5.44% | **-** | 1,222 |
| BNDES automatic - Currency basket | Currency basket BNDES + interest from 2% to 3.1% | **-** | 124 |
| Working capital- Brazilian Reais | Interest of 4% + 100% of CDI or 100% to 120% of CDI | **859,359** | 862,188 |
| Working capital - EUROS | Euribor +interest from 0.15% to 1.75% | **9,072** | 354 |
| Credit note - export | Interest from 1.2% to 8.54% or 100% to 118.5% of CDI | **1,500,755** | 1,112,611 |
| FCO - Middle West Fund | Interest of 10.00% | **-** | 50 |
| FNO - North Fund | Interest of 10.00% | **4,081** | 4,075 |
| CDC - Direct Credit to Consumers | TJLP and interest from 2.11% to 6.82% | **12,597** | 3,148 |
| FINEP | Interest of 4.0% to 4.5% | **1,725** | 1,726 |
| Debentures | 127.6% of CDI and IPCA + 9% | **228,902** | 255,039 |
| | | **2,701,847** | **2,318,504** |
| | | **8,292,318** | **6,839,122** |

**Noncurrent liabilities**

| | | Company | |
|---|---|---|---|
| **Type** | **Annual rate of interest and commissions** | June 30, 2014 | December 31, 2013 |
| **Foreign currency** | | | |
| Prepayment | Exchange variation, Libor and interest from 1% to 8.75% | **1,190,425** | 1,412,126 |
| 144-A | Exchange variation + interest from 6.25% to 10.50% | **8,342,992** | 7,738,003 |
| Credit note - export | Exchange variation + interest of 7.85% or 118% CDI | **136,261** | 193,238 |
| | | **9,669,678** | **9,343,367** |
| **Local currency** | | | |
| FINAME | TJLP and interest from 1% to 8.5% | **244,743** | 225,639 |
| Working capital- Brazilian Reais | Interest of 4% + 100% of CDI or 100% to 120% of CDI | **1,556,275** | 1,940,536 |
| Working capital - EUROS | Euribor +interest from 0.15% to 1.75% | **28,501** | 43,765 |
| Credit note - export | Interest from 1.2% to 8.54% or 100% to 118.5% of CDI | **2,391,558** | 1,962,434 |
| FNO - North Fund | Interest of 10.00% | **10,669** | 12,660 |
| CDC - Direct Credit to Consumers | TJLP and interest from 2.11% to 6.82% | **3,937** | 4,066 |
| FINEP | TJLP and interest of 4% to 4.5% | **6,271** | 7,127 |
| Debentures | 127.6% of CDI and IPCA + 9% | **-** | 214,255 |
| | | **4,241,954** | **4,410,482** |
| | | **13,911,632** | **13,753,849** |

(Expressed in thousands of reais)

| | | |
|---|---|---|
| **Breakdown:** | | |
| Current liabilities | **8,292,318** | 6,839,122 |
| Noncurrent liabilities | **13,911,632** | 13,753,849 |
| | **22,203,950** | **20,592,971** |
| **Maturities of noncurrent liabilities are as follows:** | | |
| 2015 | **1,640,277** | 2,514,791 |
| 2016 | **3,432,349** | 3,947,468 |
| 2017 | **975,971** | 698,546 |
| 2018 | **2,231,192** | 2,326,206 |
| 2019 | **46,867** | 5,498 |
| 2020 | **2,199,054** | 2,373,563 |
| 2021 | **4,366** | 2,471 |
| Maturities thereafter 2021 | **3,381,556** | 1,885,306 |
| | **13,911,632** | **13,753,849** |

**Current liabilities**

| | | Consolidated | |
|---|---|---|---|
| **Type** | **Annual rate of interest and commissions** | **June 30, 2014** | **December 31, 2013** |
| **Foreign currency** | | | |
| ACC - (advances on exchange contracts) | Exchange variation + interest from 1.98% to 3.60% | **4,200,234** | 3,069,450 |
| Prepayment | Exchange variation, Libor and interest from 1% to 8.75% | **1,325,878** | 1,418,119 |
| 144-A | Exchange variation + interest from 6.25% to 10.50% | **194,253** | 199,341 |
| Credit note - import | Exchange variation + interest of 11.25% | **14,140** | 23,424 |
| Credit note - export | Exchange variation + interest of 7.85% or 118% CDI | **47,423** | 12,025 |
| Canadian Credit Facility | CDOR or RBC Prime + applicable interest | **357** | 351 |
| Canadian Credit Facility - term loan | Interest of 3.65% | **1,916** | 1,994 |
| Canadian Bank Facility | Interest of 3.5% | **12,471** | 14,822 |
| | | **5,796,672** | **4,739,526** |
| **Local Currency** | | | |
| FINAME | TJLP and interest from 1% to 8.5% | **89,340** | 78,796 |
| JBS Mortgage | Interest from 5.8% to 8.4% | **4,315** | 4,416 |
| BNDES automatic - TJLP | TJLP and interest from 3.1% to 5.44% | **7,009** | 1,222 |
| BNDES automatic - Currency basket | Currency basket + interest from 2% to 3.1% | **-** | 124 |
| US revolver | Libor or Prime + applicable rate | **1,013** | 169 |
| JBS Term Loan due to 2018 | Alternate Base Rate ("ABR")+1.75% or Eurodollar+2.75% | **8,863** | 21,273 |
| Five Rivers term loan | Libor + 2.75% or Prime + 1.5% | **12,869** | 13,707 |
| Senior notes due 2020 | Interest of 8.25% | **52,644** | 55,993 |
| Senior notes due 2021 | Interest of 7.25% | **14,792** | 15,733 |
| Senior notes due 2024 | Interest of 5.875% | **1,079** | - |
| PPC - US Senior note 2018 | Interest of 7.875% | **3,614** | 3,844 |
| PPC - US credit facility - term loans | Interest from 2.4% to 9.0% | **-** | 972,220 |
| PPC - US bonds | Interest from 7.625% to 9.25% | **374** | 131 |
| Plainwell Bond | Interest of 4.39% | **4,520** | 4,734 |
| Marshaltown | Interest of 2.34% | **40** | 42 |
| Working capital- Brazilian Reais | Interest of 4% + 100% of CDI or 100% to 120% of CDI | **869,799** | 866,662 |
| Working capital - US dollars | Libor +interest from 1.10% to 3.20% | **250,073** | 252,987 |
| Working capital - EUROS | Euribor +interest from 0.15% to 1.75% | **148,108** | 137,829 |
| Working capital - Argentine Pesos | Interest of 18.77% | **7,853** | 7,297 |
| Credit note - export | Interest from 1.2% to 8.54% or 100% to 118.5% of CDI | **1,511,267** | 1,120,735 |
| FCO - Middle West Fund | Interest of 10.00% | **1,640** | 1,803 |
| FNO - North Fund | Interest of 10.00% | **4,081** | 4,075 |
| Credit note - import | Interest of 4.44% (LIBOR and interest of 2.80%) | **220,565** | 202,308 |
| Finep - Financing of Studies and Projects | Interest of 4.0% to 4.5% | **6,458** | 5,719 |
| CDC - Direct Credit to Consumers | TJLP and interest from 2.11% to 6.82% | **12,597** | 3,148 |
| Rural - Credit note | Interest of 5.5% | **179,693** | 160,325 |
| ACC - (advances on exchange contracts) | Interest de 1% | **55,833** | 47 |
| Rural - Credit note | Interest of 5,5% | **388,388** | 486,993 |
| Term loan due to 2020 | Alternate Base Rate ("ABR")+1.75% or Eurodollar+2.75% | **12,382** | 13,055 |
| Credit note - LCAL | Interest of 3.9% | **31** | - |
| Debentures | 127.6% of CDI and IPCA + 9% | **228,902** | 255,039 |
| Others | | **33** | 940 |
| | | **4,098,175** | **4,691,366** |
| | | **9,894,847** | **9,430,892** |

(Expressed in thousands of reais)

**Noncurrent liabilities**

| Type | Annual rate of interest and commissions | Consolidated June 30, 2014 | Consolidated December 31, 2013 |
|---|---|---|---|
| **Foreign currency** | | | |
| Prepayment | Exchange variation, Libor and interest from 1% to 8.75% | **2,182,461** | 2,553,208 |
| 144-A | Exchange variation + interest from 6.25% to 10.50% | **8,342,992** | 7,738,003 |
| Credit note - export | Exchange variation + interest of 7.85% or 118% CDI | **136,261** | 193,238 |
| ACC - (advances on exchange contracts) | Exchange variation + interest from 1.98% to 3.60% | **-** | 23,436 |
| Canadian Credit Facility | CDOR or RBC Prime + applicable interest | **145,777** | 142,554 |
| Canadian Credit Facility - term loan | Exchange variation + interest of 3.65% | **31,313** | 34,134 |
| | | **10,838,804** | **10,684,573** |
| **Local currency** | | | |
| FINAME | TJLP and interest from 1% to 8.5% | **251,944** | 227,570 |
| JBS Mortgage | Interest from 5.8% to 8.4% | **27,188** | 31,257 |
| US revolver | Libor or Prime + applicable rate | **638,161** | - |
| BNDES automatic - TJLP | TJLP and interest from 3.1% to 5.44% | **14,018** | - |
| JBS Term Loan due 2018 | Alternate Base Rate ("ABR")+1.75% or Eurodollar+2.75% | **890,015** | 1,063,330 |
| Five Rivers term loan | Libor + 2.75% or Prime + 1.5% | **139,575** | 154,874 |
| Senior note due 2020 | Interest of 8.25% | **1,511,840** | 1,605,161 |
| Senior note due 2021 | Interest of 7.25% | **2,463,620** | 2,584,448 |
| Senior notes due 2024 | Interest of 5.875% | **1,649,177** | - |
| PPC - US Senior note due 2018 | Interest of 7.875% | **1,064,149** | 1,116,598 |
| PPC - US bonds | Interest from 7.625% to 9.25% | **7,746** | 8,511 |
| Plainwell Bond | Interest of 4.39% | **20,300** | 23,878 |
| Marshaltown | Interest of 2.34% | **21,243** | 22,545 |
| Working capital- Brazilian Reais | Interest of 4% + 100% of CDI or 100% to 120% of CDI | **1,575,733** | 1,958,748 |
| Working capital - US dollars | Libor +interest from 1.10% to 3.20% | **33,587** | 47,197 |
| Working capital - Euro | Euribor + interest from 0.15% to 1.75% | **29,041** | 45,475 |
| Working capital - Argentine Pesos | Interest of 18.77% | **3,539** | - |
| Credit Note - export | Interest from 1.2% to 8.54% or 100% to 118.5% of CDI | **2,834,716** | 2,405,592 |
| FCO - Middle West Fund | Interest of 10.00% | **5,442** | 6,238 |
| FNO - North Fund | Interest of 10.00% | **10,669** | 12,660 |
| Finep - Financing of Studies and Projects | Interest of 4% to 4.5% | **31,586** | 27,539 |
| CDC - Direct Credit to Consumers | TJLP and interest from 2.11% to 6.82% | **3,937** | 4,066 |
| Rural - Credit note | Interest of 5.5% | **6,033** | - |
| Term loan due 2020 | Alternate Base Rate ("ABR")+1.75% or Eurodollar+2.75% | **1,036,082** | 1,080,901 |
| Credit note - LCAL | Interest of 3.9% | **9,107** | - |
| Debentures | 127.6% of CDI and IPCA + 9% | **-** | 214,255 |
| Others | | **30** | 5,033 |
| | | **14,278,478** | **12,645,876** |
| | | **25,117,282** | **23,330,449** |

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **Breakdown:** | | |
| Current liabilities | **9,894,847** | 9,430,892 |
| Noncurrent liabilities | **25,117,282** | 23,330,449 |
| | **35,012,129** | **32,761,341** |

| **Maturities of noncurrent liabilities are as follows:** | June 30, 2014 | December 31, 2013 |
|---|---|---|
| 2015 | **1,951,975** | 3,000,141 |
| 2016 | **4,712,521** | 4,557,716 |
| 2017 | **1,364,727** | 1,083,776 |
| 2018 | **4,723,412** | 5,029,761 |
| 2019 | **52,163** | 32,617 |
| 2020 | **4,749,253** | 5,073,542 |
| 2021 | **2,508,955** | 2,651,133 |
| Maturities thereafter 2021 | **5,054,276** | 1,901,763 |
| | **25,117,282** | **23,330,449** |

ACC – (advances on exchange contracts) are credit facilities obtained from financial institutions by the Company, its subsidiary JBS Argentina and JBS Foods S.A. subsidiaries, in the amount of US$ 1,932,380 on June 30, 2014 (US$ 1,320,299 on December 31, 2013), to finance export transactions.

CDC – (Working Capital Financing contract) credit facilities obtained from financial institutions by the Company, to finance the truck fleet of the transport operation.

144-A – Refers to six issuances of 144-A notes: (i) Notes 2016 - JBS S.A. in the amount of US$ 300 million with an interest rate of 10.50% per annum; (ii) Notes 2016 of Bertin (an enterprise of which the Company is the successor through merger) in the amount of US$ 350 million with an interest rate of 10.25% per annum, (iii) Notes 2018 - JBS S.A. in the amount of US$ 900 million with an interest rate of 8.25% per annum, (iv) Note 2020 - JBS S.A., in the amount of US$ 1 billion with an interest rate of 7.75% per annum, (v) Notes 2023 - JBS S.A. in the amount of US$ 775 million with an interest rate of 6.25% per annum and (v) Notes 2024 - JBS S.A. in the amount of US$ 750 million with an interest rate of 7.25% per annum.

In June, 2014 there was a partial payment of the Notes 2016, in the amount of US$ 115,857 (R$ 255,175) of the principal and interests of US$ 4,774 (R$ 10,516) and Bertin's Notes 2016, in the amount of US$ 147,066 (R$ 323,913) of principal and interest of US$ 3,350 (R$ 7,378), made by JBS USA on behalf of JBS S.A. The Company, also incurred in payments of US$ 40,753 (R$ 90,451) for early settlement of such Notes, such amount is recorded on interest liabilities.

FINAME / FINEM – Financing agreements with BNDES are secured by the assets subject matter of the financing.

Rural credit note – Refers to the capture the subsidiary Seara Alimentos Ltda (Group Seara) with resources of Banco Itau, Banco do Brasil, Santander, Bradesco and Caixa for the purpose of fostering the supply chain (rural). Payment will be made within one year, with interest rate of 5.50% per year.

Senior Secured Credit Facility – On June 30, 2011 the subsidiary JBS USA, LLC entered into a credit agreement consisting of a term loan commitment of US$ 850 million, with a payment term of 5 years and LIBOR + 1.75% per year.

Term Loan due to 2018 - On May 27, 2011 the subsidiary JBS USA, LLC entered into a credit agreement consisting of a term loan of US$ 475 million with a payment term of 7 years and ABL + 1.75% or LIBOR + 2.75% per year.

Term Loan A - On June 14, 2011 the indirect subsidiary JBS Five Rivers obtained an US$ 85 million term loan with a payment term of 5 years and LIBOR + 2.75% or Prime + 1.5% per year.

Term Loan due 2020: On September 18, 2013 the subsidiary JBS USA, LLC made the raising of US$ 500 million with a term of seven years and cost of: (i) ABR plus 1.75% or (ii) LIBOR + 2.75% per year.

Notes 2024 - JBS S.A. - In April 3, 2014, the subsidiary JBS Investments GmbH issued senior notes maturing in 2024, at the principal amount of US$ 750 million, with a payment term of 10 years and cost of 7.25% per year.

Notes 5.875% – In June 25, 2014, the subsidiary JBS USA, LLC and JBS USA Finance issued the Notes 5.875% maturing in 2024, at the principal amount of US$ 750 million with a payment term of 10 years and cost of 5.875% per year.

Rural credit note - Refers to financing obtained by the subsidiary JBS Aves from Caixa Econômica Federal, with the purpose of promoting the supply chain (rural). The payment will be made within one year and it will have J&F Participações S.A. as guarantor.

## 16 Credit operations, guarantees and covenants

On June 30, 2014, the Company was in compliance with all covenants. The main credit operations, guarantees and covenants of the Company and its subsidiaries are described below.

**Notes 2016 - JBS S.A. -** On August 4, 2006, the Company issued Notes 2016 maturing in 2016, in the principal amount of US$300 million. The interest rate applicable to the notes is 10.50% per year and interest is paid semiannually on February 4 and August 4, beginning on February 4, 2007. The principal amount of the notes should be fully paid by August 4, 2016. Pursuant to the additional indenture dated January 31, 2007, JBS Finance Ltd became a co-issuer of Notes 2016.

On June 25, 2014 the Company announced the early tender results in connection with its previously announced cash tender offers and related consent solicitations for any or all of the outstanding Notes 2016. As a result of the early tender, the Company purchased approximately US$115.9 million in aggregate principal amount of the Notes 2016, representing approximately 38.6% of the then outstanding Notes 2016. The Company has not obtained the requisite consents for the execution of a supplemental indenture to amend the indenture governing the Notes 2016. Accordingly, a supplemental indenture to the indenture governing the Notes 2016 was not executed.

**Guarantees:** The indenture governing Notes 2016 requires that any significant subsidiary (as defined in the indenture governing the Notes 2016) guarantee all obligations of the Company as stated in Notes 2016, subject to certain exceptions. Notes 2016 are guaranteed by JBS Hungary Holdings Kft (indirect wholly owned subsidiary of the Company), by JBS USA Holdings, JBS USA, LLC and Swift Beef Company. Other subsidiaries of the Company may be required to guarantee the Notes 2016 in the future.

**Covenants:** The indenture for the Notes 2016 contains customary negative covenants that limit the Company's ability and the ability of certain subsidiaries to, among other things:

. incur additional debt, if the ratio net debt/EBITDA is higher than a determined ratio;
. incur liens;
. sell or dispose of assets;
. pay certain dividends and make other payments;
. permit restrictions on dividends and other restricted payments by its restricted subsidiaries;
. have certain transactions with related parties;
. consolidate or enter into merger or transfer all assets to another company;
. execute lease transactions with repurchase option (sale/leaseback); and
. change the control without making a purchase offer on Notes 2016.

As mentioned above, the terms and conditions for Notes 2016 include covenants. They restrict the Company and its subsidiaries, including JBS USA, to incur any debts (subject to certain permitted exceptions) unless the pro forma net debt / EBITDA ratio of the Company (as defined in the indenture) at the date the debt is incurred is lower than 4.75/1.0.

Again, as mentioned above, Notes 2016 establish restrictions to the Company and its subsidiaries in the execution of certain actions, such as: (i) paying dividends or making any other payments of securities; (ii) paying debts or other obligations; (iii) obtaining loans or advances; or (iv) transferring its properties or assets. Despite that, such payments can be made in certain cases, such as, (a) when there are certain obligations incurred before the issuance of the notes; (b) they are established in law; (c) when the transfer of assets takes place in the normal course of business, or under clauses usually accepted in joint venture agreements executed by the subsidiaries; or (d) when imposed by standard documents of BNDES (National Bank of Economic and Social Development).

Additionally, according to Notes 2016, the Company will not be able, directly or indirectly, to declare or pay any dividends or make any distributions related to securities issued by the Company (except for debt instruments convertible or exchangeable for such amounts), if (i) there has been default in relation to the notes 2016; (ii) the Company can incur in at least US$ 1.00 of debt under the terms of the net debt/EBITDA ratio test established in the indenture of the notes mentioned in the paragraph above; and (iii) the total value to be paid does not exceed 50% of the accrued net income in a certain year or when in a determined year where there is loss, the payment value does not exceed US$30 million.

**Events of default:** The indenture of Notes 2016 contains customary events of default. They include non-compliance with or violation of terms, restrictions and other agreements contained in the mentioned instrument, besides default of other debt in case the effect leads to anticipated payment, lack of payment within the grace periods applicable of other debt waived or extended, rendering of unfavorable sentences or court orders against the issuer or its subsidiaries, and certain events related to bankruptcy and insolvency. If an event of default occurs, the trustee or holder of at least 25% of the principal amount of the notes outstanding at the time is entitled to declare immediately payable the principal and accrued interest on the notes.

**Bertin's Notes 2016 -** Bertin S.A., an enterprise of which the Company is the successor through merger, issued Bertin's Notes 2016 at the principal amount of US$350 million on October 13, 2006 (under its former corporate name of Bertin Ltda.). The interest applicable to Bertin's Notes 2016 corresponds to 10.25% per annum, paid semiannually on April 5 and October 5, beginning on April 5, 2007. The principal amount of the notes will be fully paid by October 5, 2016.

On December 14, 2009, Bertin successfully concluded a consent solicitation relating to the 2016 Bertin Notes. The consent solicitation (1) amended certain provisions in the indenture governing the Bertin's Notes 2016 to conform the provisions to the indenture governing Notes 2016 and (2) amended the change of control provisions to exclude the Bertin merger as an event that would trigger a change of control under the Bertin's 2016 Notes. The supplemental indenture implementing these amendments to the Bertin's Notes 2016 was executed on December 22, 2009.

On June 25, 2014 the Company announced the early tender results in connection with its previously announced cash tender offers and related consent solicitations for any or all of the outstanding Bertin's Notes 2016. As a result of the early tender, the Company purchased approximately US$147.1 million in aggregate principal amount of the Bertin's Notes 2016, representing approximately 42.0% of the then outstanding Notes 2016. The Company has not obtained the requisite consents for the execution of a supplemental indenture to amend the indenture governing the Bertin's Notes 2016. Accordingly, a supplemental indenture to the indenture governing the Bertin's Notes 2016 was not executed.

**Guarantees:** The indenture that governs Bertin's Notes 2016 requires that any "material subsidiary" (as defined in the indenture governing Bertin's Notes 2016) to guarantee all obligations of the Company established in Bertin's Notes 2016. They are guaranteed by JBS Hungary Holdings Kft. (indirect wholly-owned subsidiary of the Company). Other subsidiaries of the Company may be required to guarantee the Bertin's Notes 2016 in the future.

**Covenants:** The indenture of Bertin's Notes 2016 contains customary negative covenants that limit the Company's ability and the ability of its subsidiaries to, among other things:

. incur additional debt if the net debt/EBITDA ratio is higher than a determined ratio;
. incur liens;
. pay dividends or make certain payments to shareholders;
. sell or dispose of assets;
. have certain transactions with related parties;
. dissolve, consolidate, merge or acquire the business or assets of other entities;
. execute lease transactions with repurchase option (sale/leaseback);
. change the company's control without making a purchase offer on Bertin's Notes 2016; and
. in a general manner, limits dividends or other payments to shareholders by restricted subsidiaries.

As indicated above, the terms and conditions for Bertin's Notes 2016 include covenants that restrict the Company (as legal successor of Bertin) and the subsidiaries, to incur any debts (subject to certain permitted exceptions) unless the pro forma net debt / EBITDA ratio of the Company (as defined in the indenture) at the date the debt is incurred is lower than 4.75/1.0.

Besides, Bertin's Notes 2016 restrict the Company and its subsidiaries from: (i) paying dividends or making any other payments of securities; (ii) paying debts or other obligations; (iii) making loans or advances; or (iv) transferring its properties or assets. Despite that, such payments can be made in certain cases, such as, (a) when there are certain obligations incurred before the issuance of the notes; (b) they are established in law; (c) when the transfer of assets takes place in the normal course of the business, or under clauses usually accepted in joint venture agreements executed by the subsidiaries; (d) when imposed by standard documents of BNDES or other international governmental agencies.

Additionally, according to the notes, the Company can only, directly or indirectly, declare or pay any dividends or make any distributions related to securities issued by the Company (except for debt instruments convertible or exchangeable for such amounts), if (i) it is not in default in relation to the notes; (ii) the Company can incur in at least US$ 1.00 of debt under the terms of the net debt/EBITDA ratio test established in the indenture of the notes mentioned in the paragraph above; and (iii) the total value to be paid does not exceed 50% of the accrued net income in a certain year or when in a determined year where there is loss, the payment value does not exceed US$ 30 million.

**Events of default:** The issuance instrument of Bertin's Notes 2016 contains customary events of default. They include non-compliance with or violation of terms, restrictions and other agreements contained in the mentioned instrument, besides default of other debt in case the effect leads to anticipated payment, lack of payment within the grace periods applicable of other debt waived or extended, rendering of unfavorable sentences or court orders against the issuer or its subsidiaries, and certain events related to bankruptcy and insolvency. If an event of default occurs, the trustee or holder of at least 25% of the principal amount of the notes outstanding at the time is entitled to declare immediately payable the principal and accrued interest on the notes.

**Notes 2018 - JBS S.A.** - On July 29, 2010, JBS Finance II Ltd., a wholly-owned subsidiary of the Company, issued Notes 2018 maturing in 2018, at the principal amount of US$700 million and on September 10, 2010, the company issued additional notes at the principal amount of US$200 million under the indenture of Notes 2018. The interest rate applicable to the notes is 8.25% per annum and are semiannually paid on January 29 and July 29 of each year, beginning January 29, 2011. The principal amount of the Notes 2018 should be fully paid by January 29, 2018.

The Notes 2018 are guaranteed by JBS Hungary Holdings Kft. (indirect wholly-owned subsidiary of the Company) and by JBS S.A.

**Covenants:** The indenture of Notes 2018 contains customary negative covenants that limit the Company's ability and the ability of certain subsidiaries to, among other things:

. incur additional debt if the net debt/EBITDA ratio is higher than a determined ratio;
. incur liens;
. pay dividends or make certain payments to shareholders;
. permit restrictions on dividends and other restricted payments by restricted subsidiaries
. sell or dispose of assets;
. have certain transactions with related parties;
. execute lease transactions with repurchase option (sale/leaseback); and
. change the company's control without making a purchase offer on Notes 2018.

As mentioned above, the terms and conditions for Notes 2018 include covenants. They restrict the Company and its subsidiaries, including JBS USA, to incur any debts (subject to certain permitted exceptions) unless the pro forma net debt / EBITDA ratio of the Company (as defined in the indenture) at the date the debt is incurred is lower than 4.75/1.0.

Also, as mentioned above, the Notes 2018 establish restrictions to the Company and its subsidiaries in the execution of certain actions, such as: (i) paying dividends or making any other payments of securities; (ii) paying debts or other obligations; (iii) obtaining loans or advances; or (iv) transferring its properties or assets. Despite that, such payments can be made in certain cases, such as, (a) when there are certain obligations incurred before the issuance of the notes; (b) they are established in law; (c) when the transfer of assets takes place in the normal course of business, or under clauses usually accepted in joint venture agreements executed by the subsidiaries; or (d) when imposed by standard documents of BNDES (National Bank of Economic and Social Development).

Additionally, according to Notes 2018, the Company will not be able, directly or indirectly, to declare or pay any dividends or make any distributions related to securities issued by the Company (except for debt instruments convertible or exchangeable for such amounts), if (i) there has been default in relation to the Notes 2018; (ii) the Company can incur at least US$ 1.00 of debt under the terms of the net debt/EBITDA ratio test established in the indenture of the notes mentioned in the paragraph above; and (iii) the total value to be paid does not exceed (a) 50% of the amount of the net income accrued on a cumulative basis during the period, taken as one accounting period, beginning on the first day of the fiscal quarter in which the issue date of the Notes 2018 occurs and ending on the last day of JBS' most recently completed fiscal quarter for which interim financial statements are publicly available, or if the aggregate net income is a loss, minus 100% of the amount of the loss, plus (b) 100% of the net cash proceeds received by JBS from the issue or sale of its equity interests or other capital contributions subsequent to the issue date of the Notes 2018, plus (c) 100% of the fair market value of property other than cash received by JBS from the issue or sale of its equity interests or other capital contributions subsequent to the issue date of the Notes 2018.

**Events of default:** The indenture of Notes 2018 contains customary events of default. They include non-compliance with or violation of terms, restrictions and other agreements contained in the mentioned instrument, besides default of other debt in case the effect leads to anticipated payment, lack of payment within the grace periods applicable of other debt waived or extended, rendering of unfavorable sentences or court orders against the issuer or its subsidiaries, and certain events related to bankruptcy and insolvency. If an event of default occurs, the trustee or holder of at least 25% of the principal amount of the notes outstanding at the time is entitled to declare immediately payable the principal and accrued interest on the notes.

**Notes 2020 -** On October 28, 2013, JBS Investments GmbH, a wholly-owned subsidiary of the Company, issued Notes 2020 maturing in 2020, at the principal amount of US$1 billion. The interest rate applicable to the notes is 7.75% per annum and are semiannually paid on April 28 and October 28 of each year, beginning April 28, 2014. The principal amount of the Notes 2020 should be fully paid by October 28, 2020.

The Notes 2020 are guaranteed by JBS Hungary Holdings Kft. (indirect wholly-owned subsidiary of the Company) and by JBS S.A.

**Covenants:** The indenture of Notes 2020 contains customary negative covenants that limit the Company's ability and the ability of certain subsidiaries to, among other things:

. incur additional debt if the net debt/EBITDA ratio is higher than a determined ratio;
. incur liens;
. pay dividends or make certain payments to shareholders;
. permit restrictions on dividends and other restricted payments by restricted subsidiaries
. sell or dispose of assets;
. have certain transactions with related parties;
. execute lease transactions with repurchase option (sale/leaseback); and
. change the company's control without making a purchase offer on Notes 2020.

As mentioned above, the terms and conditions for Notes 2020 include covenants. They restrict the Company and its subsidiaries, including JBS USA, to incur any debts (subject to certain permitted exceptions) unless the pro forma net debt / EBITDA ratio of the Company (as defined in the indenture) at the date the debt is incurred is lower than 4.75/1.0.

Also, as mentioned above, the Notes 2020 establish restrictions to the Company and its subsidiaries in the execution of certain actions, such as: (i) paying dividends or making any other payments of securities; (ii) paying debts or other obligations; (iii) obtaining loans or advances; or (iv) transferring its properties or assets. Despite that, such payments can be made in certain cases, such as, (a) when there are certain obligations incurred before the issuance of the notes; (b) they are established in law; (c) when the transfer of assets takes place in the normal course of business, or under clauses usually accepted in joint venture agreements executed by the subsidiaries; or (d) when imposed by standard documents of BNDES (National Bank of Economic and Social Development).

Additionally, according to Notes 2020, the Company will not be able, directly or indirectly, to declare or pay any dividends or make any distributions related to securities issued by the Company (except for debt instruments convertible or exchangeable for such amounts), if (i) there has been default in relation to the Notes 2020; (ii) the Company can incur at least US$ 1.00 of debt under the terms of the net debt/EBITDA ratio test established in the indenture of the notes mentioned in the paragraph above; and (iii) the total value to be paid does not exceed (a) 50% of the amount of the net income accrued on a cumulative basis during the period, taken as one accounting period, beginning on January 1, 2013 and ending on the last day of JBS' most recently completed fiscal quarter for which interim financial statements are publicly available, or if the aggregate net income is a loss, minus 100% of the amount of the loss, plus (b) 100% of the net cash proceeds received by JBS from the issue or sale of its equity interests or other capital contributions subsequent to the issue date of the Notes 2020, plus (c) 100% of the fair market value of property other than cash received by JBS from the issue or sale of its equity interests or other capital contributions subsequent to the issue date of the Notes 2020.

**Events of default:** The indenture of Notes 2020 contains customary events of default. They include non-compliance with or violation of terms, restrictions and other agreements contained in the mentioned instrument, besides default of other debt in case the effect leads to anticipated payment, lack of payment within the grace periods applicable of other debt waived or extended, rendering of unfavorable sentences or court orders against the issuer or its subsidiaries, and certain events related to bankruptcy and insolvency. If an event of default occurs, the trustee or holder of at least 25% of the principal amount of the notes outstanding at the time is entitled to declare immediately payable the principal and accrued interest on the notes.

**Notes 2023 -** On February 5, 2013, JBS Investments GmbH, a wholly-owned subsidiary of the Company, issued Notes 2023 maturing in 2023, at the principal amount of US$500 million and on April 11, 2013, the company issued additional notes at the principal amount of US$275 million under the indenture of Notes 2023. The interest rate applicable to the notes is 6.25% per annum and are semiannually paid on February 5 and August 5 of each year, beginning August 5, 2013. The principal amount of the Notes 2023 should be fully paid by February 5, 2023.

The Notes 2023 are guaranteed by JBS Hungary Holdings Kft. (indirect wholly-owned subsidiary of the Company) and by JBS S.A.

**Covenants:** The indenture of Notes 2023 contains customary negative covenants that limit the Company's ability and the ability of certain subsidiaries to, among other things:

. incur additional debt if the net debt/EBITDA ratio is higher than a determined ratio;
. incur liens;
. pay dividends or make certain payments to shareholders;
. permit restrictions on dividends and other restricted payments by restricted subsidiaries
. sell or dispose of assets;
. have certain transactions with related parties;
. execute lease transactions with repurchase option (sale/leaseback); and
. change the company's control without making a purchase offer on Notes 2023.

As mentioned above, the terms and conditions for Notes 2023 include covenants. They restrict the Company and its subsidiaries, including JBS USA, to incur any debts (subject to certain permitted exceptions) unless the pro forma net debt / EBITDA ratio of the Company (as defined in the indenture) at the date the debt is incurred is lower than 4.75/1.0.

Also, as mentioned above, the Notes 2023 establish restrictions to the Company and its subsidiaries in the execution of certain actions, such as: (i) paying dividends or making any other payments of securities; (ii) paying debts or other obligations; (iii) obtaining loans or advances; or (iv) transferring its properties or assets. Despite that, such payments can be made in certain cases, such as, (a) when there are certain obligations incurred before the issuance of the notes; (b) they are established in law; (c) when the transfer of assets takes place in the normal course of business, or under clauses usually accepted in joint venture agreements executed by the subsidiaries; or (d) when imposed by standard documents of BNDES (National Bank of Economic and Social Development).

Additionally, according to Notes 2023, the Company will not be able, directly or indirectly, to declare or pay any dividends or make any distributions related to securities issued by the Company (except for debt instruments convertible or exchangeable for such amounts), if (i) there has been default in relation to the Notes 2023; (ii) the Company can incur at least US$ 1.00 of debt under the terms of the net debt/EBITDA ratio test established in the indenture of the notes mentioned in the paragraph above; and (iii) the total value to be paid does not exceed (a) 50% of the amount of the net income accrued on a cumulative basis during the period, taken as one accounting period, beginning on the first day of the fiscal quarter in which the issue date of the Notes 2023 occurs and ending on the last day of JBS' most recently completed fiscal quarter for which interim financial statements are publicly available, or if the aggregate net income is a loss, minus 100% of the amount of the loss, plus (b) 100% of the net cash proceeds received by JBS from the issue or sale of its equity interests or other capital contributions subsequent to the issue date of the Notes 2023, plus (c) 100% of the fair market value of property other than cash received by JBS from the issue or sale of its equity interests or other capital contributions subsequent to the issue date of the Notes 2023.

**Events of default:** The indenture of Notes 2023 contains customary events of default. They include non-compliance with or violation of terms, restrictions and other agreements contained in the mentioned instrument, besides default of other debt in case the effect leads to anticipated payment, lack of payment within the grace periods applicable of other debt waived or extended, rendering of unfavorable sentences or court orders against the issuer or its subsidiaries, and certain events related to bankruptcy and insolvency. If an event of default occurs, the trustee or holder of at least 25% of the principal amount of the notes outstanding at the time is entitled to declare immediately payable the principal and accrued interest on the notes.

**Notes 2024 -** On April 3, 2014, JBS Investments GmbH, a wholly-owned subsidiary of the Company, issued Notes 2024 maturing in 2024, at the principal amount of US$750 million. The interest rate applicable to the notes is 7.25% per annum and are semiannually paid on April 3 and October 3 of each year, beginning October 3, 2014. The principal amount of the Notes 2024 should be fully paid by April 3, 2024.

The Notes 2024 are guaranteed by JBS Hungary Holdings Kft. (indirect wholly-owned subsidiary of the Company) and by JBS S.A.

**Covenants:** The indenture of Notes 2024 contains customary negative covenants that limit the Company's ability and the ability of certain subsidiaries to, among other things:

. incur additional debt if the net debt/EBITDA ratio is higher than a determined ratio;
. incur liens;
. pay dividends or make certain payments to shareholders;
. permit restrictions on dividends and other restricted payments by restricted subsidiaries
. sell or dispose of assets;
. have certain transactions with related parties;
. execute lease transactions with repurchase option (sale/leaseback); and
. change the company's control without making a purchase offer on Notes 2024.

As mentioned above, the terms and conditions for Notes 2024 include covenants. They restrict the Company and its subsidiaries, including JBS USA, to incur any debts (subject to certain permitted exceptions) unless the pro forma net debt / EBITDA ratio of the Company (as defined in the indenture) at the date the debt is incurred is lower than 4.75/1.0.

Also, as mentioned above, the Notes 2024 establish restrictions to the Company and its subsidiaries in the execution of certain actions, such as: (i) paying dividends or making any other payments of securities; (ii) paying debts or other obligations; (iii) obtaining loans or advances; or (iv) transferring its properties or assets. Despite that, such payments can be made in certain cases, such as, (a) when there are certain obligations incurred before the issuance of the notes; (b) they are established in law; (c) when the transfer of assets takes place in the normal course of business, or under clauses usually accepted in joint venture agreements executed by the subsidiaries; or (d) when imposed by standard documents of BNDES (National Bank of Economic and Social Development).

Additionally, according to Notes 2024, the Company will not be able, directly or indirectly, to declare or pay any dividends or make any distributions related to securities issued by the Company (except for debt instruments convertible or exchangeable for such amounts), if (i) there has been default in relation to the Notes 2024; (ii) the Company can incur at least US$ 1.00 of debt under the terms of the net debt/EBITDA ratio test established in the indenture of the notes mentioned in the paragraph above; and (iii) the total value to be paid does not exceed (a) 50% of the amount of the net income accrued on a cumulative basis during the period, taken as one accounting period, beginning January 1, 2013 and ending on the last day of JBS' most recently completed fiscal quarter for which interim financial statements are publicly available, or if the aggregate net income is a loss, minus 100% of the amount of the loss, plus (b) 100% of the net cash proceeds received by JBS from the issue or sale of its equity interests or other capital contributions subsequent to the issue date of the Notes 2024, plus (c) 100% of the fair market value of property other than cash received by JBS from the issue or sale of its equity interests or other capital contributions subsequent to the issue date of the Notes 2024.

**Events of default:** The indenture of Notes 2024 contains customary events of default. They include non-compliance with or violation of terms, restrictions and other agreements contained in the mentioned instrument, besides default of other debt in case the effect leads to anticipated payment, lack of payment within the grace periods applicable of other debt waived or extended, rendering of unfavorable sentences or court orders against the issuer or its subsidiaries, and certain events related to bankruptcy and insolvency. If an event of default occurs, the trustee or holder of at least 25% of the principal amount of the notes outstanding at the time is entitled to declare immediately payable the principal and accrued interest on the notes.

**Description of Indebtedness of JBS USA**

**Senior Secured Credit Facility -** On November 5, 2008, JBS USA entered into a senior secured revolving credit facility (the "Credit Agreement") that allowed borrowings up to US$400.0 million. Up to US$75.0 million of the Credit Agreement was available for the issuance of letters of credit.

On June 30, 2011, JBS USA and JBS Australia executed the Revolving Syndicated Facility Agreement ("Revolving Facility") to amend and restate the Credit Agreement. The facility provides a maximum borrowing availability of US$850.0 million available in three tranches of US$625.0 million, US$150.0 million and US$75.0 million. The facility matures on June 30, 2016. Up to $250.0 million of the Revolving Facility is available for the issuance of letters of credit. On January 26, 2012, JBS USA and JBS Australia executed the first amendment to the Revolving Facility primarily to include a US$35.0 million swingline sub-facility for JBS Australia which allows JBS Australia to obtain same day funding under the Revolving Facility. Loans bear interest at applicable LIBOR or the prime rate plus applicable margins that are based on utilization of the facility.

**Availability:** Availability under the Revolving Facility is subject to a borrowing base. The borrowing base is based on certain JBS USA wholly-owned subsidiaries' assets as described below, with the exclusion of JBS Five Rivers. The borrowing base consists of percentages of eligible accounts receivable, inventory and supplies less certain eligibility and availability reserves. As of June 30, 2014, there were US$97.8 million of outstanding letters of credit and borrowing availability of US$460.0 million.

**Security and Guarantees:** Borrowings made by JBS USA under the Revolving Facility are guaranteed by JBS S.A., JBS Hungary Holdings Kft., JBS USA Holdings and all domestic subsidiaries of JBS USA except JBS Five Rivers and certain other immaterial subsidiaries. In addition, all material subsidiaries of JBS Australia guarantee JBS Australia borrowings. Furthermore, the borrowings are collateralized by a first priority perfected lien and interest in accounts receivable, finished goods and supply inventories.

**Covenants:** The Revolving Facility contains customary representations, warranties and a springing financial covenant that requires a minimum fixed charge coverage ratio of not less than 1.00 to 1.00. This ratio is applicable if borrowing availability causes a covenant trigger period, which only occurs when borrowing availability falls below the greater of 10% of the maximum borrowing amount or $72.0 million. The Revolving Facility also contains negative covenants that may limit the ability of JBS USA and certain of its subsidiaries to, among other things:

• incur certain additional indebtedness;
• create certain liens on property, revenue or assets;
• make certain loans or investments;
• sell or dispose of certain assets;
• pay certain dividends and other restricted payments;
• prepay or cancel certain indebtedness;
• dissolve, consolidate, merge or acquire the business or assets of other entities;
• enter into joint ventures other than certain permitted joint ventures or create certain other subsidiaries;
• enter into new lines of business;
• enter into certain transactions with affiliates and certain permitted joint ventures;
• agree to restrictions on the ability of the subsidiaries to make dividends;
• agree to enter into negative pledges in favor of any other creditor; and
• enter into certain sale/leaseback transactions.

**Events of Default:** The Revolving Facility also contains customary events of default, including failure to perform or observe terms, covenants or agreements included in the Revolving Facility, payment of defaults on other indebtedness, defaults on other indebtedness if the effect is to permit acceleration, entry of unsatisfied judgments or orders against a loan party or its subsidiaries, failure of any collateral document to create or maintain a priority lien and certain events related to bankruptcy and insolvency or environmental matters. If an event of default occurs the lenders may, among other things, terminate their commitments, declare all outstanding borrowings to be immediately due and payable together with accrued interest and fees and exercise remedies under the collateral documents relating to the Revolving Facility. At June 30, 2014, JBS USA was in compliance with all covenants.

**ANZ credit facilities –** On March 7, 2011, JBS Australia entered into a secured facility to fund working capital needs and letter of credit requirements. The facility includes a standby letter of credit limit of A$32.5 million and a A$20.0 million money market facility, subject to an annual review. On April 27, 2012, the facility was amended, providing a A$5.0 million trade finance letter of credit limit and a A$26.0 million standby letter of credit limit. On September 11, 2012, the facility was restated to provide for a A$55.0 million trade finance loan facility limit and a A$26.0 million standby letter of credit limit. On September 16, 2013, the facility was restated to provide for a A$55.0 million trade finance loan facility limit and a A$23.7 million standby letter of credit limit, subject to annual review. As of June 30, 2014, there were US$21.6 million of outstanding letters of credit and borrowing availability of US$51.9 million.

**4.39% secured notes due 2019 –** On December 20, 2010, JBS USA Holdings' wholly-owned subsidiaries JBS USA and JBS Plainwell, Inc. issued 4.39% notes due 2019 in an aggregate principal amount of US$16.0 million to finance the construction of a cold storage warehouse. Interest is payable quarterly beginning on April 1, 2011. Principal is payable quarterly.

**Marshalltown NMTC** – On March 10, 2011, Swift Pork entered into the Marshalltown NMTC transaction to finance the construction of a distribution center. Swift Pork borrowed US$9.8 million at a 2.34% annual interest rate payable monthly for seven years. Of the total amount borrowed, US$7.2 million ("Loan A") was indirectly funded by JBS USA through a leverage loan and is included in judicial deposits and others within the Consolidated Balance Sheets. The remaining US$2.6 million ("Loan B") was funded by a local community development entity. At the end of the seven year period there is an option to dissolve the transaction through a put option with an exercise price of US$1 thousand or a call option with an exercise price which will be calculated at its fair market value. If the put or call option is not exercised then Loan A will begin to amortize over the remaining 28 years with principal and interest due monthly and a balloon payment for the remaining principal due March 2046. Loan B will continue to have interest only payments through 2046 at which time principal and interest are due.

**Corporate building loans –** In October 2010, JBS USA Holdings acquired its corporate headquarters in Greeley, Colorado. It paid US$9.2 million in cash and assumed US$20.1 million in mortgage debt. The debt is comprised of two mortgages in the amounts of US$3.1 million and US$17.0 million. The mortgages are repayable in monthly installments over 10 and 14 years, beginning on November 1, 2010.

**7.25% senior unsecured notes due 2021 -** On May 27, 2011 JBS USA and JBS USA Finance. issued 7.25% notes due 2021 in an aggregate principal amount of US$650.0 million primarily to make an intercompany loan to JBS USA Holdings, for further transfer to JBS S.A. to fund the repayment of short and medium-term debt of JBS S.A. These notes are guaranteed by JBS USA Holdings, JBS S.A., JBS Hungary Holdings Kft., and each of the US restricted subsidiaries that guarantee the Revolving Facility (subject to certain exceptions). If certain conditions are met, JBS S.A. may be released from its guarantees.

Interest on these notes is payable semi-annually in arrears on June 1 and December 1 of each year. The principal amount of these notes is payable in full on June 1, 2021. The original issue discount of approximately US$11.3 million is being accreted over the life of the notes.

On September 18, 2013, JBS USA and JBS USA Finance, issued US$500.0 million in aggregate principal as a follow on to its 7.25% senior notes due 2021 under the indenture dated May 27, 2011. The proceeds from the issuance of these additional notes are being used to repay the outstanding principal amount of the 11.625% notes due 2014 and to repay a portion of the borrowings under the Revolving Facility. The original issue discount of US$2.5 million is being accreted over the remaining life of the notes.

**Covenants:** The indenture for the 7.25% senior unsecured notes due 2021 contains customary negative covenants that limit JBS USA and its restricted subsidiaries' ability to, among other things:

- incur additional indebtedness;
- incur liens;
- sell or dispose of assets;
- pay dividends or make certain payments to our shareholders;
- permit restrictions on dividends and other restricted payments by its restricted subsidiaries;
- enter into related party transactions;
- enter into sale/leaseback transactions; and
- undergo changes of control without making an offer to purchase the notes.

**Events of default:** The indenture also contains customary events of default, including failure to perform or observe terms, covenants or other agreements in the indenture, defaults on other indebtedness if the effect is to permit acceleration, failure to make a payment on other indebtedness waived or extended within the applicable grace period, entry of unsatisfied judgments or orders against the issuer or its subsidiaries and certain events related to bankruptcy and insolvency matters. If an event of default occurs, the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding may declare such principal and accrued interest on the notes to be immediately due and payable. At June 30, 2014, JBS USA and JBS USA Finance were in compliance with all covenants.

**US$475 million term loan due 2018 –** On May 27, 2011, JBS USA entered into a credit agreement consisting of a term loan commitment of US$475.0 million primarily to make an intercompany loan to JBS USA Holdings, for further transfer to JBS S.A. to fund the repayment of short and medium-term debt of JBS S.A. The loan is guaranteed by JBS USA Holdings, JBS S.A., JBS Hungary Holdings Kft., and each of the U.S. restricted subsidiaries that guarantee the Revolving Facility (subject to certain exceptions). Loans under this agreement may be either Alternate Base Rate ("ABR") loans or Eurodollar loans at the election of JBS USA.

Interest on the ABR loans is based on ABR plus 2.0% with a 2.25% ABR floor or interest on the Eurodollar loans is based on LIBOR plus 3.0% with a 1.25% LIBOR floor. Interest on ABR loans is payable on the last day of each calendar quarter while interest on Eurodollar loans is payable at the end of the associated interest period. The outstanding principal is payable on May 25, 2018. The original issue discount of approximately US$2.4 million is being accreted over the life of the loan. The covenants for this note contain customary negative covenants and customary events of default listed under the Revolving Facility. On February 22, 2013, JBS USA amended the loan to reduce the ABR loan interest rate to ABR plus 1.75% with a 1.75% ABR floor and to reduce the Eurodollar loan interest rate to LIBOR plus 2.75% with a 1.0% LIBOR floor. Commencing on March 29, 2013 and continuing until maturity, approximately US$1.2 million will be payable on the last business day of each calendar quarter. At June 30, 2014, JBS USA was in compliance with all covenants.

Subsequent to the end of each fiscal year, a portion of JBS USA, LLC's cash flow must be used to repay outstanding principal amounts under the US$475 million term loan due 2018. On March 31, 2014 JBS USA, LLC paid approximately US$54 million of its cash flow from 2013 toward the outstanding principal under the US$475 million term loan due 2018. The excess cash flow payment will be applied to installments of the US$475 million term loan due 2018 in accordance with the then outstanding amounts.

**US$500 million term loan due 2020** – On September 18, 2013, JBS USA executed an increased facility activation notice consisting of a term loan commitment of US$500.0 million in addition to the US$475.0 million term loan due 2018. The proceeds from the issuance of this loan were used to repay the outstanding principal amount of the 11.625% notes due 2014 and to repay a portion of the borrowings under the Revolving Facility. The loan is guaranteed by JBS USA Holdings, JBS S.A., JBS Hungary Holdings Kft., and each of the U.S. restricted subsidiaries that guarantee the Revolving Facility (subject to certain exceptions). Loans under this agreement may be either ABR loans or Eurodollar loans at the election of the Company. Interest on the ABR loans is based on ABR plus 1.75% with a 1.75% ABR floor or interest on the Eurodollar loans is based on LIBOR plus 2.75% with a 1.00% LIBOR floor. Interest on ABR loans is payable on the last day of each calendar quarter while interest on Eurodollar loans is payable at the end of the associated interest period. Commencing on December 31, 2013 and continuing until maturity, payments of approximately US$1.3 million will be payable on the last business day of each calendar quarter. The outstanding principal is payable on September 18, 2020. The original issue discount of US$2.5 million is being accreted over the life of the loan. The covenants for this note contain customary negative covenants and customary events of default listed under the Revolving Facility. At June 30, 2014, JBS USA was in compliance with all covenants.

**US$85 million term loan due 2016 –** On June 14, 2011, JBS Five Rivers obtained an US$85.0 million term loan which has a maturity date of June 14, 2016. Repayment of the term loan is required to be made in 20 quarterly installments in the amount of US$1.4 million on the last day of each calendar quarter, with the remaining unpaid principal balance due upon maturity. Borrowings under the term loan bear interest at variable rates based on applicable LIBOR plus 2.75%, or based on the prime rate plus 1.5%. The proceeds from the term loan were advanced to J&F Oklahoma Holdings, Inc. ("J&F Oklahoma"), under the note receivable from J&F Oklahoma. The term loan is secured by certain fixed assets, accounts receivable and inventories of JBS Five Rivers and accounts receivable and inventories of J&F Oklahoma. J&F Oklahoma is a guarantor under the term loan agreement and while it is possible that J&F Oklahoma would be required to repay the outstanding balance and certain other obligations and costs under the term loan as part of its guarantee, it is not probable at this time.

**Covenants:** The US$85.0 million term loan due 2016 contains customary negative covenants that limit JBS Five Rivers and its restricted subsidiaries' ability to, among other things:
• incur certain additional indebtedness;
• create certain liens on property, revenue or assets;
• make certain loans or investments;
• sell or dispose of certain assets;
• pay certain dividends and other restricted payments;
• dissolve, consolidate, merge or acquire the business or assets of other entities;
• enter into new lines of business;
• enter into certain transactions with affiliates;
• issue, sell, assign, or otherwise dispose of certain equity interests;
• enter into certain hedging agreements;
• locate more than a certain number of owned cattle at locations not owned by JBS Five Rivers;
• enter into certain cattle feeding joint ventures that contain restrictions on pledges and transfers of rights under the joint venture agreement; and
• make certain advances to customers above certain thresholds.

**Events of default** – The US$85.0 million term loan also contains customary events of default, including failure to perform or observe terms, covenants or agreements included in the $85.0 million term loan agreement, payment of defaults on other indebtedness, defaults on other indebtedness if the effect is to permit acceleration, entry of unsatisfied judgments or orders against a loan party or its subsidiaries, failure of any collateral document to create or maintain a priority lien, certain events related to bankruptcy and insolvency, certain events related to the Employee Retirement Income Security Act of 1974 ("ERISA"), and failure to comply with the terms of the Executive Succession Plan of J&F Oklahoma Holdings, Inc. If an event of default occurs the lenders may, among other things, terminate their commitments, declare all outstanding borrowings to be immediately due and payable together with accrued interest and fees and exercise remedies under the collateral documents relating to the US$85.0 million term loan. At June 30, 2014, JBS Five Rivers was in compliance with all covenants.

**8.25% senior unsecured notes due 2020 –** On January 30, 2012, JBS USA , LLC and JBS USA Finance issued 8.25% notes due 2020 in an aggregate principal amount of US$700.0 million. The proceeds were used (i) to make an intercompany loan to JBS USA Holdings, for further transfer to JBS S.A. to fund repayment of short and medium-term debt of JBS S.A. and its subsidiaries and (ii) for general corporate purposes. These notes are guaranteed by JBS USA Holdings, JBS S.A., JBS Hungary Holdings Kft., and each of the U.S. restricted subsidiaries that guarantee the Revolving Facility (subject to certain exceptions). If certain conditions are met, JBS S.A. may be released from its guarantees. Interest on these notes is payable semi-annually in arrears on February 1 and August 1 of each year. The principal amount of these notes is payable in full on February 1, 2020. The original issue discount of approximately US$10.0 million is being accreted over the life of the notes. The covenants for these notes contain customary negative covenants and customary events of default listed under the 7.25% senior unsecured notes due 2021. At June 30, 2014, JBS USA was in compliance with all covenants.

**LCAL facility —** On March 3, 2013, JBS Australia entered into a secured facility which provides up to A$4.4 million with Low Carbon Australia Limited ("LCAL"), to fund a capital investment in energy efficiency technology and practices at JBS Australia's processing plant located in Dinmore, Queensland. Interest under this facility is based on the rate determined by LCAL to be equivalent of the Australian Financial Markets Association interest rate swap for a three year period and has a maturity date of September 30, 2017.

**Canadian Credit Facility:** On May 15, 2013, JBS Canada entered into a credit agreement (the "Canadian Credit Facility") with the Royal Bank of Canada ("RBC") as administrative agent and collateral agent, and other lenders party thereto. The Canadian Credit Facility currently provides a revolving dual currency facility of CAD$110.0 million maximum borrowing availability that can be drawn in CAD$ and US$. Canadian dollar loans bear interest at the applicable Canadian Dealer Offered Rate ("CDOR") or RBC Prime Rate plus applicable margins. US dollar loans bear interest at the applicable LIBOR or RBC borrowing rate plus applicable margins.

The Canadian Credit Facility also provides for a CAD$17.0 million term loan. The loan is guaranteed by JBS USA Holdings and JBS S.A. The loan amortizes over a 15 year period with principal and interest due monthly. The outstanding principal is payable on May 15, 2018. This loan is secured by certain real property of JBS Canada. The covenants for this note contain customary negative covenants and customary events of default listed under the Canadian Credit Facility.

**Availability:** Actual borrowings under this facility are subject to a borrowing base, which is a formula based on eligible receivables, inventory, machinery and equipment and real estate less certain eligibility and availability reserves. As of June 30, 2014, there were no outstanding letters of credit and borrowing availability of US$36.3 million.

**Security and guarantees:** Borrowings made by JBS Canada under the Canadian Credit Facility are guaranteed by JBS USA Holdings and JBS S.A. Furthermore, the borrowings are collateralized by a first priority perfected lien and interest in accounts receivable, finished goods, feed, live inventory and supply inventories, machinery equipment and real estate.

**Covenants:** The Canadian Credit Facility contains customary representations, warranties and a springing financial covenant that requires a minimum fixed charge coverage ratio of not less than 1.00 to 1.00. This ratio is applicable if borrowing availability causes a covenant trigger period, which only occurs when borrowing availability falls below the greater of 10% of the maximum borrowing amount or CAD$10.0 million for five consecutive business days. The Canadian Credit Facility also contains negative covenants that may limit the ability of JBS Canada to, among other things:

• incur certain additional indebtedness;
• create certain liens on property, revenue or assets;
• make certain loans or investments;
• sell or dispose of certain assets;
• pay certain dividends and other restricted payments;
• prepay or cancel certain indebtedness;
• dissolve, consolidate, merge or acquire the business or assets of other entities;
• enter into joint ventures other than certain permitted joint ventures or create certain other subsidiaries;
• enter into new lines of business;
• enter into certain transactions with affiliates and certain permitted joint ventures;
• agree to restrictions on the ability of the subsidiaries to make dividends;
• agree to enter into negative pledges in favor of any other creditor; and
• enter into certain sale/leaseback transactions.

**Events of default.** The Canadian Credit Facility also contains customary events of default, including failure to perform or observe terms, covenants or agreements included in the Canadian Credit Facility, payment of defaults on other indebtedness, defaults on other indebtedness if the effect is to permit acceleration, entry of unsatisfied judgments or orders against a loan party or its subsidiaries, failure of any collateral document to create or maintain a priority lien and certain events related to bankruptcy and insolvency or environmental matters. If an event of default occurs the lenders may, among other things, terminate their commitments, declare all outstanding borrowings to be immediately due and payable together with accrued interest and fees and exercise remedies under the collateral documents relating to the Canadian Credit Facility. At June 30, 2014, JBS Canada was in compliance with all covenants.

**5.875% senior unsecured notes due 2024 –** On June 25, 2014, JBS USA, LLC and JBS USA Finance issued 5.875% notes due 2024 in an aggregate principal amount of US$750.0 million. The proceeds were used to make an intercompany loan to JBS USA Holdings, for further transfer to JBS S.A. to repay short- and medium-term debt, including to pay the tender price of any Notes 2016 and/or Bertin's Notes 2016 tendered in connection with the tender offer. These notes are guaranteed by the JBS USA Holdings, JBS S.A., JBS Hungary Holdings Kft., and each of the U.S. restricted subsidiaries that guarantee the Revolving Facility (subject to certain exceptions). If certain conditions are met, JBS S.A. may be released from its guarantees. Interest on these notes is payable semi-annually in arrears on January 15 and July 15 of each year, beginning on January 15, 2015. The principal amount of these notes is payable in full on July 15, 2024. The covenants for these notes contain customary negative covenants and customary events of default listed under the 7.25% senior unsecured notes due 2021. At June 30, 2014, JBS USA was in compliance with all covenants.

**Guarantee of J&F Oklahoma's revolving credit facility** – On October 7, 2008, J&F Oklahoma entered into a US$600.0 million secured revolving credit facility. This credit facility and the guarantee thereof are secured solely by the assets of J&F Oklahoma and the net assets of JBS Five Rivers. This credit facility is used to acquire cattle which are then fed in the JBS Five Rivers' feedyards pursuant to the cattle supply and feeding agreement. The finished cattle are sold to JBS USA under the cattle purchase and sale agreement. This facility was amended and restated on September 10, 2010 to provide availability up to US$800.0 million and to extend the maturity date to September 23, 2014.

On June 14, 2011, J&F Oklahoma and JBS Five Rivers executed a third amended and restated credit agreement to increase the availability to US$1.0 billion and to add J&F Australia as a borrower under the facility. The facility matures on June 14, 2015. On March 6, 2012, J&F Oklahoma and JBS Five Rivers executed an amendment to the third amended and restated credit agreement to increase the availability up to US$1.2 billion. On January 24, 2013, J&F Oklahoma executed a fourth amended and restated credit facility to add J&F Canada as a borrower under the facility, allow borrowings under additional currency options and extend the maturity date to June 14, 2016. Borrowings under the facility bear interest at variable rates based on applicable LIBOR plus 2.25%, or based on the prime rate plus 1%. The interest rate at June 30, 2014 was 2.8%. As of June 30, 2014, no borrowings were used towards letters of credit and borrowing availability was US$121.3 million. As of June 30, 2014 and December 31, 2013, J&F Oklahoma had US$ 1.1 billion and US$880.9 million, respectively, in outstanding borrowings on the facility.

The credit agreement is collateralized by accounts receivable and inventories of J&F Oklahoma and by certain fixed assets, accounts receivable and inventories of JBS Five Rivers. Among other requirements, the facility requires J&F Oklahoma to maintain certain financial ratios, minimum levels of net worth and establish limitations on certain types of payments, including dividends, investments and capital expenditures. In most instances, the covenants consider the combined position and results of J&F Oklahoma along with JBS Five Rivers. J&F Oklahoma's parent company has entered into a keep-well agreement whereby it will make contributions to J&F Oklahoma if J&F Oklahoma is not in compliance with its financial covenants under this credit facility. If J&F Oklahoma defaults on its obligations under the credit facility and such default is not cured by its parent under the keep-well agreement, JBS Five Rivers is obligated for up to US$250.0 million of guaranteed borrowings plus certain other obligations and costs under this credit facility. J&F Oklahoma was in compliance with the financial covenants under this credit facility as of June 30, 2014.

**Credit facility to J&F Oklahoma –** JBS Five Rivers is party to an agreement with J&F Oklahoma pursuant to which JBS Five Rivers has agreed to loan up to US$200.0 million in revolving loans to J&F Oklahoma. The loans are used by J&F Oklahoma to acquire feeder animals which are placed in JBS Five Rivers' feedyards for finishing. Borrowings accrue interest at a per annum rate of LIBOR plus 2.25% and interest is payable at least quarterly. On September 26, 2011, the facility was amended to accrue interest at a per annum rate of LIBOR plus 2.75%. On September 10, 2010, the facility was amended to extend the maturity date to September 11, 2016. On June 14, 2011, the facility was amended to increase availability under the loan to US$375.0 million. On January 24, 2013, the agreement was amended to extend the facility up to US$450.0 million to fund working capital needs. The interest rate at June 30, 2014 was 3.0%.

**US$250 million intercompany loan –** On July 12, 2007, a subsidiary of JBS USA issued a US$250.0 million intercompany loan to JBS Australia with an 8.0% interest rate and a maturity date of July 12, 2017. While this loan eliminates upon consolidation, the loan is denominated in A$, but reported by JBS USA in US$. Therefore, the loan generates foreign currency transaction gains or losses due to fluctuations in the period end A$ to US$ exchange rate. JBS USA Holdings may use derivatives for the purpose of mitigating exposure to changes in foreign currency exchange rates.

**Credit facility to Sampco –** On April 1, 2010, JBS USA Holdings executed a US$60.0 million related party revolving promissory note with Sampco, Inc. ("Sampco"), an indirect wholly-owned subsidiary of JBS S.A., with interest based on the three-month LIBOR plus a margin of 2.5% and a maturity date of March 31, 2012. On April 1, 2012, JBS USA Holdings and Sampco amended the related party revolving promissory note to increase the interest rate to the three-month LIBOR plus a 3% margin and to extend the maturity date to March 31, 2014. On March 6,2014, the note was amended to extend the maturity date to March 31, 2016. The interest rate at June 30, 2014 was 3.2%. This note eliminates upon consolidation.

**Revolving loan payable between JBS USA and JBS Australia –** On May 4, 2010, JBS USA issued a long-term intercompany revolving promissory note to JBS Australia for A$250.0 million with interest based on the three-month Bank Bill Swap Bid Rate ("BBSY") plus 3% and a maturity date of May 4, 2012 to fund working capital needs and general corporate purposes. On November 9, 2010, the note was amended to increase the maximum amount of advances to A$350.0 million. On February 2, 2011, the note was amended to increase the maximum amount of advances to A$400.0 million. On July 6, 2011, the note was amended to reduce the interest rate margin of 3% over the BBSY to 2%. On November 7, 2011, the note was amended to extend the maturity date to December 31, 2013 and to make the interest rate margin on the note equal to the Revolver Bill Rate Spread as defined in the Revolving Facility in effect at the time an advance is made. On December 31, 2013, the note was amended to extend the maturity date to December 31, 2014. While this note eliminates upon consolidation, the note is denominated in AUD, but reported by JBS USA in USD. Therefore, the note generates foreign currency transaction gains or losses due to fluctuations in the period end AUD to USD exchange rate. The interest rate at June 30, 2014 was 4.5%.

**US$10 million loan receivable from Weddel Limited -** On May 10, 2011, JBS USA Holdings executed a US$10.0 million related party revolving promissory note with Weddel Limited ("Weddel"), a wholly-owned subsidiary of JBS USA Holdings, with interest based on the U.S. Prime Rate plus a margin of 2.0% and a maturity date of May 10, 2012. On May 8, 2012, the note was amended to extend the maturity date to March 31, 2013. On March 26, 2013, the note was amended to extend the maturity date to March 31, 2014. On July 26, 2013, the note was amended to convert the note from a US$-denominated note to a CAD$10.0 million note and amend the interest rate to be the Canadian Prime Rate plus 2.0%. On March 6, 2014, the note was amended to extend the maturity date to March 31, 2016. While this note eliminates upon consolidation, the CAD$-denominated note will be reported by the Company in US$; therefore, this amended note will generate foreign currency transaction gains or losses due to fluctuations in the period end CAD$ to US$ exchange rate. JBS USA Holdings may use derivatives for the purpose of mitigating exposure to changes in foreign exchange rates. The interest rate at June 30, 2014 was 5.0%.

**Revolving intercompany note to JBS USA Holdings -** On June 2, 2011, JBS USA, LLC issued a US$2.0 billion revolving intercompany note to JBS USA Holdings. The note bears interest at a variable rate equal to LIBOR plus 3%. On January 25, 2012, JBS USA, LLC amended the revolving intercompany note to increase the maximum amount available under the note to US$3.0 billion. On September 30, 2013, JBS USA, LLC amended the revolving intercompany note to JBS USA Holdings to increase the maximum amount available under the note to US$3.5 billion. On June 17, 2014 JBS USA, LLC amended the revolving intercompany note to increase the maximum amount available under the note to US$4.0 billion. Principal and accrued interest are due and payable upon demand by JBS USA, LLC at any time on or after June 30, 2015. The interest rate at June 30, 2014 was 3.2%. This note eliminates upon consolidation.

**JBS USA letters of credit -** On October 26, 2011 and November 4, 2011, JBS USA, LLC agreed to provide letters of credit in the amount of US$40.0 million and US$16.5 million, respectively to an insurance company serving PPC in order to allow that insurance company to return cash it held as collateral against potential workers compensation, auto and general liability claims of PPC. In return for providing these letters of credit, PPC is reimbursing JBS USA for the cost PPC would have otherwise incurred. During the three months and six months periods ended June 30, 2014, and June 30, 2013, PPC reimbursed JBS USA, LLC US$0.3 million and US$0.6 million; and US$0.6 million and US$1.2 million , respectively.

**Note to Sampco -** On March 15, 2012 Sampco executed a US$20.0 million revolving promissory note to JBS USA Holdings with interest based on the three-month LIBOR plus a margin of 3%. On May 22, 2012, the note was amended to increase the maximum amount available to US$50 million. On September 18, 2012, the note was amended to increase the maximum amount available to US$100.0 million. Principal and interest are due and payable upon demand by Sampco at any time on or after March 31, 2014. On March 6, 2014, the note was amended to increase the maximum amount available to US$120.0 million and to extend the maturity date to March 31, 2016. The interest rate at June 30, 2014 was 3.2%. This note eliminates upon consolidation.

**Note to JBS Five Rivers -** On April 20, 2012, JBS USA Holdings issued a US$100.0 million intercompany revolving promissory note to JBS Five Rivers with interest based on the three-month LIBOR plus a margin of 3% and a maturity date of April 20, 2013 to fund working capital needs and general corporate purposes. On March 5, 2013, this note was amended to increase the maximum amount available under the note to US$175.0 million and to extend the maturity date to June 14, 2016. The interest rate at June 30, 2014 was 3.2%. This note eliminates upon consolidation.

**Note to JBS Canada** - On January 2, 2013, JBS USA Holdings issued an intercompany revolving promissory note to JBS Canada for CAD$200.0 million with interest based on the CDOR plus 3% and a maturity date of December 31, 2014 to fund working capital needs and general corporate purposes. The interest rate at June 30, 2014 was 4.4%. While this note eliminates upon consolidation, the CAD$-denominated note will be reported by the JBS USA Holdings in US$; therefore, this amended note will generate foreign currency transaction gains or losses due to fluctuations in the period end CAD$ to US$ exchange rate. JBS USA Holdings may use derivatives for the purpose of mitigating exposure to changes in foreign currency exchange rates.

**Description of Indebtedness of PPC**

**US Credit Facility** – PPC and certain of its subsidiaries entered into a credit agreement (the "US Credit Facility") with CoBank ACB, as administrative agent and collateral agent, and other lenders party thereto, which was amended and restated on August 7, 2013. As of June 30, 2014, the US Credit Facility provided for a US$700.0 million revolving credit facility and a delayed draw term loan commitment of up to US$400.0 million (the "Delayed Draw Term Loan"). PPC can draw upon the Delayed Draw Term Loan, in one or more advances, between May 1, 2014 and December 28, 2014. The US Credit Facility also includes an accordion feature that allows PPC, at any time, to increase the aggregate revolving loan commitment by up to an additional US$250.0 million and to increase the aggregate Delayed Draw Term Loan by up to an additional US$500.0 million, in each case subject to the satisfaction of certain conditions, including obtaining the lenders' agreement to participate in the increase and an aggregate limit on all commitments under the US Credit Facility of US$1.9 billion. The US Credit Facility also provides for a US$100 million sub-limit for swingline loans and a US$200.0 million sub-limit for letters of credit. The revolving loan commitment under the U.S. Credit Facility matures on August 7, 2018. Any Delayed Draw Term Loans would be payable in quarterly installments beginning in fiscal year 2015 equal to 1.875% of the principal outstanding as of December 28, 2014, with all remaining principal and interest due at maturity on August 7, 2018.

On August 7, 2013, PPC paid loan costs totaling US$5.0 million related to the amendment and restatement to the U.S. Credit Facility that is recognized as an asset on its balance sheet. PPC amortizes these capitalized costs to interest expense over the life of the U.S. Credit Facility.

Subsequent to the end of each fiscal year, a portion of PPC's cash flow must be used to repay outstanding principal amounts under the Term B loans. On April 29, 2013, PPC paid approximately US$141.2 million of its cash flow from 2012 toward the outstanding principal under the Term B loans. On December 30, 2013, PPC paid US$204.9 million of its cash flow toward the outstanding principal under the Term B loans. The excess cash flow payments have been applied to installments of the Term B loans ratably in accordance with the then outstanding amounts thereof. The US Credit Facility also requires PPC to use the proceeds it receives from certain asset sales and specified debt or equity issuances and upon the occurrence of other events to repay outstanding borrowings under the US Credit Facility. On April 28, 2014, PPC paid approximately US$205.2 million of its cash flow forward the outstanding principal under the Term B loans. Following this payment, PPC has no outstanding principal under the Term B loans.

Actual borrowings by PPC under the revolving credit commitment component of the US Credit Facility are subject to a borrowing base, which is a formula based on certain eligible inventory, eligible receivables and restricted cash under the control of CoBank ACB. As of June 30, 2014, there were US$20.1 million of outstanding letters of credit and borrowing availability of US$679.9 million.

(Expressed in thousands of reais)

The US Credit Facility contains financial covenants and various other covenants that may adversely affect PPC's ability to, among other things, incur additional indebtedness, incur liens, pay dividends or make certain restricted payments, consummate certain assets sales, enter into certain transactions with JBS USA Holdings and PPC's other affiliates, merge, consolidate and/or sell or dispose of all or substantially all of PPC's assets. The US Credit Facility requires PPC to comply with a minimum level of tangible net worth covenant. PPC is currently in compliance with this financial covenant.

All other financial covenants were eliminated in connection with the August 7, 2013 amendment and restatement to the US Credit Facility. The US Credit Facility also provides that PPC may not incur capital expenditures in excess of US$350.0 million in any fiscal year.

All obligations under the US Credit Facility are unconditionally guaranteed by certain of PPC's subsidiaries and are secured by a first priority lien on (i) the accounts receivable and inventories of PPC and its non-Mexico subsidiaries, (ii) 65% of the equity interests in PPC's direct foreign subsidiaries and 100% of the equity interests in PPC's other subsidiaries, (iii) substantially all of the personal property and intangibles of the borrowers and guarantors under the US Credit Facility and (iv) substantially all of the real estate and fixed assets of PPC and the guarantor subsidiaries under the US Credit Facility.

**Senior Unsecured Notes due 2018 - PPC's 2018 Notes -** On December 15, 2010, PPC issued US$500.0 million of 7.875% Senior Notes due 2018 (the "PPC's 2018 Notes"). The PPC's 2018 Notes are unsecured obligations of PPC and guaranteed by one of PPC's subsidiaries. Interest is payable on December 15 and June 15 of each year, commencing on June 15, 2011. The indenture governing the PPC's 2018 Notes contains various covenants that may adversely affect PPC's ability to, among other things, incur additional indebtedness, incur liens, pay dividends or make certain restricted payments, consummate certain asset sales, enter into certain transactions with the Company and PPC's other affiliates, merge, consolidate and/or sell or dispose of all or substantially all of its assets. PPC has subsequently exchanged these notes for substantially identical notes that are registered under the Securities Act of 1933.

**Mexico Credit Facility -** On October 19, 2011, Avícola Pilgrim's Pride S. de R.L. de C.V. and certain other Mexican subsidiaries, entered into an amended and restated credit agreement (the "Mexico Credit Facility") with ING Bank (México), S.A. Institución de Banca Múltiple, ING Grupo Financeiro, as lender and ING Capital, LLC, as administrative agent. The Mexico Credit Facility has a final maturity date of September 25, 2014. The Mexico Credit Facility is secured by substantially all of the assets of PPC's Mexico subsidiaries. As of June 30, 2014, the U.S. dollar-equivalent of the loan commitment under the Mexico Credit Facility was US$43.0 million.

Under the Mexico Credit Facility, if (i) any default or event of default has occurred and is continuing or (ii) the quotient of the borrowing base divided by the outstanding loans and letters of credit (the "Collateral Coverage Ratio") under the Mexico Credit Facility is less than 1.25 to 1.00, the loans and letters of credit under the Mexico Credit Facility will be subject to, and cannot exceed, a borrowing base. The borrowing base is a formula based on accounts receivable, inventory, prepaid assets, net cash under the control of the administrative agent and up to 150.0 million Mexican pesos of fixed assets of PPC's Mexico subsidiaries party to the Mexico Credit Facility. The borrowing base formula will be reduced by trade payables of those Mexico subsidiaries. If the Collateral Coverage Ratio falls below 1.25 to 1.00, the borrowing base requirement would terminate upon the earlier of (i) the Collateral Coverage Ratio exceeding 1.25 to 1.00 as of the latest measurement period for 60 consecutive days or (ii) the borrowing availability under the Mexico Credit Facility being equal to or greater than the greater of 20% of the revolving commitments under the Mexico Credit Facility and 100.0 million Mexican pesos for a period of 60 consecutive days.

Avícola may pay dividends or make other restricted payments to PPC in an amount not to exceed in the aggregate 250.0 million Mexican pesos during the term of the Mexico Credit Facility if certain conditions are satisfied, including a condition that availability is at least 100% of the revolving loan commitment under the Mexico Credit Facility, less any letter of credit liability under the Mexico Credit Facility. However, PPC deems its earnings from Mexico as of June 30, 2014 to be permanently reinvested. As such, US deferred income taxes have not been provided on these earnings. If such earnings were not considered indefinitely reinvested, certain deferred foreign and US income taxes would be provided.

## 17 Income taxes, payroll, social charges and tax obligation

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Payroll and related social charges | **111,617** | 111,665 | **526,784** | 476,293 |
| Accrual for labor liabilities | **216,149** | 138,898 | **1,300,637** | 1,217,222 |
| Income taxes | **-** | - | **302,182** | 19,760 |
| Withholding income taxes | **928** | 1,073 | **4,371** | 3,221 |
| ICMS / VAT / GST tax payable | **12,238** | 11,712 | **68,085** | 54,925 |
| PIS / COFINS tax payable | **187** | 261 | **2,020** | 1,657 |
| Taxes in installments | **134,844** | 152,189 | **365,539** | 382,393 |
| Others | **17,338** | 92,109 | **241,633** | 311,004 |
| | **493,301** | **507,907** | **2,811,251** | **2,466,475** |
| **Breakdown:** | | | | |
| Current liabilities | **368,276** | 382,741 | **2,099,472** | 1,761,296 |
| Noncurrent liabilities | **125,025** | 125,166 | **711,779** | 705,179 |
| | **493,301** | **507,907** | **2,811,251** | **2,466,475** |

## 18 Declared dividends

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Declared dividends | **609** | 220,494 | **609** | 220,494 |
| | **609** | **220,494** | **609** | **220,494** |
| Proposed dividends on 2012 - Residual | | | | 354 |
| Proposed dividends on 2013 - Residual | | | | 255 |
| | | | | **609** |

The residual amount of dividends corresponds to the unpaid dividends due to lack of updated bank information. These pending items by some minority shareholders avoid the realization of fully payment. The Company sent notification to such shareholders to update their information so the amount would be paid. The liability will be maintained during the statutory period in the short term, since once the register is updated, the payment is automatic.

(Expressed in thousands of reais)

## 19 Payables related to facilities acquisitions

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Current | **92,001** | 95,853 | **301,498** | 264,264 |
| Noncurrent | **48,204** | 62,754 | **528,299** | 463,485 |
| | **140,205** | **158,607** | **829,797** | **727,749** |

**In Company:**

The payables related to facilities acquisitions in the Company is related primarily to acquisitions of assets and other industrial complexes based in the States of Acre, Bahia, Mato Grosso, Mato Grosso do Sul, Rondônia and Goiás.

**In the Consolidated**

i) R$ 2,386 in the indirect subsidiary JBS Aves is related to the acquisition in June 2013 of the company Agil, which explores the activity of warehouses, where the amount is recorded in the short term;

ii) R$ 102,178 in the indirect subsidiary JBS Aves is related to the acquisition in March, 2013 of the company Agrovêneto that explores an activity similar to JBS Aves, where the amount is recorded in the long term;

iii) R$ 173,335 in the indirect subsidiary JBS Aves related to the acquisition in June, 2013 of assets and industrial complexes of Ana Rech, to implement the activity of hogs slaughtering and refrigeration, as well as industrialization and sub-products, being R$ 49,335 classified in the short term and R$ 124,000 classified in the long term.

iv) R$ 164.385 in the subsidiary JBS Foods S.A. related to the remaining debit assumed by Marfrig S.A. with Brasil Foods S.A. by the time of the acquisition of the assets. With the sale of Seara by Marfrig, the assets bought was transferred along with the debits to JBS S.A., being R$ 31,324 classified in the short term and R$ 133,061 classified in the long term;

v) R$ 157,713 in the subsidiary JBS Foods S.A. refers to the acquisition of the plant of slaughtering and processing of pigs in Carambeí - PR that was leased by Brasil Foods S.A. on May 31, 2014, being R$ 78,857 classified in the short term and R$ 78.856 classified in the long term;

vi) R$ 28,595 in the subsidiary JBS Global Meat related to debts to Midtown acquisition.

vii) R$ 21,000 in the indirect subsidiary Seara Alimentos refers to the Sul Valle's acquisition occurred on March, 2014, which is engaged in the activity of creating, slaughter and marketing of pork, being R$ 9,000 classified as short term and R$ 12,000 classified as long term.

viii) R$ 40,000 in the indirect subsidiary JBS Aves refers to the Frinal's acquisition occurred on June, 2014, which is engaged in the activity of creating, slaughter and marketing of pork, being R$ 10,000 classified as short term and R$ 30,000 classified as long term.

## 20 Income taxes - Nominal and effective tax rate reconciliation

Income tax and social contribution are recorded based on taxable profit in accordance with the laws and applicable rates. Deferred Income tax and social contribution-assets are recognized on temporary differences and fiscal loss. Income tax and social contribution tax-liabilities were recorded on the revaluation reserves established by the Company and on temporary differences (mainly goodwill amortization).

| | Company | | Consolidated | |
|---|---|---|---|---|
| | For the six months period ended on June, 30 | | For the six months period ended on June, 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| **Income before income taxes** | **328,936** | **747,723** | **1,007,054** | **1,002,003** |
| Expectation of expense of the income taxes - Combined nominal of 34% | **(111,838)** | (254,226) | **(342,398)** | (340,681) |
| **Adjust to demonstrate the effective rate** | | | | |
| Additions, mostly result on equity subsidiaries, foreign income, goodwill amortization and tax equivalents in other countries | **107,146** | 72,863 | **(193,180)** | (11,045) |
| **Income (expense) of the deferred income taxes** | **(4,692)** | **(181,363)** | **(535,578)** | **(351,726)** |
| **Effective rate** | **-1.43%** | **-24.26%** | **-53.18%** | **-35.10%** |

| | Company | | Consolidated | |
|---|---|---|---|---|
| | For the three months period ended on June, 30 | | For the three months period ended on June, 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| **Income before income taxes** | **259,824** | **373,802** | **747,348** | **630,929** |
| Expectation of expense of the income taxes - Combined nominal of 34% | **(88,340)** | (127,093) | **(254,098)** | (214,516) |
| **Adjust to demonstrate the effective rate** | | | | |
| Additions, mostly result on equity subsidiaries, foreign income, goodwill amortization and tax equivalents in other countries | **82,781** | 91,758 | **(141,785)** | (8,363) |
| **Income (expense) of the deferred income taxes** | **(5,559)** | **(35,335)** | **(395,883)** | **(222,879)** |
| **Effective rate** | **-2.14%** | **-9.45%** | **-52.97%** | **-35.33%** |

(Expressed in thousands of reais)

**Explanative notes**

Composition of expenses of income tax and social contribution presented income statements of the Company and Consolidated results for the six and three months period ended on June 30, 2014 and 2013.

| | Company | | Consolidated | |
|---|---|---|---|---|
| | For the six months period ended on June 30, | | For the six months period ended on June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Current income taxes | **1,096** | 1,195 | **(804,134)** | (53,776) |
| Deferred income taxes | **(5,788)** | (182,558) | **268,556** | (297,950) |
| | **(4,692)** | **(181,363)** | **(535,578)** | **(351,726)** |

| | Company | | Consolidated | |
|---|---|---|---|---|
| | For the three months period ended on June 30, | | For the three months period ended on June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Current income taxes | **547** | 592 | **(580,891)** | (34,970) |
| Deferred income taxes | **(6,106)** | (35,927) | **185,008** | (187,909) |
| | **(5,559)** | **(35,335)** | **(395,883)** | **(222,879)** |

**Composition of deferred income tax and social contribution**

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| **ASSETS** | | | | |
| . On tax losses and temporary differences | **437,465** | 417,598 | **1,098,200** | 1,027,330 |
| **LIABILITIES** | | | | |
| . On goodwill amortization, revaluation reserve and temporary differences | **1,540,043** | 1,508,571 | **2,896,497** | 3,146,924 |
| **Net** | **1,102,578** | **1,090,973** | **1,798,297** | **2,119,594** |

**Deferred income taxes**

Deferred income taxes is generated by temporary differences at reporting date between the taxable basis of assets and liabilities and its accounting basis. Deferred taxes liabilities are recognized for all temporary tax differences, except:

- when the deferred tax liability arises from initial recognition of goodwill, or when the deferred tax asset or liability asset from the initial recognition of an asset or liability in a transaction that is not a business combination and, on the transaction date, does not affect the accounting net income or taxable profit or fiscal loss, and

- when taxable temporary differences related to investments in subsidiaries, can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future, and

- on the deductible temporary differences associated with investments in associates and in subsidiaries, when it is not probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available for the temporary differences can be utilized.

## 21 Provision for lawsuits risk

The Company and its subsidiaries are parties in several proceedings arising in the regular course of business, for which provisions were established based on estimation of their legal counsel. The main information related to these procedures on June 30, 2014 are as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Labor | **59,998** | 57,769 | **196,327** | 163,466 |
| Civil | **11,143** | 9,951 | **80,649** | 75,035 |
| Tax and Social Security | **99,460** | 96,331 | **557,030** | 610,823 |
| **Total** | **170,601** | **164,051** | **834,006** | **849,324** |

**Changes in provisions**

| | December 31, 2013 | Sul Valle, Frinal and Massa Leve's Acquisition | Additions | Reversals | Exchange rate variation | June 30, 2014 |
|---|---|---|---|---|---|---|
| **Company** | **164,051** | - | 6,550 | - | - | **170,601** |
| **Consolidated** | **849,324** | 18,668 | 14,766 | (46,650) | (2,102) | **834,006** |

**Tax Proceedings**

**a) ICMS - Value Added Tax (Imposto sobre Operações Relativas à Circulação de Mercadorias e sobre a Prestação de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação)**

The Tax Authority of the State of São Paulo (Secretaria da Fazenda do Estado de São Paulo) filed 180 administrative proceedings against the Company, under which the Tax Authority challenges the amount of the Company's ICMS tax credits arising from the purchase of cattle and meat transfer by the Company in other Brazilian states. The Tax Authority of the State of São Paulo claims that the tax incentives should be approved by Confaz , and are known as a "Tax War". The Tax Authority of the State of São Paulo does not recognize the Company's ICMS tax credits up to the amount of the ICMS tax guaranteed in such other states. The Company estimates that the claims under these administrative proceedings amount to R$ 1,663,853 in the aggregate in June, 2014. In addition to presenting its defense in such administrative proceedings, the Company has filed legal proceedings seeking the payment of damages from such other states if the Tax Authority of the State of São Paulo prevails in these administrative proceedings.

Management believes, based on the advice of its legal counsel, that its arguments will prevail in these procedures, which is the reason why no provision has been made.

The Tax Authority of the State of Goiás filed 18 administrative proceedings against the Company, due to interpretation divergences of the Law concerning the export VAT credits. Based on the opinion of the Company's external legal counsel, Management believes the Company will prevail in most of these proceedings, in the amount of R$ 733,873. The management believes, based on the advice of its legal counsel, that its arguments will prevail in these procedures, which is the reason why no provision has been made. The probability of loss is considered remote.

**b) Social contributions — Rural Workers' Assistance Fund (FUNRURAL)**

Social Contributions – In January 2001, the INSS (Brazilian Social Security Institute) filed administrative proceedings (autos de infração) against the Company, seeking to collect certain social security contributions (which are referred to as contributions to the Rural Workers' Assistance Fund - NOVO FUNRURAL). This sentence was reformulate by the Federal Regional Court of 3rd region. The Company filed an extraordinary appeal, which was halted on the basis of Article 543-B, § 1 of the Code of Civil Procedure, until the final decision of the Supreme Court on the matter. To avoid the institution to lose the right to require the contribution to the New Funrural, INSS released tax notifications, in a total of 20 infringement notices, in the amount of R$ 949,192.

The Company has presented its defense in those administrative proceedings, informing that it does not collect the amount due to a favorable court ruling, considering that there is no final decision of the writ of mandamus mentioned.

This matter was the subject of decisions favorable to the taxpayer, issued by the Supreme Court - STF for companies whose activities are similar to the activity of the Company in the trials of Extraordinary Appeals number 363.852/MG and 596.177/RS. Currently, the Company does not make any rebate or payment. If a discount is made for commercial reasons, the Company will deposit it in court and, fulfill a court order. Based on the opinion of legal advisors and based on case law in favor of the Supreme Court in a similar case, management believes that its fundamentals will prevail and no provision was recorded for that contingency. The probability of loss is considered remote.

**c) Other tax and social security procedures**

The Company is a party in additional 966 tax and social security proceedings, in which the individual contingencies are not relevant for the Company's context. We highlight that the ones with probable loss risk have contingencies for R$ 99,460 which are 100% accrued in June 30, 2014.

**Labor Proceedings**

As of June 30, 2014 the Company was party to 10.919 labor and accident proceedings, involving total value of R$ 1,754,325. Based on the opinion of the Company's external legal counsel, the Company's management recorded a provision in the amount of R$ 59,998 for losses arising from such proceedings. Most of these lawsuits were filed by former employees of the Company seeking overtime payments and payments relating to their exposure to health hazards.

**Civil Proceedings**

**a) Slaughter facility at Araputanga**

In 2001, the Company (formerly known as Friboi Ltda.), entered into a purchase agreement for the acquisition of one slaughter facility located in the City of Araputanga, State of Mato Grosso, from Frigorífico Araputanga S.A. ("Frigorífico Araputanga"). As a result of the payment of the purchase price by the Company and the acknowledgement by Frigorífico Araputanga of compliance by the Company with its obligations under the purchase agreement, a public deed reflecting the transfer of title of the slaughter facility from Frigorífico Araputanga to the Company was registered with the applicable real estate notary.

As Frigorífico Araputanga was a beneficiary of certain tax benefits granted by the Federal Government through an agency responsible for fostering the development of the northern region of Brazil (*Superintendência de Desenvolvimento da Amazônia* – SUDAM) and the slaughter facility sold to the Company was granted by Frigorífico Araputanga to SUDAM as collateral for these tax benefits the consent of SUDAM was required for the registration of the public deed with the applicable real estate notary. In September 2004, Frigorífico Araputanga S.A. filed a lawsuit against the Company in a state court located in the City of Araputanga, State of Mato Grosso, alleging that the Company breached the purchase agreement and seeking an injunction to prevent the Company from finalizing the transfer of the slaughter facility and a declaratory judgment that the purchase agreement and the public deed registered with the real estate notary were null and void.

The parties are waiting for the conclusion. The first judicial expert appraisal was favorable to the company, that after evaluating the payments made by Agropecuária Friboi, the appraisal concluded that the debt was already paid. The judicial appeal number 2006.01.00.024584-7 was judged favorably to the Company, when the "TRF" Regional Federal Court declared valid the purchase title deeds of the property, object of discussion. Based on the Company's legal advisers' opinion and based on Brazilian jurisprudence management of the Company believes that their arguments will prevail and no provision was registered. The probability of loss is considered remote.

**b) Trademark Infringement**

Also due to the barrier in Araputanga / MT, the seller distributed in the City of Araputanga / MT, filed a lawsuit for improper use of trademark, under the premise that Friboi Ltda. was using the mark Frigoara without its authorization.
The amounts of the claim were based upon a report presented by Frigorífico Araputanga to the trial court, which appraised the value of the trademark "Frigoara" at R$ 315,000, seeking damages in the amount of R$ 100,000 and punitive damages in the amount of R$ 26,938. The Company presented its defense against this lawsuit alleging that (i) the lawsuit should be analyzed and reviewed together with the lawsuit relating to the purchase of the slaughter facility from Frigorífico Araputanga by the Company, (ii) the trademark "Frigoara" was used by the Company for a limited period of time, with the written consent and upon the request of Frigorífico Araputanga (the use of the trademark by the Company was a requirement of SUDAM to consent to the registration of the public deed contemplating.

In the defense, the amount of any damages under the lawsuit should be limited to a percentage of products sold by the Company under the trademark “Frigoara,” pursuant to article 208 of the Intellectual Property Law. Almost all of the products manufactured by the Company were marketed under the trademark “Friboi.” The only product marketed by the Company under the trademark “Frigoara” was minced meat, in limited amounts. The expected loss on June 30, 2014, R$ 600, has been provisioned.

Following a determination of the judge of the trial court, the lawsuit was submitted to the review of the Federal Court of Cárceres on January 17, 2007. The judge of the Federal Court of Cárceres determined that this lawsuit be joined with the lawsuit relating to the purchase of the slaughter facility by the Company from Frigorífico Araputanga. The Federal Government will be notified to issue an opinion on the matter under discussion in this lawsuit. Based on the Company’s legal counsel opinion supported by precedents of the Federal Brazilian Supreme Court (Supremo Tribunal Federal) and the Brazilian Superior Court of Justice (Superior Tribunal de Justiça), the Company’s management believes that the Company will prevail in these proceedings.

**c) Other civil proceedings**

The Company is also part to other civil proceedings that in the opinion of the Management and its legal advisers. The expected loss on June 30, 2014, R$ 10,543, has been provisioned.

**Other proceedings**

In June 30, 2014, the Company had other ongoing civil, labor and tax proceedings, on the approximately amounting of R$ 21,867, whose materialization, according to the evaluation of legal advisors, it is possible to loss, but not probable, for which the Company's management does not consider necessary to set a provision for possible loss, in line with the requirements of the IAS 37/CPC 25 - Provisions, Contingent Liabilities and Contingent Assets.

**In JBS Foods Ltda.**

**Labor Proceedings**

As of June 30,2014 the subsidiaries of JBS Foods S.A. was party to 8,336 labor proceedings, involving total amount of R$ 746,931. Based on the opinion of the company's external legal council, the management recorded a provision in the amount of R$ 127,022 for losses arising from such proceedings. Most of these lawsuits are related to actions that deal with seeking damages for occupational disease, physical and aesthetical damage, seeking overtime payments, payments relating to their exposure to health hazards, commuting time, interval for thermal recovery, seeking damages for accidents and exchanging uniform.
Besides these, there are 29 Public Civil labor proceedings, involving the total amount of R$ 100,431, which the management recorded a provision in the amount of R$ 35,011. based on the opinion of the company's external legal council.

**Civil proceedings**

As of June 30,2014 the subsidiaries of JBS Foods S.A. was party to 2,155 civil and administrative proceedings, involving total amount of R$ 227,054. Based on the opinion of the company's external legal council, the company's management recorded a provision in the amount of R$ 25,432 for losses arising from such proceedings. Most of the lawsuits are related to indemnity for collective seeking damages, seeking damages for improper protest, repairing damages for termination of partner poultry or pigs integration, cancellation of industry or trade mark complaints and consumer contracts - product quality.

**Tax Proceedings**

**a) Risk in the glosses of claims - PIS/COFINS**

In between the years of 2003 to 2013 the indirect subsidiary Seara Alimentos has sent requests for electronics reimbursement of PIS/COFINS to the Federal Revenue of Brazil. The tax authorities have assessed the applications for compensation for periods relating to the 4th quarter of 2009 and perpetuated an initial gloss of about 47% of the value, causing fiscal proceedings with probable losses in the approximately amount of R$ 217,101.

**b) Fine and interest on compensation of INSS with credits of PIS/COFINS**

On June 30, 2014 the company sent requests for INSS compensation with credits of PIS/COFINS to the Federal Revenue of Brazil and was made the compensation of payable INSS. According to the risk assessment pointed out by the company's legal assessors, a provision of fine and probable interest was made to such compensation in the estimated amount of R$ 178,301.

**c) Others tax proceedings**

On June 30, 2014 the companies of JBS Foods S.A. was party of others 550 tax proceedings, in which the contingencies individually do not present relevant in their contexts. We emphasize that the proceedings considered as probable of losses are properly provisioned, in the amount of R$ 54,171.

## 22 Equity

**a) Capital Stock**

The Capital Stock on June 30, 2014 is R$ 21.506.247 and it is represented by 2,943,644,008 ordinary shares, without nominal value. From this total, as described below in the letter f), 48,894,182 shares are held in treasury.

The Capital Stock is presented with a net effect in the balance sheet in the amount of expenses of R$ 54,865, being expenses of the period of 2010 in the amount of R$ 37,477 related to the costs of the transaction for securing resources to Initial Public Offering, and expenses in the amount of R$ 17,388 regarding the debentures issuance for the period of 2011.

The Company is authorized to increase its capital by an additional 1,376,634,735 ordinary nominative shares. According with the social statute the Board of Directors shall determine the number, price, payment term and other conditions of the issuance of shares.

The Company may grant options to purchase shares to directors, employees or persons who will provide services, or the directors, employees or person providing services companies under its control, excluding the preemptive rights of shareholders in issuing and exercise of stock options.

**b) Capital reserve**

Composed of premium on issuance of shares, on the Initial Public Offering in 2007.

**c) Profit reserves**

**Legal reserve**

Computed based on 5% of the net income of the year.

(Expressed in thousands of reais)

**Reserve for expansion**

Consists of the remaining balance of the net income after the computation of legal reserve and dividend distribution. The purpose of this reserve is to provide funds to investment in assets.

**d) Revaluation reserve**

Refers to revaluations on fixed assets prior to CPC/IFRS adoption. Revaluation reserve reflects the appraisal effected by the Company, net of tax effects that are progressively offset against retained earnings to the same extent that the increase in value of the revalued property is realized through depreciation, disposal or retirement.

**e) Dividends**

Mandatory dividends corresponds to not less than 25% of the adjusted net income of the year, according to law.

**f) Treasury shares**

On June 24, 2014, the Board of Directors approved the transference of 26,295,997 treasury shares, pursuant to Article 19, section XVI of the Social Statute, as part of the acquisition of the total shares of Comércio e Indústrias de Massas Alimentícias Massa Leve Ltda. "Massa Leve", in which the amount agreed by the transference of the treasury shares was in the amount of R$ 203,531.

Below is presented the changes on treasury shares:

| | Quantity | R$ thousand |
|---|---|---|
| **Balance as of December 31, 2013** | **75,190,179** | **595,849** |
| Transfer of treasury shares | (26,295,997) | (208,384) |
| **Balance as of June 30, 2014** | **48,894,182** | **387,465** |

**g) The Effects of Changes in Foreign Exchange Rates**

According to CPC 02 R2/IAS 21 -The Effects of Changes in Foreign Exchange Rates, basically records changes in foreign currency rates of the subsidiaries valued by the equity method (translation adjustments).

According to CPC 37 R1 / IFRS 1 - First Time Adoption of International Accounting Standards, under the term of the CPC 02 R2 before the date of initial adoption, the adopting of IFRS for the first time should cancel the balances of exchange variation of investments recorded in equity (under the rubric of accumulated translation adjustments) transferring it to retained earnings or loss (profits reserves) and divulge distribution policy applicable to such outstanding results. The Company does not compute these adjustments to the distribution of profit.

**h) Capital Transactions**

According to IAS 27/CPC 36 R3 - quarterly interim financial statements, the changes in the relative share of the parent over a subsidiary that do not result in loss of control must be accounted as capital transactions (ie transactions with shareholders, as owners). Any difference between the amount by which the participation of noncontrolling has been adjusted and the fair value of the amount received or paid must be recognized directly in equity attributable to owners of the parent.
Therefore, if the parent acquire additional shares or other equity instruments of an entity that already controls, it should consider this value to reduce its equity (individual and consolidated).

## 23 Net revenue

| | Company | | Consolidated | |
|---|---|---|---|---|
| | For the six months period ended on June 30, | | For the six months period ended on June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| **Gross sale revenue** | | | | |
| **Products sales revenues** | | | | |
| Domestic sales | **8,039,067** | 6,760,161 | **40,469,362** | 31,424,930 |
| Foreign sales | **5,203,952** | 3,417,806 | **17,035,047** | 11,363,762 |
| | **13,243,019** | **10,177,967** | **57,504,409** | **42,788,692** |
| **Sales deduction** | | | | |
| Returns and discounts | **(502,170)** | (345,787) | **(1,121,795)** | (730,271) |
| Sales taxes | **(561,270)** | (527,661) | **(994,671)** | (599,851) |
| | **(1,063,440)** | **(873,448)** | **(2,116,466)** | **(1,330,122)** |
| **NET REVENUE** | **12,179,579** | **9,304,519** | **55,387,943** | **41,458,570** |

| | Company | | Consolidated | |
|---|---|---|---|---|
| | For the three months period ended on June 30, | | For the three months period ended on June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| **Gross sale revenue** | | | | |
| **Products sales revenues** | | | | |
| Domestic sales | **4,054,984** | 3,511,481 | **20,434,317** | 16,452,384 |
| Foreign sales | **2,897,780** | 1,729,531 | **9,599,162** | 6,159,681 |
| | **6,952,764** | **5,241,012** | **30,033,479** | **22,612,065** |
| **Sales deduction** | | | | |
| Returns and discounts | **(246,468)** | (189,642) | **(559,087)** | (386,669) |
| Sales taxes | **(277,429)** | (260,808) | **(505,525)** | (294,402) |
| | **(523,897)** | **(450,450)** | **(1,064,612)** | **(681,071)** |
| **NET REVENUE** | **6,428,867** | **4,790,562** | **28,968,867** | **21,930,994** |

(Expressed in thousands of reais)

## 24 Financial income (expense), net

| | Company | | Consolidated | |
|---|---|---|---|---|
| | For the six months period ended on June 30, | | For the six months period ended on June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Exchange rate variation | **883,846** | (795,199) | **896,166** | (609,404) |
| Results on derivatives | **(1,607,714)** | 489,314 | **(1,557,340)** | 523,374 |
| Interest expense | **(951,604)** | (471,237) | **(1,492,179)** | (853,510) |
| Interest income | **250,975** | 178,925 | **272,100** | 241,840 |
| Taxes, contribution, tariff and others | **(31,806)** | (17,638) | **(75,732)** | (40,092) |
| | **(1,456,303)** | **(615,835)** | **(1,956,985)** | **(737,792)** |

| | Company | | Consolidated | |
|---|---|---|---|---|
| | For the three months period ended on June 30, | | For the three months period ended on June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Exchange rate variation | **254,697** | (825,518) | **267,150** | (679,880) |
| Results on derivatives | **(649,844)** | 421,693 | **(654,680)** | 408,596 |
| Interest expense | **(538,905)** | (235,771) | **(798,196)** | (441,413) |
| Interest income | **127,331** | 87,537 | **133,482** | 76,591 |
| Taxes, contribution, tariff and others | **(20,702)** | (12,525) | **(35,415)** | (23,471) |
| | **(827,423)** | **(564,584)** | **(1,087,659)** | **(659,577)** |

Results from daily settlements of future contracts used to protect assets and liabilities, as well as the marked to market value of instruments traded over the counter with the same purpose of protection are recognized under Results on Derivatives. For the six and three months period ended on June 30, 2014 the net effect in the results amounted to (R$ 723,868) in the Company and (R$ 661,174) in the Consolidated level and (R$ 395,147) in the Company and (R$ 387,530) in the Consolidated, respectively.

The amount of interest expense of R$ 951,604 for the six months period ended on June, 2014 includes the payment of the early extinguishment fee of US$ 40,753 (R$ 90,451) related to the early extinguishment of JBS S.A.'s Notes 2016 and Bertin S.A.'s Notes 2016.

## 25 Other income (expenses)

Other expenses for the six months period ended on June 30, 2014, in the consolidated, in the amount of R$ 2,130 relates mainly to:

i) Other expenses in JBS Argentina in the amount of R$ 4,519, related to the labor indemnity, result of the sale of fixed assets and others with less sprayed representativeness;

ii) Other income in JBS USA in the amount of R$ 18,439, basically due to rental income and income from sale of scrap;

iii) Other expenses in JBS Foods in the amount of R$ 8,518, basically due to the result of the sale of fixed asses and others with less representativeness;

iv) Other expenses in the Company in the amount of R$ 7,531 referring basically to the result of the sale of fixed assets and others, individually with less representativeness.

## 26 Net income per share

As required by the IAS 33/CPC 41 - Earnings per share, the following tables reconcile the net profit with the amounts used to calculate the basic per share.

**Basic**

The basic net profit per share is calculated through the division of the profit attributable to the shareholders of the Company by the weighted average amount of shares of the fiscal year, reduced by the shares in treasury.

| | Consolidated | |
|---|---|---|
| | Six months period ended on June 30, | |
| | 2014 | 2013 |
| **Net income attributable to shareholders - R$** | **324,244** | **566,360** |
| Average of the shares in the period - thousands | **2,943,644** | 2,943,644 |
| Average of the shares in the Treasury - thousands | **(74,314)** | (78,323) |
| **Average of shares circulating - thousands** | **2,869,330** | **2,865,321** |
| **Net income per thousand shares - Basic - R$** | **113.00** | 197.66 |

(Expressed in thousands of reais)

| | Consolidated | |
|---|---|---|
| | Three months period ended on June 30, | |
| | 2014 | 2013 |
| **Net income attributable to shareholders - R$** | **254,265** | **338,467** |
| Average of the shares in the period - thousands | **2,943,644** | 2,943,644 |
| Average of the shares in the Treasury - thousands | **(74,314)** | (78,323) |
| **Average of shares circulating - thousands** | **2,869,330** | **2,865,321** |
| **Net income per thousand shares - Basic - R$** | **88.61** | 118.13 |

**Diluted**

The Company did not present the calculation of the diluted net income per share as required in IAS 33/CPC 41 - Profit per share, due the fact it does not have potentially dilutive ordinary shares. The deferred revenue transaction (Note 29) through historical analysis is expected to be settled by future delivery, and therefore is not potentially dilutive.

## 27 Transaction costs for the issuing of titles and securities

In accordance with the prerequisites under IAS 39/CPC 38 – Financial Instruments – Recognition and assessment, the costs related to the transactions in the issuance of notes and securities are accounted reducing the liabilities that they refer to.

Follows below, in detail, the operations which the Company incurred transaction costs, in other words, i.e., incurred costs directly attributable to the activities that are necessary to effect these transactions, exclusively.

**a) Initial Public Offering of shares - IPO (Follow on)**

In the year end on December 31, 2010, the Company incurred in R$ 37,477 related to the transaction costs of the process of raising funds through the Public Offering, which accounting is kept prominently in a reduction account of the equity, deducting any effects.

**b) Exchange for Common Shares of Vigor Alimentos SA ("The Exchange Tender Offer")**

In June 2012, the Company incurred in transaction costs on the amount of R$ 324 related to the acquisition process of 117,800,183 shares of its own issue, which is kept prominently in a reduction account of equity, deducting any effects.

**c) Senior Notes Offering (Bonds)**

During the year of December 31, 2010, the Company incurred in R$ 17,789 related to the transaction costs for financial funding with Senior Notes Offering (Bonds) – in the amounts of US$ 700 million and US$ 200 million realized on July and September of 2010, respectively, recorded as a reduction of the loan. On June 30, 2014, due to accumulated amortization of the amount based on the payments period, the Company has a residual amount of R$ 6,818 of transaction cost related to debt that will continue to be amortized in accordance with the period of the contract.

On June 2012, the Company incurred in R$ 13,699 related to the transaction costs in the process of amending certain dispositions of the Notes 2016 from JBS S.A. and Notes 2016 from Bertin S.A. through the consent of the holders of such Notes. These costs are maintained prominently in a reduction account of the liability. On June 30, 2014, because of accumulated amortization based on the recorded payments term period reduction, the Company has a residual amount of R$ 3,259 of transaction costs related to debt that will continue to be amortized according to the period of the contract.

On February 2013, the Company incurred in R$ 27,649 related to the transaction costs of the process of raising funds through issues of Senior Notes Offering (Bonds) in the amount of US$ 775 million in March, 2013, which accounting is kept prominently in a reduction account of liability. On June 30, 2014 due to accumulated amortization of the amount based on the payments term period, the Company has a residual amount of R$ 24,894 of transaction cost related to the debt that will continue to be amortized in accordance with the period of the contract.

On October 2013, the Company incurred in R$ 15,630 related to the transaction costs of the process of raising funds through issues of Senior Notes Offering (Bonds) in the amount of US$ 1 billion in October 2013, which accounting is kept prominently in a reduction account of liability. On June 30, 2014 due to accumulated amortization of the amount based on the payments term period, the Company has a residual amount of R$ 13,954 of transaction cost related to the debt that will continue to be amortized in accordance with the period of the contract.

**d) Other Funding**

In June 2012, the Company incurred in R$ 6,000 related to the transaction costs of the processes of funding Working capital in the amount of R$ 1 billion, which accounting is maintained in a reduction account of the loan. On June 30, 2014, because of the accumulated amortization of the balance based on the payments term period, the Company has a residual amount of R$ 3,541 of transaction cost related to debt that will continue to be amortized according to the period of the contract.

In October 2013, the Company incurred in R$ 4,800 related to the transaction costs of the processes of funding Working capital in the amount of R$ 800,000 which accounting is maintained in a reduction account of the loan. On June 30, 2014, because of the accumulated amortization of the balance based on the payments term period, the Company has a residual amount of R$ 3,900 of transaction cost related to debt that will continue to be amortized according to the period of the contract.

In February 2014, the Company incurred in R$ 843 related to the transaction costs of the processes of funding prepayment export (PPE) in the amount of R$ 144,471 which accounting is maintained in a reduction account of the loan. On June 30, 2014, because of the accumulated amortization of the balance based on the payments term period, the Company has a residual amount of R$ 756 of transaction cost related to debt that will continue to be amortized according to the period of the contract.

(Expressed in thousands of reais)

## 28 Defined Benefit and Contribution Plans

***JBS Plans***

JBS USA sponsors a tax-qualified employee savings and retirement plan (the "401(k) Savings Plan") covering its US based employees, both union and non-union, excluding PPC employees. Pursuant to the 401(k) Savings Plan, eligible employees may elect to reduce their current compensation by up to the lesser of 75% of their annual compensation or the statutorily prescribed annual limit and have the amount of such reduction contributed to the 401(k) Savings Plan. The 401(k) Savings Plan provides for additional matching contributions by JBS USA, based on specific terms contained in the 401(k) Savings Plan. The trustee of the 401(k) Savings Plan, at the direction of each participant, invests the assets of the 401(k) Savings Plan in participant designated investment options. The 401(k) Savings Plan is intended to qualify under Section 401 of the Internal Revenue Code ("IRC"). JBS USA's expenses related to the matching provisions of the plan were US$ 1.7 million (R$ 3,905) and US$ 3.5 million (R$ 8,039) for the three and six months period ended on June 30, 2014, respectively, and US$ 1.5 million (R$ 3,049) and US$ 3.1 million (R$ 6,302) for the three and six months period ended on June 30, 2013, respectively.

One of the JBS USA's facilities participates in a multi-employer pension plan. JBS USAs contributions to this plan, which are included in cost of goods sold in the Consolidated Statements of Income, were US$114 thousand (R$ 262) and $226 thousand (R$ 519) for the three and six months period ended on June 30, 2014, respectively, and US$ 114 thousand (R$ 232) and US$ 223 thousand (R$ 453) for the three and six months period ended on June 30, 2013, respectively. JBS USA also made contributions totaling US$ 19 thousand (R$ 44) and US$ 37 thousand (R$ 85) for the three and six months period ended on June 30, 2014, respectively, and US$ 18 thousand (R$ 37) and US$ 36 thousand (R$ 73) for the three and six months period ended on June 30, 2013, respectively, to a multi-employer pension plan related to former employees at the idle Nampa, Idaho plant pursuant to a settlement agreement.

One of the JBS USA's facilities participates in a supplemental executive retirement plan. During the three and six months period ended on June 30, 2014, the JBS USA recognized expense of US$ 242 thousand (R$ 556) for this plan, which is included in general and administrative expenses in the Consolidated Statements of Income. There were no expenses recognized by JBS USA for this plan during the six months period ended on June 30, 2013.

Employees of JBS Australia do not participate in JBS USA's 401(k) Savings Plan. Under Australian law, JBS Australia contributes a percentage of employee compensation to a Superannuation fund. This contribution approximates 9% of employee cash compensation as required under the Australian "Superannuation Act of 1997". As the funds are administered by a third party, once this contribution is made to the Superannuation fund, JBS Australia has no obligation for payments to participants or oversight of the fund. Effective July 1, 2013, the superannuation rate was increased to 9.25% of employee cash compensation. JBS USA's expenses related to contributions to this fund totaled US$ 6.8 million (R$ 15,619) and US$ 13.0 million (R$ 29,859) for the three and six months period ended on June 30, 2014, respectively, and US$ 7.7 million (R$ 15,653) and US$ 15.9 million (R$ 32,323) for the three and six months period ended on June 30, 2013, respectively.

***PPC Plans***

PPC sponsors programs that provide retirement benefits to most of their employees. These programs include qualified defined benefit pension plans, non-qualified defined benefit retirement plans, a defined benefit postretirement life insurance plan and defined contribution retirement savings plans. Under all of PPC's retirement plans, PPC's expenses were US$ 1.4 million (R$ 3,216) and US$ 2.8 million (R$ 6,431) for the three and six months period ended on June 30, 2014, respectively, and US$ 1.9 million (R$ 3,862) and US$ 3.8 million (R$ 7,725) for the three and six months period ended on June 30, 2013, respectively.

*Qualified Defined Benefit Pension Plans:*

- the Pilgrim's Pride Retirement Plan for Union Employees (the "Union Plan");
- the Pilgrim's Pride Pension Plan for Legacy Gold Kist Employees (the "GK Pension Plan").

The Union Plan covers certain locations or work groups within PPC. The GK Pension Plan covers certain eligible US employees who were employed at locations that PPC acquired in its acquisition of Gold Kist, Inc. ("Gold Kist") in 2007. Participation in the GK Pension Plan was frozen as of February 8, 2007 for all participants with the exception of terminated vested participants who are or may become permanently and totally disabled. The plan was frozen for that group as of March 31, 2007.

*Non-qualified Defined Benefit Retirement Plans:*

- the Former Gold Kist Inc. Supplemental Executive Retirement Plan (the "SERP Plan"); and
- the Former Gold Kist Inc. Directors' Emeriti Retirement Plan (the "Directors' Emeriti Plan").

PPC assumed sponsorship of the SERP Plan and Directors' Emeriti Plan through its acquisition of Gold Kist in 2007. The SERP Plan provides benefits on compensation in excess of certain IRC limitations to certain former executives with whom Gold Kist negotiated individual agreements. Benefits under the SERP Plan were frozen as of February 8, 2007. The Directors' Emeriti Plan provides benefits to former Gold Kist directors.

*Defined Benefit Postretirement Life Insurance Plan:*

- the Gold Kist Inc. Retiree Life Insurance Plan (the "Retiree Life Plan").

PPC also assumed defined benefit postretirement medical and life insurance obligations, including the Retiree Life Plan, through its acquisition of Gold Kist in 2007. In January 2001, Gold Kist began to substantially curtail its programs for active employees. On July 1, 2003, Gold Kist terminated medical coverage for retirees age 65 and older, and only retired employees in the closed group between ages 55 and 65 could continue their coverage at rates above the average cost of the medical insurance plan for active employees. These retired employees reached the age of 65 by 2012 and liabilities of the postretirement medical plan ended.

*Defined Benefit Plans Obligations and Assets*

The change in benefit obligation, change in fair value of plan assets, funded status and amounts recognized in the Consolidated Balance Sheets for these plans were as follows:

The benefit plan obligation is recognized in Payroll, social charges and tax obligation. The amount to be paid corresponds to the next ten years, while the projected amount corresponds to the obligations to be paid until the next thirty years, or more, depending on the last beneficiary.

| | For the six months period ended on June 30, 2014 | | For the six months period ended on June 30, 2013 | |
|---|---|---|---|---|
| **Change in projected benefit obligation** | **Pension Benefits** | **Other Benefits** | **Pension Benefits** | **Other Benefits** |
| **Projected benefit obligation, beginning of year** | **390,533** | **3,916** | **430,788** | **4,283** |
| *Service cost* | **-** | **-** | 44 | - |
| *Interest cost* | **9,307** | **92** | 8,811 | 86 |
| *Actuarial losses* | **34,140** | **181** | (66,605) | (239) |
| *Benefits paid* | **(14,208)** | **(170)** | (6,997) | (175) |
| **Projected benefit obligation, end of year** | **419,772** | **4,019** | **366,041** | **3,955** |

(Expressed in thousands of reais)

| | For the six months period ended on June 30, 2014 | | For the six months period ended on June 30, 2013 | |
|---|---|---|---|---|
| **Change in plan assets** | **Pension Benefits** | **Other Benefits** | **Pension Benefits** | **Other Benefits** |
| **Fair value of plan assets, beginning of the year** | **249,199** | **-** | **204,462** | **-** |
| Actual return on plan assets | **6,838** | **-** | 17,348 | - |
| Contributions by employer | **7,644** | **170** | 6,605 | 175 |
| Benefits paid | **(14,208)** | **(170)** | (6,997) | (175) |
| **Fair value of plan assets, end of year** | **249,473** | **-** | **221,418** | **-** |

| | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| **Funded status** | **Pension Benefits** | **Other Benefits** | **Pension Benefits** | **Other Benefits** |
| **Unfunded benefit obligation** | **(163,304)** | **(3,853)** | **(144,150)** | **(3,994)** |

| | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| **Amounts recognized in the Consolidated Balance Sheets** | **Pension Benefits** | **Other Benefits** | **Pension Benefits** | **Other Benefits** |
| Accrued benefit cost, current | **(27,073)** | **(330)** | (21,425) | (347) |
| Accrued benefit cost, long-term | **(136,231)** | **(3,524)** | (122,724) | (3,647) |
| **Net amount recognized** | **(163,304)** | **(3,854)** | **(144,149)** | **(3,994)** |

| | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| **Amounts recognized in the Consolidated Income Statement** | **Pension Benefits** | **Other Benefits** | **Benefits** | **Other Benefits** |
| Net actuarial losses | **73,506** | **(108)** | **36,587** | **(272)** |

The accumulated benefit obligation for the defined benefit pension plans was US$ 182.8 million (R$ 403) and US$ 170.0 million (R$ 398) at June 30, 2014 and December 31, 2013, respectively. Each of PPC's defined benefit pension plans had an accumulated benefit obligation that exceeded the fair value of plan assets at both June 30, 2014 and December 31, 2013.

The following table provides the components of net periodic benefit cost (income) for the plans:

| | For the six months period ended on June 30, 2014 | | For the six months period ended on June 30, 2013 | |
|---|---|---|---|---|
| **Net Periodic Benefit Cost** | **Pension Benefits** | **Other Benefits** | **Pension Benefits** | **Other Benefits** |
| Service cost | **-** | **-** | 41 | - |
| Interest cost | **9,307** | **92** | 8,085 | 79 |
| Estimated return on plan assets | **(7,320)** | **-** | (5,487) | - |
| Amortization of net loss | **14** | **-** | 960 | - |
| **Net periodic benefit cost** | **2,001** | **92** | **3,599** | **79** |

The following table presents the weighted average assumptions used in determining the pension and other postretirement plan obligations:

| | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | **Pension Benefits** | **Other Benefits** | **Pension Benefits** | **Other Benefits** |
| **Benefit obligation** | | | | |
| Discount rate | **4.35%** | **4.35%** | 4.95% | 4.95% |

The expected rate of return on plan assets was determined based on the current interest rate environment and historical market premiums relative to the fixed income rates of equities and other asset classes. PPC also takes in consideration anticipated asset allocations, investment strategies and the views of various investment professionals when developing this rate.

The following table reflects the pension plans' actual asset allocations:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Equity securities | **65%** | 68% |
| Fixed income securities | **35%** | 32% |
| **Total assets** | **100%** | **100%** |

Absent regulatory or statutory limitations, the target asset allocation for the investment of the assets for their ongoing pension plans is 30% in fixed income securities and 70% in equity securities. The plans only invest in fixed income and equity instruments for which there is a ready public market. PPC develops their expected long-term rate of return assumptions based on the historical rates of returns for equity and fixed income securities of the type in which PPC's plans invest.

(Expressed in thousands of reais)

The fair value measurements of plan assets fell into the following levels of the fair value hierarchy in June 30, 2014 and December 31, 2013:

| | June 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Cash and money market funds | **46** | **-** | **46** | 644 | - | **644** |
| Equity securities | **-** | **152,424** | **152,424** | - | 171,431 | **171,431** |
| Debt securities | **-** | **84,904** | **84,904** | - | 82,087 | **82,087** |
| **Total assets** | **46** | **237,328** | **237,374** | **644** | **253,518** | **254,162** |

**Benefit Payments**

Because PPC pension plans are primarily funded plans, the anticipated benefits with respect to these plans will come primarily from the trusts established for these plans. Because PPC's other postretirement plans are unfunded, the anticipated benefits with respect to these plans will come from PPC's own assets. The following table reflects the benefits as of June 30, 2014 expected to be paid in each of the next five years and in the aggregate for the five years thereafter from PPC's pension and other postretirement plans:

| | Pension Benefits | Other Benefits |
|---|---|---|
| 2015 | **14,098** | **163** |
| 2016 | **26,939** | **333** |
| 2017 | **26,093** | **337** |
| 2018 | **25,300** | **339** |
| Thereafter | **24,095** | **337** |
| **Total** | **116,525** | **1,509** |

PPC anticipates contributing US$ 7.7 million (R$ 16,959) and US$ 100 thousand (R$ 220) to their pension and other postretirement plans, respectively, during 2014.

***Unrecognized Benefit Amounts in Other Comprehensive Income***

The amounts in other comprehensive income adjustments that were not recognized as components of net periodic benefits cost and the changes in those amounts are as follows:

| | For the six months period ended on June 30, 2014 | | For the six months period ended on June 30, 2013 | |
|---|---|---|---|---|
| | Pension Benefits | Other Benefits | Pension Benefits | Other Benefits |
| **Net actuarial loss (gain), beginning of the year** | **17,872** | **(175)** | (89,718) | (2) |
| Amortization | **(14)** | **-** | 960 | - |
| Actuarial loss (gain) | **-** | **-** | 61,112 | 220 |
| Asset loss (gain) | **34,140** | **181** | 10,429 | - |
| Others | **482** | **-** | - | - |
| **Net actuarial loss (gain), end of the year** | **52,480** | **6** | **(17,217)** | **218** |

*Defined Contribution Plans*

PPC currently

• The Pilgrim’s Pride Retirement Savings Plan (the “RS Plan”), a Section 401(k) salary deferral plan; and
• The To-Ricos Employee Savings and Retirement Plan (the “To-Ricos Plan”), a Section 1165(e) salary deferral plan.

PPC also maintains three postretirement plans for eligible Mexico employees as required by Mexico law that primarily cover termination benefits. Separate disclosure of the Mexican plan obligations is not considered material.

Under the RS Plan, eligible US employees may voluntarily contribute a percentage of their compensation. PPC matches up to 30.0% of the first 2.14% to 6.0% of salary based on the salary deferral and compensation levels up to US$ 245 thousand (R$ 540). The To-Ricos Plan is maintained for certain eligible Puerto Rican employees. Under the To-Ricos Plan, eligible employees may voluntarily contribute a percentage of their compensation and there are various company matching provisions.

Certain retirement plans that PPC sponsors invest in a variety of financial instruments. Certain postretirement funds in which PPC participates hold significant amounts of mortgage-backed securities. However, none of the mortgages collateralizing these securities are considered subprime.

***PPC Incentive Compensation:***

PPC sponsors a performance-based, omnibus long-term incentive plan that provides for the grant of a broad range of long-term equity-based and cash-based awards to PPC’s officers and other employees, members of the Board of Directors of PPC and any consultants (the “LTIP”). The equity-based awards that may be granted under the LTIP include “incentive stock options,” within the meaning of the IRC, nonqualified stock options, stock appreciation rights, restricted stock awards ("RSAs") and restricted stock units ("RSUs"). At June 30, 2014, PPC has reserved approximately 6.6 million shares of common stock for future issuance under the LTIP.

The following awards existed at June 30, 2014:

| Award Type | Benefit Plan | Award Quantity | Grant Date | Vesting Condition | Vesting Date | Estimate Forfeiture Rate | Settlement Method |
|---|---|---|---|---|---|---|---|
| RSA | Employment | 100,000 | Jan 14, 2011 | Service | Jan 03, 2014 | - | Stock |
| RSA | LTIP | 72,675 | Aug 27, 2012 | Service | Apr 27, 2014 | - | Stock |
| RSU | LTIP | 608,561 | Feb 04, 2013 | Service | Dec 31, 2014 | 9.66% | Stock |
| RSA | LTIP | 15,000 | Feb 25, 2013 | Service | Feb 24, 2015 | - | Stock |
| RSA | LTIP | 15,000 | Feb 25, 2013 | Service | Feb 24, 2016 | - | Stock |
| RSU | LTIP | 206,933 | Feb 26, 2013 | Service | Dec 31, 2014 | - | Stock |
| RSU | LTIP | 462,518 | Feb 19, 2014 | Service | Dec 31, 2016 | 13.49% | Stock |

The fair value of each RSA and RSU granted represents the closing price of PPC’s common stock on the respective grant date.

(Expressed in thousands of reais)

The following table presents compensation costs and the income tax benefit recognized for PPC's share-based compensation arrangements:

| | For the six months period ended on June 30, | |
|---|---|---|
| | **2014** | **2013** |
| Share-based compensation costs: | | |
| Costs of goods sold | **393** | 311 |
| Selling, general and administrative expenses | **5,067** | 2,948 |
| Total | **5,460** | **3,259** |
| | | |
| Income tax benefit | **1,185** | **685** |

PPC's restricted share and restricted stock unit activity is included below:

| | Six months period ended on June 30, 2014 | | Six months period ended on June 30, 2013 | |
|---|---|---|---|---|
| | **Number** | **Weighted Average** | **Number** | **Weighted Average** |
| RSAs: | | | | |
| Outstanding at beginning of year | **203** | **15** | 273 | 13 |
| Granted | **-** | **-** | 30 | 20 |
| Vested | **(173)** | **14** | (100) | 16 |
| Outstanding at end of year | **30** | **20** | **203** | **13** |
| RSUs: | | | | |
| Outstanding at beginning of year | **729** | **20** | **-** | - |
| Granted | **462** | **38** | **815** | 18 |
| Vested | **(24)** | **20** | **-** | **-** |
| Outstanding at end of year | **1,167** | **27** | **815** | **18** |

The total fair value of shares vested during the three and six months period ended on June 30, 2014 was US$ 400 thousand (R$ 919) and US$ 1.1 million (R$ 2,527), respectively. There were no shares vested during the three months period ended on June 30, 2013 and US$ 700 thousand (R$ 1,423) vested during the six months period ended on June 30, 2013.

At June 30, 2014, the total unrecognized compensation cost related to all nonvested awards was US$ 9.8 million (R$ 21,585). That cost is expected to be recognized over a weighted average period of 2.0 years.

Historically, PPC has issued new shares to satisfy award conversions.

***Bertin USA Plans***

Bertin USA has a defined benefit and a supplemental benefit pension plan covering retirees meeting certain age and service requirements. The plan benefits are based primarily on years of service and employee's compensation. The funding policy is to meet ERISA funding requirements and to accumulate plan assets, which will, over time, approximate the present value of projected benefits payable. Plan assets are invested solely in a group annuity contract. The defined benefit and supplemental benefit plans were frozen on December 31, 1995.

Bertin USA also provides certain health care and life insurance benefits for certain retired and terminated employees based on contractual obligations incurred by the previous owners of JBS USA Trading, Inc., formerly known as SB Holdings, Inc., doing business as The Tupman Thurlow Co., Inc. Bertin USA has elected immediate recognition of the unfunded accumulated postretirement benefit obligation in conjunction with the purchase of the common stock of JBS USA Trading. The postretirement payments are funded in monthly installments. For the three and six months period ended on June 30, 2014 and June 30, 2013, service cost, interest cost, estimated return on plan assets and net periodic benefit cost were immaterial.

During the three and six months period ended on June 30, 2014 and June 30, 2013, Bertin USA funded US$ 63 thousand (R$ 145) and US$ 130 thousand (R$ 145) and US$ 75 thousand (R$ 152) and US$ 150 thousand (R$ 305), respectively, to its defined benefit plan.

***JBS Canada Plans***

JBS Canada participates in the Canada Pension Plan (the "CPP"), a government provided pension plan required for all employees aged 18 to 70 who are not recipients of any retirement or disability pension under the CPP, who do not participate in the Quebec Pension Plan and whose earnings exceed the year's basic exemption of CAD$3,500 (R$ 7,175). The contribution rate is equal to 9.9% of the employment earnings in excess of the basic exemption up to the maximum pensionable earnings. The employee and the employer must each pay half of the contribution. JBS Canada's expenses related to the matching provisions of the plan were US$ 1.1 million (R$ 2,527) and US$ 2.3 million (R$ 5,283) and US$ 1.1 million (R$ 2,236) and US$ 2.2 million (R$ 4,472) for the three and six months period ended on June 30, 2014 and June 30, 2013, respectively.

JBS Canada also provides a group of Registered Retirement Savings Plans ("RRSP") to union and non-union employees. A RRSP is an arrangement between an individual and an issuer (e.g. an insurance company or a trust company) under which contributions are made by individuals and a retirement income is payable at maturity. Contributions are tax deductible and investment earnings are tax-free. Payments out of a RRSP are taxable upon receipt. JBS Canada offers a group of RRSPs issued by Sun Life Assurance Company of Canada. JBS Canada's expenses related to the matching provisions of the plan were US$ 200 thousand (R$ 459) and US$ 400 thousand (R$ 919) and US$ 200 thousand (R$ 813) and US$ 700 thousand (R$ 1,423) for the three and six months period ended on June 30, 2014 and June 30, 2013, respectively.

**JBS Foods Plans**

JBS Foods offers to its employees additional benefit pension plan. The Pension Plan is closed and managed by Multipensions Bradesco. Since May 20, 2010, the defined benefit plan is closed to new members.

In addition, the plan guarantees the employee the right to continue health care after shutdown of the company. On June 30, 2014 this liability is recorded in the amount of R$ 9,447.

The technical report used to calculate the need for new provisions is held annually, being the last calculation performed on December 31, 2013 and is therefore not expect significant changes for the period due to the immateriality of the balances.

(Expressed in thousands of reais)

## 29 Deferred revenue

On October 22, 2008, JBS USA received a deposit in cash from a customer of US$175 million for the customer to secure an exclusive right to collect a certain by-product of the beef fabrication process in all of our US beef plants. This agreement was formalized in writing as the Raw Material Supply Agreement ("Supply Agreement") on February 27, 2008 and matures on December 30, 2016. The customer advance payment was recorded as deferred revenue. As the by-product is delivered to the customer over the term of the agreement, the deferred revenue is recognized within gross sales in the Consolidated Statements of Income.

To provide the customer with security, in the unlikely event JBS USA was to default on its commitment, the payment is evidenced by the Supply Agreement which bears interest at the three-month LIBOR plus 2%. The interest rate at June 30, 2014 was 2.2%. In the event of default, the Supply Agreement provides for a conversion into shares of common stock of JBS USA Holdings based on a formula stipulated in the Supply Agreement. Assuming default had occurred on June 30, 2014, the conversion right under the Supply Agreement would have equaled 2.96% of the outstanding common stock, or 2.96 shares.

The Supply Agreement contains affirmative and negative covenants which require JBS USA to, among other things: maintain defined market share; maintain certain tangible net worth levels; and comply in all material respects with the Supply Agreement. JBS USA was in compliance with all covenants as of June 30, 2014. During the second quarter of 2012, the customer ceased taking product from JBS USA and, since the Supply Agreement makes no provision for an alternate form of calculating the repayment of the unamortized balance, JBS USA continues to accrue interest on the unamortized balance. JBS USA is in discussions with the customer; however, no agreement has been reached. The unamortized balance at both June 30, 2014 and December 31, 2013 was approximately US$ 100.8 million, being R$ 222,012 and R$ 236,134, respectively. At June 30, 2014 and December 31, 2013, JBS USA had accrued interest of US$ 5.3 million (R$ 11,673) and US$ 4.1 million (R$ 9,605), respectively. At June 30, 2014 and December 31, 2013, other deferred revenue was US$ 10.6 million (R$ 23,347) and US$ 2.5 million (R$ 5,857), respectively.

## 30 Operating segments

According to IFRS 8/CPC 22 - Operating segments, Management has defined the operational segments that report to the Group, based on the reports use to make strategic decisions, analyzed by the Executive Board of Officers, which are segmented as per the commercialized product point of view, and per geographical location.

The modalities of commercialized products include Beef, Chicken and Pork. Geographically, the Management takes into account the operational performance of its unities in Brazil, USA (including Australia, Canada and Mexico) and South America (Brazil, Argentine, Paraguay and Uruguay).

The Beef segment performs slaughter facility, cold storage and meat processing operations for the production of beef preservatives, fat, feed and derivate products located in Brazil, United States of America, Canada, Australia, Argentina, Uruguay, Paraguay, the latter three with consolidated analyzes, as well as in United States of America, Australia, Canada and Mexico.

The Chicken segment is represented by "in natura" products, refrigerated as a whole or in pieces, whose productive units are located in United States of America, Mexico and Brazil, servicing restaurant chains, food processors, distributors, supermarkets, wholesale and other retail distributors, in addition to exporting to the Eastern Europe (including Russia), the Eastern Hemisphere (including China), Mexico and other international markets.

The Pork segment is presented by the segment of slaughters, processing, cold storage of pork meat, delivers "in natura" meat and manufacture of products and subproducts of the same origin. It operates in Brazil and Unites States of America, servicing the internal and the foreign market. The products also include specific industrial standards cuts, refrigerated.

Due to the significant percentage of the above-mentioned operational segments, the remaining segments and activities in which the Company acts are not relevant and are presented as "Others". In addition, all operations between segments will be eliminated in the group.

The accounting policies of the operational segments are the same as the ones described in the significant accounting policies summary. The Company evaluates its performance per segment, based on the profit or the losses before taxes, and it does not include the non-recurrent gains and losses and the exchange losses.

There are no revenues arising out of transactions with one only foreign client that represent 10% or more of the total revenues.

The information per businesses' operational segment, analyzed by the Executive Board of Officers, and related to the six and three months period ended on June 30, 2014 and 2013, are as following:

**Net revenue by product modality:**

| | For the six months period ended on June 30, | | For the three months period ended on June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Net revenue of the segment** | | | | |
| Beef | **33,498,972** | 27,040,647 | **17,423,927** | 14,315,686 |
| Chicken | **14,092,856** | 9,409,166 | **7,500,889** | 4,997,138 |
| Pork | **5,813,802** | 3,484,759 | **2,920,624** | 1,804,381 |
| Others | **1,982,313** | 1,523,998 | **1,123,427** | 813,789 |
| **Total** | **55,387,943** | **41,458,570** | **28,968,867** | **21,930,994** |

**Depreciation by product modality:**

| | For the six months period ended on June 30, | | For the three months period ended on June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Depreciation and amortization** | | | | |
| Beef | **397,255** | 356,603 | **200,254** | 190,018 |
| Chicken | **587,064** | 419,976 | **277,873** | 214,698 |
| Pork | **128,721** | 36,066 | **73,912** | 18,827 |
| Others | **107,407** | 82,981 | **54,330** | 43,077 |
| **Total** | **1,220,447** | **895,626** | **606,369** | **466,620** |

(Expressed in thousands of reais)

**Assets by modality of product:**

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **Assets** | | |
| Beef | **36,990,206** | 41,218,032 |
| Chicken | **15,280,349** | 13,817,172 |
| Pork | **6,198,977** | 4,516,202 |
| Others | **12,800,173** | 9,118,815 |
| **Total** | **71,269,705** | **68,670,221** |

**Net revenues by geographic area:**

| | For the six months period ended on June 30, | | For the three months period ended on June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Net revenue** | | | | |
| United States of America | **36,249,577** | 30,204,687 | **18,904,803** | 16,038,718 |
| South America | **18,040,078** | 10,402,405 | **9,534,743** | 5,432,847 |
| Others | **1,098,288** | 851,478 | **529,321** | 459,429 |
| **Total** | **55,387,943** | **41,458,570** | **28,968,867** | **21,930,994** |

**Depreciation by geographic area:**

| | For the six months period ended on June 30, | | For the three months period ended on June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Depreciation and amortization** | | | | |
| United States of America | **677,681** | 594,000 | **332,063** | 304,777 |
| South America | **538,704** | 287,821 | **272,245** | 149,960 |
| Others | **4,062** | 13,805 | **2,061** | 11,883 |
| **Total** | **1,220,447** | **895,626** | **606,369** | **466,620** |

**Assets by geographic area:**

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **Assets** | | |
| United States of America | **22,773,834** | 19,889,926 |
| South America | **46,205,155** | 46,696,020 |
| Others | **2,290,716** | 2,084,275 |
| **Total** | **71,269,705** | **68,670,221** |

## 31 Expenses by nature

The Company opted for the presentation of the Statements of Income per function. The following table details expenses by nature:

**Company**

| | For the six months period ended on June 30, | | For the three months period ended on June 30, | |
|---|---|---|---|---|
| **Classification by nature** | 2014 | 2013 | 2014 | 2013 |
| Depreciation and amortization | **(280,815)** | (248,757) | **(140,780)** | (128,779) |
| Personnel expense | **(1,101,989)** | (908,190) | **(597,201)** | (479,195) |
| Raw material use and consumption materials | **(9,556,824)** | (7,277,869) | **(5,071,788)** | (3,749,083) |
| Taxes, fees and contributions | **(881,125)** | (710,946) | **(436,794)** | (567,126) |
| Third party capital remuneration | **(4,721,932)** | (2,073,646) | **(1,996,850)** | (1,515,708) |
| Other income, net | **3,807,030** | 2,143,930 | **1,438,256** | 1,492,271 |
| | **(12,735,655)** | **(9,075,478)** | **(6,805,157)** | **(4,947,620)** |

| | For the six months period ended on June 30, | | For the three months period ended on June 30, | |
|---|---|---|---|---|
| **Classification by function** | 2014 | 2013 | 2014 | 2013 |
| Cost of goods sold | **(9,414,829)** | (6,989,276) | **(5,007,798)** | (3,602,992) |
| Selling expenses | **(1,268,615)** | (962,650) | **(668,024)** | (512,590) |
| General and administrative Expenses | **(588,377)** | (504,733) | **(295,007)** | (262,403) |
| Financial expense, net | **(1,456,303)** | (615,835) | **(827,423)** | (564,584) |
| Other expense, net | **(7,531)** | (2,984) | **(6,905)** | (5,051) |
| | **(12,735,655)** | **(9,075,478)** | **(6,805,157)** | **(4,947,620)** |

(Expressed in thousands of reais)

**Consolidated**

| | For the six months period ended on June 30, | | For the three months period ended on June 30, | |
|---|---|---|---|---|
| **Classification by nature** | **2014** | **2013** | **2014** | **2013** |
| Depreciation and amortization | **(1,220,447)** | (895,626) | **(606,369)** | (466,620) |
| Personnel expense | **(5,461,586)** | (4,210,414) | **(3,145,955)** | (2,162,164) |
| Raw material use and consumption materials | **(45,063,167)** | (34,560,271) | **(22,927,577)** | (18,013,851) |
| Taxes, fees and contributions | **(1,842,161)** | (1,572,678) | **(1,053,169)** | (831,597) |
| Third party capital remuneration | **(5,828,229)** | (2,724,166) | **(2,677,334)** | (1,917,688) |
| Other income, net | **5,023,136** | 3,480,525 | **2,182,013** | 2,067,456 |
| | **(54,392,454)** | **(40,482,630)** | **(28,228,391)** | **(21,324,464)** |

| | For the six months period ended on June 30, | | For the three months period ended on June 30, | |
|---|---|---|---|---|
| **Classification by function** | **2014** | **2013** | **2014** | **2013** |
| Cost of goods sold | **(47,711,171)** | (36,472,153) | **(24,713,399)** | (18,981,123) |
| Selling expenses | **(3,326,134)** | (2,213,251) | **(1,721,752)** | (1,163,197) |
| General and administrative Expenses | **(1,396,034)** | (1,136,141) | **(707,989)** | (592,075) |
| Financial expense, net | **(1,956,985)** | (737,792) | **(1,087,659)** | (659,577) |
| Other income (expenses), net | **(2,130)** | 76,707 | **2,408** | 71,508 |
| | **(54,392,454)** | **(40,482,630)** | **(28,228,391)** | **(21,324,464)** |

## 32 Insurance coverage

As of June 30, 2014, in the Company, the maximum individual limit for coverage was R$ 150,000. This coverage includes all types of casualties.

Regarding the indirect subsidiary JBS Argentina, located in the Republic of Argentina, the insurance policy has the same above-mentioned characteristics; however, the maximum indemnification limit for June 30, 2014 was of US$ 32 million (equivalent to R$ 70,480).

Regarding the subsidiary JBS USA, located in the USA, the insurance policy has the same above-mentioned characteristics; however, the maximum indemnification limit for June 30, 2014 was of US$ 250 million (equivalent to R$ 550,625).

Regarding the JBS Foods S.A., the insurance policy has the same above-mentioned characteristics; however, the maximum indemnification limit for June 30, 2014 was of R$ 293 million.

The assumptions of risk taken, by their nature, are not part of the scope of an audit, therefore, were not audited by independent auditors.

## 33 Risk management and financial instruments

The Company and its subsidiaries incur, during the regular course of their operations, exposures to market, credit and liquidity risks. Those exposures are managed in an integrated way by the Risk Management Department, following directives from the Financial and Commodities Risk Management Policy defined by the Risk Management Committee and approved by the Board of Directors.

The Risk Management Department is responsible for mapping all the risk factors that may bring adverse financial results for the Company and propose strategies to mitigate those risks. Their proposals are submitted to the Risk Management Committee for further submission to the Board of Directors, which supervises the implementation of new solutions, noting limitations of scope and guidelines of the Risk Management Policy.

**a) Market Risk**

In particular, the exposure to market risk is continuously monitored, especially the risk factors related to foreign exchange, interest rates and commodity prices, which directly affect the value of financial assets and liabilities, future cash flow and net investments in operations abroad. In these cases the Company and its subsidiaries may use financial hedge instruments, including derivatives, given the approval by the Board of Directors.

It is the function of the Risk Management Department to ensure that other areas of operations are within the exposure limits set by management, are financially protected against price fluctuations, centralizing the exposures and applying the Financial and Commodities Risk Management Policy of the Company.

The Risk Management Department uses proprietary and third party information systems specially developed to control and manage market risk, applying stress scenario and value at risk analysis to measure the net exposure as well as the cash flow risk with the exchanges.

**a.1) Interest rate risk**

Interest rate risk is related to potentially adverse results that may arise from oscillations in interest rates, which may be caused by economic crisis, sovereign monetary policy alterations, or market movements. The Company has assets and liabilities exposed to interest rates like the CDI (Certificado de Depósito Interbancário - Interbank Deposit Certificate), TJLP (Taxa de Juros de Longo Prazo - Long Term Interest Rate), UMBNDES (Unidade Monetária do BNDES - BNDES Monetary Unit), LIBOR (London Interbank Offer Rate) and EURIBOR (Euro Interbank Offer Rate), among others. The Financial and Commodities Risk Management Policy does not define the proportion between float and fixed exposures, but the Risk Management Department monitors market conditions and may propose to the Risk Management Committee strategies to rebalance the exposure.

The Board understands that quantitative figures regarding the exposure to interest rate risks of the Company and its subsidiaries on June 30, 2014 and December 31, 2013 are presented below in accordance with the Financial and Commodities Risk Management Policy and are representative of the exposure incurred during the period in accordance with paragraph 35 of CPC 40 R1.

(Expressed in thousands of reais)

| | Company | | Consolidated | |
|---|---|---|---|---|
| **Net liabilities and assets exposure to CDI rate:** | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| NCE / Compror / Others | **(6,720,533)** | (6,552,326) | **(7,204,101)** | (7,026,294) |
| CDB-DI | **1,957,100** | 3,148,005 | **2,080,704** | 3,236,034 |
| Investment funds, LCA-DI and national treasury bill | **415,613** | 286,719 | **1,148,324** | 1,063,744 |
| **Total** | **(4,347,820)** | **(3,117,602)** | **(3,975,073)** | **(2,726,516)** |
| **Liabilities exposure to LIBOR/EURIBOR rate:** | | | | |
| Working Capital - Euro | **(37,573)** | (44,119) | **(177,149)** | (183,304) |
| Working Capital - USD | **-** | - | **(1,075,278)** | (314,060) |
| Pre-payment | **(2,361,170)** | (2,712,803) | **(3,508,339)** | (3,971,327) |
| Others | **-** | - | **(220,565)** | (357,182) |
| **Total** | **(2,398,743)** | **(2,756,922)** | **(4,981,331)** | **(4,825,873)** |
| **Liabilities exposure to TJLP rate:** | | | | |
| FINAME | **(330,099)** | (303,606) | **(341,284)** | (333,905) |
| BNDES Automatic | **-** | (1,222) | **(21,027)** | (1,222) |
| CDC | **(16,534)** | (7,214) | **(16,534)** | (7,214) |
| **Total** | **(346,633)** | **(312,042)** | **(378,845)** | **(342,341)** |

**Sensitivity analysis**

The Company's operations are indexed to float rates such as TJLP, CDI, Libor and Euribor. Thus, in general, Management believes that any fluctuation in interest rates, would create no significant impact on its income, so that preferably does not use derivative financial instruments to manage this risk, except in terms of specific situations that may arise.

With the aim of providing information on sensitivity to interest rate risks to which the Company is exposed on June 30, 2014, below is a simulation of possible changes of 25% and 50% in the relevant variables of risk in relation to the closing prices used in the measurement of assets and liabilities based on the date of these quarterly interim financial statements. To calculate the effect on the result in a probable scenario, the Company deems appropriate the application of the Value at Risk methodology (VaR) for a confidence interval of 99% and a horizon of one day. The results of this analysis are shown below:

| | | Effect on income - Company | | |
|---|---|---|---|---|
| **Exposure** | **Risk** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Interest rate variation - 25%** | **Scenario (III) Interest rate variation - 50%** |
| Contracts indexed to CDI | Increase on interest rate CDI | (1,652) | (117,391) | (234,782) |
| Contracts indexed to Libor / Euribor | Increase on interest rate Libor / Euribor | (2) | (3,269) | (6,539) |
| Contracts indexed to TJLP | Increase on interest rate TJLP | - | (4,333) | (8,666) |
| | | **(1,654)** | **(124,993)** | **(249,987)** |

| | | Effect on income - Consolidated | | |
|---|---|---|---|---|
| **Exposure** | **Risk** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Interest rate variation - 25%** | **Scenario (III) Interest rate variation - 50%** |
| Contracts indexed to CDI | Increase on interest rate CDI | (1,511) | (107,327) | (214,654) |
| Contracts indexed to Libor / Euribor | Increase on interest rate Libor / Euribor | (5) | (6,790) | (13,579) |
| Contracts indexed to TJLP | Increase on interest rate TJLP | - | (4,736) | (9,471) |
| | | **(1,516)** | **(118,853)** | **(237,704)** |

| **Premises** | **Risk** | **Current Scenario** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Variation - 25%** | **Scenario (III) Variation - 50%** |
|---|---|---|---|---|---|
| Interest rate CDI | Increase on interest rate | 10.8000% | 10.8380% | 13.5000% | 16.2000% |
| Interest Libor / Euribor | Increase on interest rate | 0.5451% | 0.5452% | 0.6814% | 0.8177% |
| Interest TJLP | Increase on interest rate | 5.0000% | 5.0000% | 6.2500% | 7.5000% |

**a.2) Exchange rate risk of Company**

Exchange rate risk is related to potentially adverse results that may arise from oscillations in this risk factor, which may be caused by economic crisis, sovereign monetary policy alterations, or market movements. The Company has assets and liabilities exposed to foreign exchange rate, however the Financial and Commodities Risk Management Policy does not believe in natural hedging from those opposite exposures, since other important issues like expiry matching and market volatility are very relevant and must be observed.

The Risk Management Department applies approved hedge instruments by the Board of Directors to protect financial assets and liabilities, potential future cash flow from commercial activities and net investments in foreign operations. Futures, NDFs (non deliverable forwards), options and swaps may be used to hedge loans, investments, flows from interest payments, acquisition of raw material, and other flows, whenever they are quoted in currencies different than the Company's functional currency. The main exposures to exchange rate risk are in US Dollars (US$), Canadian Dollars (C$), Euros (€) and the British Pound (£). In the Consolidated, the company also has exposures in Japanese Yen (JPY) e New Zealand Dollars (NZD), of less representativeness, resulting from JBS USA's activities.

(Expressed in thousands of reais)

As described in the note of the operating segments, approximately 66% of the Group sales are performed by the operations of JBS USA and its subsidiaries, which operate mainly in American dollar, therefore without foreign exchange exposure risk. Approximately 33% of sales are performed by the Company and JBS Foods S.A. The remaining 2% of the sales are made by subsidiaries, mostly in local currency and a small part in dollar, with no material impact for disclosure in the statements sensitivity analysis of foreign exchange risk.

The Board understands that quantitative figures regarding the foreign currency exposure risk of the Company on June 30, 2014 and December 31, 2013 are presented below in accordance with the Financial and Commodities Risk Management Policy. However, in view of paragraph 35 of CPC 40 R1, it should be mentioned that during the period there were representative movement due to hedging operations at the exchange as a result of financial and commercial operations.

| | Company | | Consolidated | |
|---|---|---|---|---|
| **A) EXPOSURE in US$ (American Dollar)** | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| **OPERATING** | | | | |
| Cash and cash equivalents | **1,385,428** | 1,512,407 | **2,041,224** | 1,933,060 |
| Trade accounts receivable | **2,618,090** | 2,960,113 | **3,419,434** | 4,902,755 |
| Inventories | **-** | 39,705 | **-** | 39,705 |
| Sales orders | **748,792** | 753,257 | **1,153,434** | 1,100,522 |
| Trade accounts payable | **(42,943)** | (39,462) | **(69,889)** | (1,271,573) |
| Purchase orders | **-** | - | **(349,470)** | (189,284) |
| **Subtotal** | **4,709,367** | **5,226,020** | **6,194,733** | **6,515,185** |
| **FINANCIAL** | | | | |
| Related parties transaction (net) | **(1,076,848)** | - | **-** | - |
| Loans and financings | **(15,260,149)** | (13,863,985) | **(16,299,012)** | (14,965,671) |
| **Subtotal** | **(16,336,997)** | **(13,863,985)** | **(16,299,012)** | **(14,965,671)** |
| **DERIVATIVES** | | | | |
| Future contracts | **3,468,937** | 4,110,677 | **3,468,937** | 4,110,677 |
| Non Deliverable Forwards (NDF´s) | **9,724,038** | 7,383,641 | **9,724,038** | 7,383,641 |
| Swap (Assets) | **315,713** | 358,393 | **1,108,173** | 733,209 |
| Swap (Liabilities) | **(316,809)** | (360,553) | **(316,809)** | (360,553) |
| **Subtotal** | **13,191,879** | **11,492,158** | **13,984,339** | **11,866,974** |
| **TOTAL EXPOSURE** | **1,564,249** | **2,854,193** | **3,880,060** | **3,416,488** |

**Sensitivity analysis**

With the aim of providing information on sensitivity to exchange rate risks to which the Company is exposed on June 30, 2014, below is a simulation of possible changes of 25% and 50% in the relevant variables of risk in relation to the closing prices used in the measurement of assets and liabilities based on the date of these quarterly interim financial statements. To calculate the effect on the result in a probable scenario, the Company deems appropriate the application of the Value at Risk methodology (VaR) for a confidence interval of 99% and a horizon of one day. The results of this analysis are shown below:

**Exchange rate risk (US$)**

| | | Effect on income - Company | | |
|---|---|---|---|---|
| **Exposure of R$ (Real) - Company** | **Risk** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Rate variation - 25%** | **Scenario (III) Rate variation - 50%** |
| Financial | R$ depreciation | (593,033) | (8,995,151) | (17,991,935) |
| Operating | R$ appreciation | 170,950 | 2,592,977 | 5,186,426 |
| Hedge derivatives | R$ appreciation | 478,865 | 7,263,449 | 14,528,216 |
| | | **56,782** | **861,275** | **1,722,707** |

| | | Effect on income - Consolidated | | |
|---|---|---|---|---|
| **Exposure of R$ (Real) - Consolidated** | **Risk** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Rate variation - 25%** | **Scenario (III) Rate variation - 50%** |
| Financial | R$ depreciation | (591,654) | (8,974,236) | (17,950,102) |
| Operating | R$ appreciation | 224,869 | 3,410,820 | 6,822,259 |
| Hedge derivatives | R$ appreciation | 507,632 | 7,699,777 | 15,400,953 |
| | | **140,847** | **2,136,361** | **4,273,110** |

| **Premises** | **Current Scenario** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Variation - 25%** | **Scenario (III) Variation - 50%** |
|---|---|---|---|---|
| Depreciation of the R$ against dollar | 2.2025 | 2.2388 | 2.7531 | 3.3038 |

(Expressed in thousands of reais)

| | Company | | Consolidated | |
|---|---|---|---|---|
| **B) EXPOSURE in C$ (Canadian Dollar)** | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| **OPERATING** | | | | |
| Cash and cash equivalents | **612** | - | **613** | 1 |
| Trade accounts receivable | **10,276** | 1,357 | **17,557** | 4,197 |
| Sales orders | **12,528** | - | **12,528** | - |
| **Subtotal** | **23,416** | **1,357** | **30,698** | **4,198** |
| **DERIVATIVES** | | | | |
| Future contracts | **(16,961)** | - | **(16,961)** | - |
| **Subtotal** | **(16,961)** | **-** | **(16,961)** | **-** |
| **TOTAL EXPOSURE** | **6,455** | **1,357** | **13,737** | **4,198** |

**Sensitivity analysis**

With the aim of providing information on sensitivity to exchange rate risks to which the Company is exposed on June 30, 2014, below is a simulation of possible changes of 25% and 50% in the relevant variables of risk in relation to the closing prices used in the measurement of assets and liabilities based on the date of these quarterly interim financial statements. To calculate the effect on the result in a probable scenario, the Company deems appropriate the application of the Value at Risk methodology (VaR) for a confidence interval of 99% and a horizon of one day. The results of this analysis are shown below:

**Exchange rate risk (C$ - Canadian Dollar)**

| | | Effect on income - Company | | |
|---|---|---|---|---|
| **Exposure of R$ (Real) - Company** | **Risk** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Rate variation - 25%** | **Scenario (III) Rate variation - 50%** |
| Operating | R$ appreciation | 850 | 12,080 | 24,161 |
| Hedge derivatives | R$ depreciation | (616) | (8,750) | (17,500) |
| | | **234** | **3,330** | **6,661** |

| | | Effect on income - Consolidated | | |
|---|---|---|---|---|
| **Exposure of R$ (Real) - Consolidated** | **Risk** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Rate variation - 25%** | **Scenario (III) Rate variation - 50%** |
| Operating | R$ appreciation | 1,114 | 15,837 | 31,674 |
| Hedge derivatives | R$ depreciation | (616) | (8,750) | (17,500) |
| | | **498** | **7,087** | **14,174** |

| **Premises** | **Current Scenario** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Variation - 25%** | **Scenario (III) Variation - 50%** |
|---|---|---|---|---|
| Depreciation of the R$ against canadian dollar | 2.0635 | 2.0998 | 2.5794 | 3.0953 |

| | Company | | Consolidated | |
|---|---|---|---|---|
| **C) EXPOSURE in € (EURO)** | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| **OPERATING** | | | | |
| Cash and cash equivalents | **47,599** | 73,890 | **48,604** | 74,581 |
| Trade accounts receivable | **84,539** | 128,347 | **114,338** | 142,536 |
| Sales orders | **62,469** | 269,236 | **164,368** | 269,236 |
| Trade accounts payable | **(23,698)** | (20,095) | **(27,281)** | (21,062) |
| Purchase orders | **-** | - | **(2,420)** | **-** |
| **Subtotal** | **170,909** | **451,378** | **297,609** | **465,291** |
| **FINANCIAL** | | | | |
| Loans and financings | **-** | **-** | **659,757** | **682,187** |
| **Subtotal** | **-** | **-** | **659,757** | **682,187** |
| **DERIVATIVES** | | | | |
| Future contracts | **18,090** | (282,619) | **18,090** | (282,619) |
| Non Deliverable Forwards (NDF´s) | **(75,375)** | (161,325) | **(75,375)** | (161,325) |
| **Subtotal** | **(57,285)** | **(443,944)** | **(57,285)** | **(443,944)** |
| **TOTAL EXPOSURE** | **113,624** | **7,434** | **900,081** | **703,534** |

(Expressed in thousands of reais)

**Sensitivity analysis**

With the aim of providing information on sensitivity to exchange rate risks to which the Company is exposed on June 30, 2014, below is a simulation of possible changes of 25% and 50% in the relevant variables of risk in relation to the closing prices used in the measurement of assets and liabilities based on the date of these quarterly interim financial statements. To calculate the effect on the result in a probable scenario, the Company deems appropriate the application of the Value at Risk methodology (VaR) for a confidence interval of 99% and a horizon of one day. The results of this analysis are shown below:

**Exchange rate risk (€ - EURO)**

| | | Effect on income - Company | | |
|---|---|---|---|---|
| **Exposure of R$ (Real) - Company** | **Risk** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Rate variation - 25%** | **Scenario (III) Rate variation - 50%** |
| Operating | R$ appreciation | 9,195 | 128,831 | 257,645 |
| Hedge derivatives | R$ depreciation | (3,082) | (43,181) | (86,357) |
| | | **6,113** | **85,650** | **171,288** |

| | | Effect on income - Consolidated | | |
|---|---|---|---|---|
| **Exposure of R$ (Real) - Consolidated** | **Risk** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Rate variation - 25%** | **Scenario (III) Rate variation - 50%** |
| Operating | R$ appreciation | 16,011 | 224,338 | 448,646 |
| Hedge derivatives | R$ depreciation | (3,082) | (43,181) | (86,357) |
| | | **12,929** | **181,157** | **362,289** |

| **Premises** | **Current Scenario** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Variation - 25%** | **Scenario (III) Variation - 50%** |
|---|---|---|---|---|
| Depreciation of the R$ against euro | 3.0150 | 3.0688 | 3.7688 | 4.5225 |

| | Company | | Consolidated | |
|---|---|---|---|---|
| **D) EXPOSURE in £ (British Pound)** | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| **OPERATING** | | | | |
| Cash and cash equivalents | **-** | 1,853 | **1,983** | 3,820 |
| Trade accounts receivable | **53,225** | 49,840 | **102,667** | 102,609 |
| Sales orders | **65,072** | 54,542 | **106,754** | 97,736 |
| Trade accounts payable | **(27)** | - | **(27)** | - |
| **Subtotal** | **118,270** | **106,235** | **211,377** | **204,165** |
| **DERIVATIVES** | | | | |
| Future contracts | **(121,976)** | (105,404) | **(121,976)** | (105,404) |
| **Subtotal** | **(121,976)** | **(105,404)** | **(121,976)** | **(105,404)** |
| **TOTAL EXPOSURE** | **(3,706)** | **831** | **89,401** | **98,761** |

**Sensitivity analysis**

With the aim of providing information on sensitivity to exchange rate risks to which the Company is exposed on June 30, 2014, below is a simulation of possible changes of 25% and 50% in the relevant variables of risk in relation to the closing prices used in the measurement of assets and liabilities based on the date of these quarterly interim financial statements. To calculate the effect on the result in a probable scenario, the Company deems appropriate the application of the Value at Risk methodology (VaR) for a confidence interval of 99% and a horizon of one day. The results of this analysis are shown below:

**Exchange rate risk £ (British Pound)**

| | | Effect on income - Company | | |
|---|---|---|---|---|
| **Exposure of R$ (Real) - Company** | **Risk** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Rate variation - 25%** | **Scenario (III) Rate variation - 50%** |
| Operating | R$ appreciation | 8,019 | 111,399 | 222,797 |
| Derivatives | R$ depreciation | (8,270) | (114,889) | (229,778) |
| | | **(251)** | **(3,490)** | **(6,981)** |

| | | Effect on income - Consolidated | | |
|---|---|---|---|---|
| **Exposure of R$ (Real) - Consolidated** | **Risk** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Rate variation - 25%** | **Scenario (III) Rate variation - 50%** |
| Operating | R$ appreciation | 14,331 | 199,096 | 398,192 |
| Derivatives | R$ depreciation | (8,270) | (114,889) | (229,778) |
| | | **6,061** | **84,207** | **168,414** |

| **Premises** | **Current Scenario** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Variation - 25%** | **Scenario (III) Variation - 50%** |
|---|---|---|---|---|
| Depreciation of the R$ against british pound | 3.7676 | 3.8354 | 4.7095 | 5.6514 |

(Expressed in thousands of reais)

**a.2.1) Position balance in foreign exchange futures**

**US$**

**June 30, 2014**

Future Contracts - BM&F

| Risk factor | Instrument | Nature | Quantity | Notional | Market value |
|---|---|---|---|---|---|
| US$ | Future | Long | 13,050 | 1,437,131 | 19,930 |
| DDI | Future | Long | 18,450 | 2,031,806 | 925 |
| | | | | **3,468,937** | **20,855** |

**December 31, 2013**

Future Contracts - BM&F

| Risk factor | Instrument | Nature | Quantity | Notional | Market value |
|---|---|---|---|---|---|
| US$ | Future | Long | 35,095 | 4,110,677 | 37,476 |
| | | | | **4,110,677** | **37,476** |

**C$ (Canadian Dollar)**

**June 30, 2014**

Future Contracts - BM&F

| Risk factor | Instrument | Nature | Quantity | Notional | Market value |
|---|---|---|---|---|---|
| Canadian Dollar | Future | Short | 137 | (16,961) | (83) |
| | | | | **(16,961)** | **(83)** |

**€ (EURO)**

**June 30, 2014**

Future Contracts - BM&F

| Risk factor | Instrument | Nature | Quantity | Notional | Market value |
|---|---|---|---|---|---|
| Euro | Future | Long | 120 | 18,090 | 173 |
| | | | | **18,090** | **173** |

**December 31, 2013**

Future Contracts - BM&F

| Risk factor | Instrument | Nature | Quantity | Notional | Market value |
|---|---|---|---|---|---|
| Euro | Future | Short | 1,720 | (282,619) | (2,693) |
| | | | | **(282,619)** | **(2,693)** |

**£ (British Pound)**

**June 30, 2014**

Future Contracts - BM&F

| Risk factor | Instrument | Nature | Quantity | Notional | Market value |
|---|---|---|---|---|---|
| British Pound | Future | Short | 925 | (121,976) | (1,270) |
| | | | | **(121,976)** | **(1,270)** |

**December 31, 2013**

Future Contracts - BM&F

| Risk factor | Instrument | Nature | Quantity | Notional | Market value |
|---|---|---|---|---|---|
| British Pound | Future | Short | 766 | (105,404) | (928) |
| | | | | **(105,404)** | **(928)** |

**a.2.2) Position Balance in foreign exchange swaps**

Swaps are derivatives used to hedge net exchange exposures of assets and liabilities of the Company and its subsidiaries and are classified as financial assets or liabilities measured at fair value through profit or loss.

(Expressed in thousands of reais)

**Swap (US$)**

| Initial date Swap | Notional US$ | Notional R$ | Expiry date | Fair value (receivable) - R$ | Fair value (payable) - R$ | June 30, 2014 |
|---|---|---|---|---|---|---|
| Feb 3, 2009 | 26,317 | 57,963 | Feb 4, 2015 | 37,807 | (38,485) | **(678)** |
| Aug 22, 2013 | 25,000 | 55,063 | Aug 27, 2014 | 55,614 | (55,680) | **(66)** |
| May 29, 2013 | 100,000 | 220,250 | Sep 5, 2014 | 222,292 | (222,644) | **(352)** |
| | **151,317** | **333,276** | | **315,713** | **(316,809)** | **(1,096)** |

| Initial date Swap | Notional US$ | Notional R$ | Expiry date | Fair value (receivable) - R$ | Fair value (payable) - R$ | December 31, 2013 |
|---|---|---|---|---|---|---|
| Feb 3, 2009 | 26,317 | 61,650 | Feb 4, 2015 | 60,994 | (62,387) | **(1,393)** |
| Aug 22, 2013 | 25,000 | 58,565 | Aug 27, 2014 | 59,573 | (59,680) | **(107)** |
| May 29, 2013 | 100,000 | 234,260 | Sep 05, 2014 | 237,826 | (238,486) | **(660)** |
| | **151,317** | **354,475** | | **358,393** | **(360,553)** | **(2,160)** |

**a.2.3) NDF's (Non deliverable forwards)**

**US$**

| Risk factor | Instrument | Nature | Notional - USD | Notional - R$ | June 30, 2014 | December 31, 2013 |
|---|---|---|---|---|---|---|
| Dollar | NDF | Long | 4,415,000 | 9,724,038 | **(126,909)** | 119,380 |
| | | | **4,415,000** | **9,724,038** | **(126,909)** | **119,380** |

**€ (EURO)**

| Risk factor | Instrument | Nature | Notional - € | Notional - R$ | June 30, 2014 | December 31, 2013 |
|---|---|---|---|---|---|---|
| Euro | NDF | Short | (25,000) | (75,375) | **518** | (6,831) |
| | | | **(25,000)** | **(75,375)** | **518** | **(6,831)** |

**a.4) Commodity price risk**

The Company is a global player in different areas related to the Agribusiness (the entire livestock protein chain, biodiesel, among others) and the regular course of its operations brings exposures to price oscillations in feeder cattle, live cattle, lean hogs, corn, soybeans, and energy, especially in the American, Australian and Brazilian markets. Commodity markets are characterized by volatility arising from external factors like climate, supply levels, transportation costs, agricultural policies, storage costs, among others. The Risk Management Committee is responsible for mapping the exposures to commodity prices of the Company and its subsidiaries and propose strategies to the Risk Management Committee, in order to mitigate such exposures.

A very important part of the raw materials needs of the Company and its subsidiaries are biological assets sensitive to stockpiling. In order to maintain future supply of these materials the Company contracts anticipated purchases from suppliers. To complement this purchase, ensuring minimum price and volume to the materials purchased for a planning horizon pre-defined by the Risk Management Committee and approved by the Board of Directors, as well as aiming at mitigating price oscillations risks on inventories and sales contracts, the Company and its subsidiaries use hedging instruments specific for each exposure, most notably futures contracts. The Company deems appropriate to take the average amount spent with materials as a parameter indicative of operational value to be protected by firm contracts.

**a.4.1) Position balance in commodities (cattle) contracts of the Company**

The field of activity of the Company is exposed to volatility in cattle prices, which changes arise from factors beyond the Company's control, such as climate, the supply volume, transportation costs, agricultural policies and others. The Company, in accordance with its policy of stock management, maintains its strategy of risk management, based on physical control, which includes anticipated purchases, combined with future market operations, and reducing the daily position of anticipated purchases contracts for future delivery through future contracts of cattle on BM&F, aimed at bringing the position to zero and ensuring the market price.

The parameters for reducing the cattle purchase risk are based on the physical position of term contracts of cattle purchase considering negotiated values and terms. The internal controls used for coverage and risk management are made through spreadsheets and monitoring of operations performed and calculation of VAR for 1 day, with a confidence interval of 99%.

The Company understands that quantitative figures regarding the exposure risk on the cattle's arroba (15kg) price changes of the Company on June 30, 2014 and December 31, 2013 are presented below in accordance with the Financial and Commodities Risk Management Policy and are representative of the exposure incurred during the period in accordance with paragraph 35 of CPC 40 R1.

| EXPOSURE | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Firm Contracts of cattle purchase | **172,430** | 36,241 |
| **TOTAL** | **172,430** | **36,241** |

**Composition of derivative financial instruments to hedge of cattle purchase price**

| Derivative | Maturity | Receivable | Payable | Counterpart of the principal amount | Reference value (notional R$) | Market Value R$ |
|---|---|---|---|---|---|---|
| Future contracts (BM&F) | July, 2014 to December, 2014 | R$ | Cattle @ (15 kg) | BM&F | (185,101) | 528 |

(Expressed in thousands of reais)

**Sensitivity analysis**

| Price risk of cattle purchase | | | Effect on income - Company | | |
|---|---|---|---|---|---|
| **Exposure** | **Risk** | | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) @ Variation - 25%** | **Scenario (III) @ Variation - 50%** |
| Operational | @ (15kg) appreciation | | 1,481 | 43,108 | 86,215 |
| Hedging derivatives of cattle @ (15kg) price | @ (15kg) depreciation | | (1,590) | (46,275) | (92,551) |
| | | | **(109)** | **(3,167)** | **(6,336)** |
| **Premises** | | **Current Scenario** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) @ Variation - 25%** | **Scenario (III) @ Variation - 50%** |
| Appreciation of the price quote of @ (15kg) | | 123.9900 | 125.0549 | 154.9875 | 185.9850 |

The exposure operating risk in firm contracts of cattle purchase is the rise of cattle arroba price, thereby, it is calculated the risk of market price appreciation of the cattle market price.

**a.4.2) Position balance in commodities (corn) derivatives financial instruments of the Company**

The business segment of the Company in its division Confinamento and its subsidiary JBS Foods S.A. is exposed to price volatility of corn, which changes arise from factors beyond the Company's control, such as climate, the supply volume, transportation costs, agricultural policies and others.

The Company, in accordance with its policy of inventory management, started the strategy of risk management of corn's price based on physical control, including expectations of future consumption, anticipated purchases, combined with future market operations, by hedging with corn futures on BM&F, in order to guarantee the market price.

The internal controls used for coverage and risk management are made through spreadsheets and monitoring of operations performed and calculation of VAR for 1 day, with a confidence interval of 99%.

The Company understands that quantitative figures regarding the exposure risk on the corn's sacks price changes of the Company on June 30, 2014 and December 31, 2013 are presented below in accordance with the Financial and Commodities Risk Management Policy. On June 30, 2014 the Company had no position balance of derivatives financial instruments related to the commodity price risk of corn.

**a.4.3) Position balance in commodities derivatives financial instruments of JBS USA**

The Company understands that quantitative figures regarding the exposure risk of the commodities' price changes of the subsidiary JBS USA on June 30, 2014 and December 31, 2013 are presented below in accordance with the Financial and Commodities Risk Management Policy and are representative of exposure incurred during the period in accordance with paragraph 35 of CPC 40 R1.

| | JBS USA subsidiary | |
|---|---|---|
| **EXPOSURE** | **June 30, 2014** | **December 31, 2013** |
| **OPERACIONAL** | | |
| Forwards - commodities | **(8,687,858)** | (7,129,630) |
| **Subtotal** | **(8,687,858)** | **(7,129,630)** |
| **DERIVATIVES** | | |
| Future and option commodity contracts | **6,177,724** | 4,840,304 |
| **Subtotal** | **6,177,724** | **4,840,304** |
| **TOTAL EXPOSURE** | **(2,510,134)** | **(2,289,326)** |

**Sensitivity analysis**

| Commodities risk JBS USA | | Effect on income - JBS USA subsidiary | | |
|---|---|---|---|---|
| **Exposure** | **Risk** | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Price variation - 25%** | **Scenario (III) Price Variation - 50%** |
| Operational | Commodities price depreciation | (124,709) | (2,171,965) | (4,343,929) |
| Hedging derivatives | Commodities price appreciation | 88,677 | 1,544,431 | 3,088,862 |
| | | **(36,032)** | **(627,534)** | **(1,255,067)** |
| **Premises** | | **Scenario (I) VaR 99% I.C. 1 day** | **Scenario (II) Variation - 25%** | **Scenario (III) Variation - 50%** |
| Increase of commodities price | | 1.435% | 25.000% | 50.000% |

**b) Credit risk**

The Company and its subsidiaries are potentially subject to credit risk related to accounts receivable, investments and hedging contracts. The Financial and Commodities Risk Management Policy understands that the diversity of the portfolio contributes significantly to reduce the credit risk, but parameters are set to operations where credit is provided, observing financial ratios and operational health, as well as consults to credit monitoring entities.

In case of the counterparty of a financial operation is a financial institution (investments and hedging contracts), the Company employs exposure limits set by the Risk Management Committee and approved by the Board of Directors, based on risk ratings (ratings) of specialized international agencies.

(Expressed in thousands of reais)

Amounts invested in private bonds (notably bank certificates of deposit) and accumulated fair values receivables in hedging transactions contracted with banks, must comply with the following table limits, in order that, the total volume does not exceed a specified percentage of the equity of the financial institution (% Equity). In conjunction, the maturity of the application should be no longer than the maximum horizon.

| Category | % Equity | Maximum horizon |
|---|---|---|
| Triple A | 2.00% | 5 years |
| Double A | 1.00% | 3 years |
| Single A | 0.50% | 2 years |
| Triple B | 0.25% | 1 year |

Observations:

- In case of different ratings for the same financial institution, must adopt the most conservative;
- The associates banks should be consolidated at its headquarters;
- Financial institutions without rating are not eligible;
- In the absence of rating in the national scale, use the global rating scale;
- If the Company holds debt and applications with particular counterparty, the net value of the transactions should be considered;
- Exceptions can occur if previously approved by the Risk Management Committee and Executive Board.

Besides private bonds, the Company can also invest funds in federal national treasury bill: LFT, LTN, NTN-F and NTN-B. For these cases there is no pre-established limits. It is also permitted to invest in fixed income funds of low risk that have policy of investment applications in assets directly related to the basic interest rate (SELIC).

The book value of financial assets that represent the maximum exposure to credit risk at the quarterly interim financial statement date was:

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| ***Assets*** | | | | | |
| Cash and cash equivalents | 5 | **5,511,099** | 5,223,978 | **10,297,747** | 9,013,147 |
| Trade accounts receivable | 6 | **3,912,729** | 4,087,073 | **8,748,807** | 8,919,926 |
| Credits with related parties | 10 | **5,412,927** | 1,784,948 | **682,579** | 733,958 |
| | | **14,836,755** | **11,095,999** | **19,729,133** | **18,667,031** |

| **Loss on reduction of accounts receivable recoverable value** | Company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Current receivables | **3,832,680** | **3,981,264** | **8,011,310** | **7,866,991** |
| Overdue receivables: | | | | |
| From 1 to 30 days | **86,285** | 111,388 | **614,970** | 840,843 |
| From 31 to 60 days | **8,899** | 9,527 | **97,478** | 109,287 |
| From 61 to 90 days | **7,902** | 2,990 | **39,952** | 80,982 |
| Above 90 days | **65,548** | 70,489 | **193,748** | 232,266 |
| Allowance for doubtful accounts | **(88,585)** | (88,585) | **(208,651)** | (210,443) |
| | **80,049** | **105,809** | **737,497** | **1,052,935** |
| | **3,912,729** | **4,087,073** | **8,748,807** | **8,919,926** |

**c) Liquidity risk**

Liquidity risk arises from the management of working capital of the Company and its subsidiaries and amortization of financing costs and principal of the debt instruments. It is the risk that the Company and its subsidiaries will find difficulty in meeting their financial obligations falling due.

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

The Management of the Company's liquidity is done taking into account mainly the immediate liquidity indicator modified, represented by the level of cash plus investments divided by short-term debt. It is also maintained a focus on managing the overall leverage of the Company and its subsidiaries to monitor the ratio of net debt to "EBITDA" at levels we considered to be manageable for continuity of operations.

Based on the analysis of these indicators, the management of working capital has been defined to maintain the natural leverage of the Company and its subsidiaries at levels equal to or less than the leverage ratio that the Company would like to achieve.

The index of liquidity and leverage consolidated are shown below:

| | Consolidated | |
|---|---|---|
| | June 30, 2014 | December 31, 2013 |
| Cash and cash equivalents | **10,297,747** | 9,013,147 |
| Loans and financings - Current | **9,894,847** | 9,430,892 |
| Acid test ratio | **1.04** | 0.96 |
| **Leverage indicator** | **3,1x** | 3,7x |

To calculate the leverage indicator the Company used the dollar and the euro correction rates of the last day of the year (closing rate). This criteria is intended to equalize the net debt and EBITDA at the same exchange rate.

(Expressed in thousands of reais)

The table below shows the fair value of financial liabilities of the Company and its subsidiaries according to their maturities:

| | June 30, 2014 | | | | |
|---|---|---|---|---|---|
| **Company** | **Less than 1 year** | **Between 1 and 2 years** | **Between 3 and 5 years** | **More than 5 years** | **Fair Value** |
| Trade accounts payable | (1,227,603) | - | - | - | **(1,227,603)** |
| Debits with related parties | - | - | - | (1,181,355) | **(1,181,355)** |
| Loans and financings | (8,292,318) | (3,356,452) | (4,946,771) | (5,608,409) | **(22,203,950)** |
| Derivatives financing (liabilities) assets | (123,043) | (245) | - | - | **(123,288)** |
| **TOTAL** | **(9,642,964)** | **(3,356,697)** | **(4,946,771)** | **(6,789,764)** | **(24,736,196)** |

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | **Less than 1 year** | **Between 1 and 2 years** | **Between 3 and 5 years** | **More than 5 years** | **Fair Value** |
| Trade accounts payable | (1,371,205) | - | - | - | **(1,371,205)** |
| Loans and financings | (6,839,122) | (2,514,791) | (6,972,220) | (4,266,838) | **(20,592,971)** |
| Derivatives financing (liabilities) assets | (9,958) | (247) | - | - | **(10,205)** |
| **TOTAL** | **(8,220,285)** | **(2,515,038)** | **(6,972,220)** | **(4,266,838)** | **(21,974,381)** |

| | June 30, 2014 | | | | |
|---|---|---|---|---|---|
| **Consolidated** | **Less than 1 year** | **Between 1 and 2 years** | **Between 3 and 5 years** | **More than 5 years** | **Fair Value** |
| Trade accounts payable | (5,202,269) | - | - | - | **(5,202,269)** |
| Loans and financings | (9,894,847) | (4,308,236) | (8,470,481) | (12,338,565) | **(35,012,129)** |
| Derivatives financing (liabilities) assets | (123,043) | (13,818) | (33,570) | - | **(170,431)** |
| **TOTAL** | **(15,220,159)** | **(4,322,054)** | **(8,504,051)** | **(12,338,565)** | **(40,384,829)** |

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | **Less than 1 year** | **Between 1 and 2 years** | **Between 3 and 5 years** | **More than 5 years** | **Fair Value** |
| Trade accounts payable | (5,342,388) | - | - | - | **(5,342,388)** |
| Loans and financings | (9,430,892) | (3,000,141) | (10,671,253) | (9,659,055) | **(32,761,341)** |
| Derivatives financing (liabilities) assets | (12,311) | (560) | (1,413) | - | **(14,284)** |
| **TOTAL** | **(14,785,591)** | **(3,000,701)** | **(10,672,666)** | **(9,659,055)** | **(38,118,013)** |

**d) Estimated market values**

The assets and liabilities are represented in the quarterly interim financial statements at cost and their appropriations of revenues and expenses are accounted for in accordance with its expected realization or settlement.

The market values of non-derivative financial instruments and derivatives were estimated based on information available on the market.

**e) Guarantees provided and guarantees received**

**Guarantees provided**

The Company has securities pledged as collateral for derivative transactions with the commodities and futures whose balance at June 30, 2014 is R$ 474,861 (R$ 551,303 at December 31, 2013). This guarantee is superior to the need presented for these operations.

The indirect subsidiary JBS USA and its subsidiaries, has securities pledged as collateral for derivative transactions with the commodities and futures whose balance at June 30, 2014 is R$ 378,409 (R$ 252,670 at December 31, 2013). This guarantee is superior to the need presented for these operations.

Other guarantees considered relevant are described in detail in the notes: 15 - Loans and financings, and 16 - Credit operations, guarantees and covenants.

**Guarantees received**

The Company and its subsidiaries have no guarantees received from third parties deemed relevant.

(Expressed in thousands of reais)

**f) Financial instruments**

All transactions with financial instruments are recognized in quarterly interim financial statements as described below:

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | Notes | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| ***Assets*** | | | | | |
| ***Fair value through profit or loss*** | | | | | |
| Financial investments | 5 | **2,372,713** | 3,434,724 | **3,229,028** | 4,299,778 |
| ***Loans and receivables*** | | | | | |
| Cash and banks | 5 | **3,138,386** | 1,789,254 | **7,068,719** | 4,713,369 |
| Trade accounts receivable | 6 | **3,912,729** | 4,087,073 | **8,748,807** | 8,919,926 |
| Credits with related parties | 10 | **5,412,927** | 1,784,948 | **682,579** | 733,958 |
| ***Total*** | | **14,836,755** | **11,095,999** | **19,729,133** | **18,667,031** |
| ***Liabilities*** | | | | | |
| ***Liabilities at amortized cost*** | | | | | |
| Loans and financings | 15/16 | **(22,203,950)** | (20,592,971) | **(35,012,129)** | (32,761,341) |
| Trade accounts payable | 14 | **(1,227,603)** | (1,371,205) | **(5,202,269)** | (5,342,388) |
| Debits with related parties | 10 | **(1,181,355)** | - | **-** | - |
| ***Fair value through profit or loss*** | | | | | |
| Payables derivatives | | **(123,288)** | (10,205) | **(170,431)** | (14,284) |
| ***Total*** | | **(24,736,196)** | **(21,974,381)** | **(40,384,829)** | **(38,118,013)** |

During this period there has been no reclassification between categories, fair value through profit or loss, loans and receivables and liabilities at amortized cost, shown in the table above.

**g) Fair value of financial instruments**

The assets and liabilities are represented in the quarterly interim financial statements at cost and their appropriations of revenues and expenses are accounted for in accordance with its expected realization or settlement. The future derivatives fair values are calculated based on daily settlements as a result of changes in market prices of futures and commodities. The swap is obtained by calculating independently the assets and liabilities legs, bringing them to present value. The future prices used to calculate the curve of the contracts were drawn from the Bloomberg database.

In accordance to CPC 40 R1/IFRS 7 - Financial Instruments: Disclosures, the Company and its subsidiaries classify fair value measurements in accordance with the hierarchical levels that reflect the significance of the indices used in this measurement, according to the following levels

Level 1 - Quoted prices in active markets (unadjusted) for identical assets or liabilities;

Level 2 - Inputs other than Level 1, in which prices are quoted for similar assets and liabilities, either directly by obtaining prices in active markets or indirectly as valuation techniques that use data from active markets.

Level 3 - Indices used for calculation are not derived from an active market. The Company and its subsidiaries do not have this level of measurement instruments.

As noted above, the fair values of financial instruments, except for those maturing in the short term, equity instruments with no active market and contracts with discretionary features that fair value can not be reliably measured, are presented in hierarchical levels of measurement below:

<u>**Fair value hierarchy**</u>

| | June 30, 2014 | | |
|---|---|---|---|
| | Company | | |
| | Level 1 | Level 2 | Level 3 |
| **Current assets** | | | |
| National treasury bill - LFT | 415,613 | - | - |
| Financial investments | - | 1,957,100 | - |
| Payables derivatives | - | (123,288) | - |

| | Consolidated | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| **Current assets** | | | |
| National treasury bill - LFT and Financial investments | 1,148,324 | - | - |
| Financial investments | - | 2,080,704 | - |
| Payables derivatives | - | (170,431) | - |

(Expressed in thousands of reais)

| | December 31, 2013 | | |
|---|---|---|---|
| | Company | | |
| | Level 1 | Level 2 | Level 3 |
| **Current assets** | | | |
| National treasury bill - LFT | 286,719 | - | - |
| Financial investments | - | 3,148,005 | - |
| Payables derivatives | - | (10,205) | - |
| | **Consolidated** | | |
| | **Level 1** | **Level 2** | **Level 3** |
| **Current assets** | | | |
| National treasury bill - LFT and Financial investments | 1,063,744 | - | - |
| Financial investments | - | 3,236,034 | - |
| Payables derivatives | - | (14,284) | - |

**Fair value versus book value**

The fair values of financial assets and liabilities, with the book values presented in the balance sheet position are as follows:

| Company | Note | June 30, 2014 Book value | June 30, 2014 Fair value | December 31, 2013 Book value | December 31, 2013 Fair value |
|---|---|---|---|---|---|
| Cash and banks | 5 | **415,613** | **415,613** | 1,789,254 | 1,789,254 |
| Financial investments | 5 | **1,957,100** | **1,957,100** | 3,148,005 | 3,148,005 |
| Trade accounts receivable | 6 | **3,912,729** | **3,912,729** | 4,087,073 | 4,087,073 |
| Related parties receivable | 10 | **5,412,927** | **5,412,927** | 1,784,948 | 1,784,948 |
| **Total financial assets** | | **11,698,369** | **11,698,369** | **10,809,280** | **10,809,280** |
| Trade accounts payable | 14 | **(1,227,603)** | **(1,227,603)** | (1,371,205) | (1,371,205) |
| Debits with related parties | 10 | **(1,181,355)** | **(1,181,355)** | - | - |
| Derivatives | | **(123,288)** | **(123,288)** | (10,205) | (10,205) |
| Loans and financings | 15/16 | **(22,203,950)** | **(22,203,950)** | (20,592,971) | (20,592,971) |
| Declared dividends | 18 | **(609)** | **(609)** | (220,494) | (220,494) |
| Payables related to facilities acquisitions | 19 | **(140,205)** | **(140,205)** | (158,607) | (158,607) |
| **Total financial liabilities** | | **(24,877,010)** | **(24,877,010)** | **(22,353,482)** | **(22,353,482)** |
| | | **(13,178,641)** | **(13,178,641)** | **(11,544,202)** | **(11,544,202)** |

| Consolidated | Note | June 30, 2014 Book value | June 30, 2014 Fair value | December 31, 2013 Book value | December 31, 2013 Fair value |
|---|---|---|---|---|---|
| Cash and banks | 5 | **1,148,324** | **1,148,324** | 4,713,369 | 4,713,369 |
| Financial investments | 5 | **2,080,704** | **2,080,704** | 3,236,034 | 3,236,034 |
| Trade accounts receivable | 6 | **8,748,807** | **8,748,807** | 8,919,926 | 8,919,926 |
| Related parties receivable | 10 | **682,579** | **682,579** | 733,958 | 733,958 |
| **Total financial assets** | | **12,660,414** | **12,660,414** | **17,603,287** | **17,603,287** |
| Trade accounts payable | 14 | **(5,202,269)** | **(5,202,269)** | (5,342,388) | (5,342,388) |
| Derivatives | | **(170,431)** | **(170,431)** | (14,284) | (14,284) |
| Loans and financings | 15/16 | **(35,012,129)** | **(35,012,129)** | (32,761,341) | (32,761,341) |
| Declared dividends | 18 | **(609)** | **(609)** | (220,494) | (220,494) |
| Payables related to facilities acquisitions | 19 | **(829,797)** | **(829,797)** | (727,749) | (727,749) |
| **Total financial liabilities** | | **(41,215,235)** | **(41,215,235)** | **(39,066,256)** | **(39,066,256)** |
| | | **(28,554,821)** | **(28,554,821)** | **(21,462,969)** | **(21,462,969)** |

The loans and financing presented in the table above include the values of working capital in Reais and working capital in foreign currency (bonds), as shown in detail in notes 15 and 16. In the Management opinion the loans and financing, which are measured at their amortized cost values do not present significant variation regarding to their fair values. These loans and financing are restated with bases in contracted rates and interest through the date of closing of quarterly interim financial statements, the outstanding balance is recognized by an amount close to fair value. Since there is no active market for such instruments, the differences that could occur if these values were for amounts paid in advance would be unrepresentative.

| | Company | | Consolidated | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Gains (losses) by category of financial instrument | | | | |
| *Fair value through profit or loss* | **(1,341,892)** | 599,625 | **(1,270,393)** | 678,725 |
| *Loans and receivables* | **22,666** | 127,852 | **34,986** | 301,125 |
| *Liabilities at amortized cost* | **(105,271)** | (1,343,312) | **(645,846)** | (1,717,642) |
| ***Total*** | **(1,424,497)** | **(615,835)** | **(1,881,253)** | **(737,792)** |

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EXECUTIVE BOARD

Wesley Mendonça Batista
Chief Executive Officer

Eliseo Santiago Perez Fernandez
Administrative and Control Officer

Jeremiah Alphonsus O'Callaghan
Investor Relations Officer

Francisco de Assis e Silva
Institutional Relations Executive Officer

Agnaldo dos Santos Moreira Jr.
Accountant CRC SP: 244207/O-4

BOARD OF DIRECTORS

Joesley Mendonça Batista
Chairman

Wesley Mendonça Batista
Vice-Chairman

José Batista Sobrinho

Humberto Junqueira de Farias

Marcus Vinicius Pratini de Moraes

João Carlos Ferraz

Carlos Alberto Caser

Tarek Mohamed Noshy Nasr Mohamed Farahat

Marcio Percival Alves Pinto

FISCAL COUNCIL REPORT

The Fiscal Council reviewed the quarterly interim financial statements of the Company for the six months period ended on June 30, 2014.

Our review included: a) analysis of the quarterly interim financial statements prepared by the Company; b) monitoring and discussion of the review done by the external independent auditors; and c) questions about relevant actions and transactions made by the management.

Based on our review, according to the information and explanations received, and considering the Independent Auditors Review, the Fiscal Council is not aware of any fact that would lead to believe that the quarterly interim Financial Statements above mentioned do not reflect at all relevant aspects of the information contained therein and are in condition to be disclosed.

São Paulo, August 13, 2014.

Florisvaldo Caetano de Oliveira
Chairman

José Paulo da Silva Filho
Member

Demetrius Nichele Macei
Member

Amoreti Franco Gibbon
Member

STATEMENT OF OFFICERS ON THE QUARTTERLY INTERIM FINANCIAL STATEMENTS AND ON THE INDEPENDENT AUDITORS REVIEW REPORT

The Company's Officers declare for the purposes of Article 25, paragraph 1, item V and VI of CVM Instruction No. 480 of December 7, 2009, that:

(i) They reviewed, discussed and agreed with the views expressed in the review report of the independent auditors on the quarterly interim financial statements for the six months period ended on June 30, 2014, and

(ii) They reviewed, discussed and agreed with the quarterly interim financial statements for the six months period ended on June 30, 2014.

São Paulo, August 13, 2014.

Wesley Mendonça Batista
Chief Executive Officer

Eliseo Santiago Perez Fernandez
Administrative and Control Officer

Jeremiah Alphonsus O'Callaghan
Investor Relations Officer

Francisco de Assis e Silva
Institutional Relations Executive Officer

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