

# Management Report

**JBS** 2016



# Message

## From the **PRESIDENT**

I am very pleased to announce the 2016 financial results for JBS.

This was a year where we focused on consolidating recent acquisitions and implementing our strategy to generate value through the expansion and diversification of our portfolio of value added products, while enhancing the recognition of our brands in each of our business segments and global regions.

We continued to diversify our production platform, which has proven, once again, an important competitive advantage. The significant scope and scale of our global operations provides JBS access to raw materials in different regions, while also providing access to every consumer market in the world. Importantly, this strategy has enabled the Company to mitigate volatilities, whether associated with commodities cycles, challenging macroeconomic scenarios in certain countries or regional commercial or sanitary barriers. Thus, we have been able to leverage the considerable advantages of our global scale, creating a resilient business model that consistently delivers solid results.

In 2016, when analyzing our performance by region, we experienced a recessive economic environment in Brazil, which negatively impacted domestic consumption. In addition, the strengthening of the Real vs the Dollar had repercussions for our exports. Furthermore, the reduction in the supply of inputs, particularly corn, presented us with a very challenging scenario, impacting profitability of our poultry, pork and prepared foods business unit.

In the United States, a cycle of greater cattle availability has begun, which has contributed to a substantial improvement in the results of our U.S. beef business unit during the second half of the year. Our U.S. pork business unit, the world's 2<sup>nd</sup> largest producer of pork products, recorded impressive increases in both revenue and profitability. Our U.S. poultry business unit continued to perform well as a result of internal operational initiatives and increased demand in both the domestic and export markets.

In Europe, following the acquisition of Moy Park in 2015, we were able to capture synergies that contributed to an improvement in the results of this strategic business unit. Additionally, we successfully expanded our presence in the European market with a portfolio of innovative and higher value added products. This portfolio will serve as a benchmark for future innovative product launches in other global regions where we are present.

In Australia, we have a strong, diversified business with highly recognized brands, where continue to increase our presence in the prepared foods segment. In addition, the Australian business unit holds significant relevance to the Company's growth strategy, given its ability to serve the Asian markets, where protein consumption is increasingly higher and more sophisticated.

As a fundamental factor in all of our business units, we made important progress in sustainability. As an example, in Brazil we launched the sustainable hamburger, whose production process follows strict social and environmental criteria; in Europe, Moy Park has been constantly recognized for its food safety practices; and in the United States, we have registered excellent results from efforts related to animal well-being.

Throughout last year, we also progressed in the professionalization of our Company, investing in training and capacitation of our team members, as well as in the diffusion of our culture and values. For the year, there was a total of more than 200 thousand training hours.

In 2016, we made an important leap in our evolution into a global food company through the creation of JBS Foods International – a subsidiary that consolidates all of the JBS global businesses outside of Brazil and Seara. As a next step and subject to market conditions, we are in the process of listing this company on the New York Stock Exchange. This is a logical evolution for our Company that we believe clearly reflects our business model and our position as one of the leading global food companies.

For 2017, we are optimistic about the performance of our global operations. Our strategy remain focused on growth, supported by an increase in our portfolio of high value added products with well-known brands, and our high standards for food safety and quality in all of our global regions.

I am confident that with our extraordinary team of proven leaders running our businesses, our strong culture and values, and our committed team who remains completely focused on our mission of being the best in what we set out to do, we will reach our goals and continue to generate value for all of our shareholders, team members and stakeholders.

Today, JBS is truly a global enterprise with more than 235,000 team members across five continents. I would like to thank each one of them for their efforts and complete dedication. I also thank our business partners, clients, suppliers, shareholders and investors, who have always believed and trusted in our company.

**Wesley Batista, Global CEO of JBS S.A.**



# JBS



## Corporate Profile

JBS S.A. is a food company with more than 60 years of tradition and a global leader in the processing of animal protein. Present in more than 20 countries, the Company has more than 300,000 customers in more than 150 countries through a diverse portfolio of products and brands. Headquartered in Brazil, JBS employs more than 230,000 people throughout its production platforms and sales offices. The operational structure includes beef, pork, lamb, poultry and hides/leather processing facilities, in addition to feedlots.

Besides the Food Sector, JBS is present in the segments of Hygiene & Personal Care Products, Collagen, Can Making, Sausage Casings, Biodiesel, Carrier, Waste Management and Recycling.

In 2016, the business were divided in six units, as follows:

## Business Units

- ❖ **JBS Mercosul:** beef and hides/leather processing, and related businesses: biodiesel, collagen, hygiene and personal care products, and others in Brazil.  
**Countries where it is present:** Brazil, Argentina, Paraguay and Uruguay. Hides/Leather operations of JBS Mercosul have presence in Vietnam, China, Mexico and Germany.  
**Main brands:** Friboi, Swift, Swift Black, Cabaña Las Lilas, Armour, Plate, among others.
- ❖ **Seara:** poultry and pork processing and production of prepared products.  
**Countries where it is present:** Brazil.  
**Main brands:** Seara, Seara Gourmet, Rezende, Confiança, Doriana, Macedo, Delicata, LeBon, Excelsior, Wilson, Tekitos and Pena Branca.
- ❖ **JBS Europe:** poultry processing and production of prepared products, including cured meats.  
**Countries where it is present:** UK, Ireland, Italy, France and Netherlands.  
**Main brands:** Moy Park, O'Kane and Rigamonti.
- ❖ **JBS USA Beef:** beef, lamb and hides/leather processing, carrier and trading.  
**Countries where it is present:** Australia, Canada and the US.  
**Main brands:** Aspen Ridge, 1855, 5star, Cedar River Farms, Swift, Swift Premium, Primo, Beehive, Great Southern, Swift Australia and King Island.
- ❖ **JBS USA Chicken (Pilgrim's Pride):** poultry processing and production of prepared products.  
**Countries where it is present:** the US, Mexico and Puerto Rico.  
**Main brands:** Pilgrim's Pride, Pierce Chicken, Wing Dings, Gold Kist Farms and Country Pride.
- ❖ **JBS USA Pork:** pork processing and production of prepared products.  
**Countries where it is present:** the US.  
**Main brands:** Swift Premium, Swift 1855 and La Herencia.

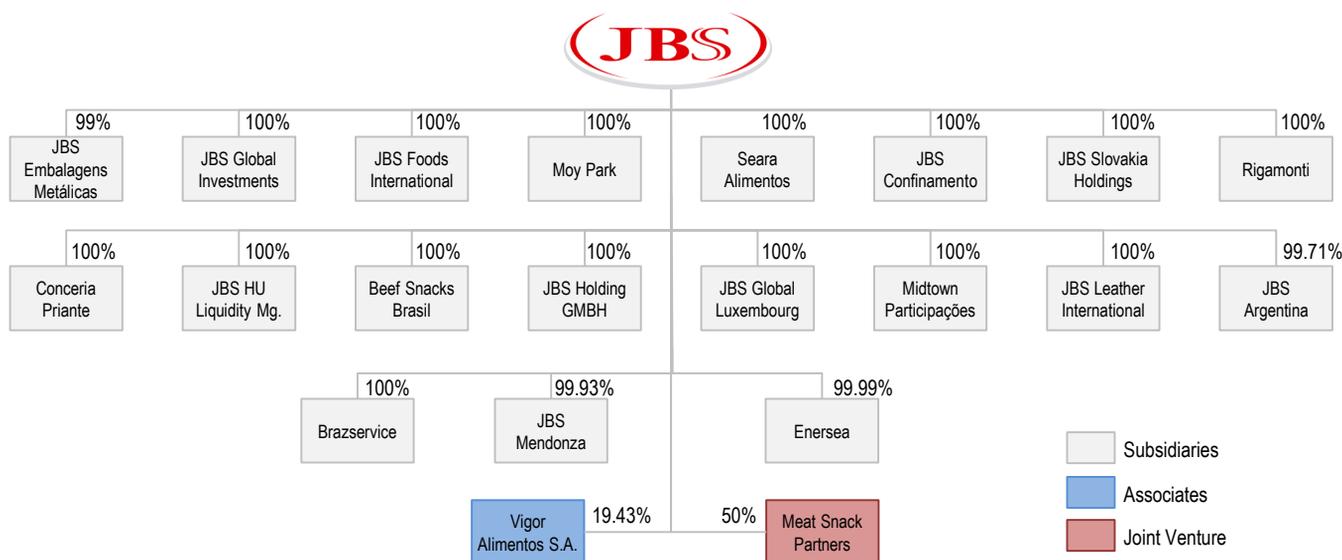


## Investments and Corporate Events

On December 5th, 2016, JBS, in a further step towards advancing its planned reorganization, announced the filing of a registration statement with the U.S. Securities and Exchange Commission (“SEC”) of its subsidiary JBS Foods International B.V. (which shall be converted into JBS Foods International N.V.) (“JBSFI”) in connection with its plan to conduct an initial public offering (“IPO”) on the New York Stock Exchange (“NYSE”) for its Class A common shares. JBSFI has its official seat and registered office address in The Netherlands and shall house all of the international businesses of JBS plus Seara. JBS S.A. will continue to manage and control the Brazilian beef business and related activities including leather processing. Wesley Mendonça Batista will be the Chairman, a non-executive director, of JBS Foods International. The Board of Directors of JBSFI will be composed of nine members, the majority of whom will be independent. Gilberto Tomazoni, who has held senior executive positions at JBS for the past four years, will be the CEO, while Russ Colaco will be CFO. The Company believes that this revised structure and proposed IPO reflects its global production platform, product portfolio and broad international customer base.

The Company expects to complete the IPO during the first half of 2017. The timing, number of Class A common shares and price of the proposed offering have not yet been determined and are subject to market conditions.

### Direct Investments in Associate, Subsidiaries and Joint Ventures



### Principal Shareholders in 12/31/2016

Shareholders	Number of Shares	%
Controlling Shareholder (FB Participações SA and Others)*	1,210,305,341	42.37%
Treasury	135,261,051	4.73%
Free Float		
- BNDES Participações S.A. – BNDESPAR*	581,661,101	20.36%
- Caixa Econômica Federal	144,269,200	5.05%
- Minority Stockholders	785,360,812	27.49%
Total Free Float	1,511,291,113	52.90%
<b>TOTAL</b>	<b>2,856,857,505</b>	<b>100.00%</b>

\*Shareholders Agreement



## Corporate Governance

Through the adoption of best Corporate Governance practices and the constant improvement of these principles, JBS seeks to maintain the adequate balance in the allocation of rights, powers, duties and responsibilities among management, Board of Directors and shareholders. With shares traded in Brazil, on the Novo Mercado of BM&FBovespa – the listing segment that is a benchmark in terms of good Corporate Governance practices – JBS voluntarily undertakes commitments related to this theme that go beyond the requirements of current legislation.

To the good practices already taken by JBS, will be added new routines resulting from the IPO of JBS Foods International (JBSFI), a subsidiary that will reunite all businesses of JBS out of Brazil, the headquarters of JBS, and Seara. Headquartered in the Netherlands and with the listing of shares on New York Stock Exchange scheduled for the first half of 2017, JBSFI is expected to comply with the US legislation. In addition, it will adopt differentiated Corporate Governance practices, with a Board of Director composed by a majority of independent members. Of the nine members, seven – former CEOs and CFOs of publicly listed companies in the US – will have no relationship with shareholders or ties with the Company.

### Corporate Governance Structure

At JBS, the Corporate Governance structure relies on two main bodies: Board of Directors and Executive Board. The highest organ of JBS' corporate governance, the Board of Directors reunites representatives of shareholders to determine the business guidelines and goals related to economic, social and environmental issues, as well as deciding on key issues, in compliance with the Bylaws of the Company.

### Board of Directors

Elected by the Shareholders' Meeting for a two-year term (with the possibility of re-election), it is composed of eight directors. Of the total, two are independent.

Board of Directors in 12/31/2016	
Joesley Mendonça Batista	Chairman
Wesley Mendonça Batista	Vice-Chairman
José Batista Sobrinho	Director
Humberto Junqueira de Farias	Director
Claudia Silva Araujo de Azeredo Santos	Director
Tarek M. Noshy Nasr Mohamed Farahat	Director
Maurício Luís Lucheti	Director
Sérgio Roberto Waldrich	Independent Director
Márcio Percival Alves Pinto	Independent Director

In order to fulfil its duties, the Board of Directors has the support of the Fiscal Council - which, among other activities, supervises the actions performed by management and give its opinions on the Company's accounts – and also has the support of four non-statutory Committees, Sustainability, Audit, Financial and Risk Management and Personnel Management.

### Fiscal Council

The Fiscal Council is independent from the company's management and external auditors, serving as a permanent body with powers and duties conferred by law. Composed by a minimum of three and a maximum of five members and their respective deputy members, its main responsibilities include: to oversee the acts and documents issued by JBS management and the Company itself, and, if necessary, to report errors, fraud or crimes to administration bodies and shareholders' meetings. The members of JBS' Fiscal Council may be or not shareholders, and are elected and dismissed through the shareholders' meetings.



## Corporate Governance (cont.)

Fiscal Council in 12/31/2016	
Florisvaldo Caetano de Oliveira	Chairman of the Fiscal Council
José Paulo da Silva Filho	Member
Demetrius Nichele Macei	Member
Eraldo Soares Peçanha	Member
Sandro Domingues Raffai	Substitute
Antônio da Silva Barreto Júnior	Substitute
Marcos Godoy Brogiato	Substitute
Francisco Vicente Santana Silva Telles	Substitute

### Statutory Executive Board

Responsible for the management and administration of JBS activities, conducting business according to the strategic orientation determined by the Board of Directors, which also appoints the executives that comprise it, for three-year terms, re-election being permitted. Currently, the Statutory Executive Board, whose term expires in May 2019, have four members:

Statutory Executive Board in 12/31/2016	
Wesley Mendonça Batista	CEO
Francisco de Assis e Silva	Institutional Relations Officer
Jeremiah Alphonsus O'Callaghan	Investor Relations Officer
Eliseo Santiago Perez Fernandez	Administration and Control Officer

### Committees

With the function to support the Board of Directors and to make the Company's processes more robust, JBS has five committees that act together with its management.

- ❖ **Sustainability Committee:** the Sustainability Committee meets quarterly and is responsible for the management of critical issues and business opportunities for the company that can generate a high positive or negative impact on JBS' operations over the short, medium and long terms. In addition, the committee's work includes the implementation of policies, strategies and specific actions, and the evaluation of sustainability investment proposals.
- ❖ **Audit Committee:** the Audit Committee's mission is to assist the Board of Directors in relation to the processes of releasing Financial Statements, and to evaluate the performance of the internal control systems and the internal and external audits. The committee meets on a monthly basis
- ❖ **Financial and Risk Management Committee:** through quarterly meetings, the Finance and Risk Management Committee assists the Board of Directors and the Executive Board in the analysis of the global economic scenario and its impacts on JBS' operations.
- ❖ **Personnel Management Committee:** the Personnel Management Committee was created to discuss key issues for JBS' team members, such as the criteria for evaluating performance, compensation and the practice of meritocracy at all of JBS' hierarchical levels. In addition, this committee, which meets whenever necessary, must analyze the candidates who will join the Board of Directors.

In 2017, the Related Parties Committee was created to ensure that the transactions of the Company and its subsidiaries and affiliates involving related parties are carried out taking into account the best interest of the Company under common market conditions, negotiated independently, through a transparent and ethical process, in accordance with current legislation.

# Human Capital

JBS ended 2016 with 237,061 team members distributed throughout its global production facilities and sales offices, as follows:



Note 1. Argentina, Canada, Chile, China, Paraguay, Uruguay and Vietnam.

## Human Resources Management

The topic is managed independently by each of JBS' companies. Although strategies are decided on an individual basis, according to the challenges and characteristics of each business, the company's human resources departments are guided by JBS' Corporate Culture.

All businesses operate in accordance to local labor and human rights legislation. Child labor or degrading working conditions are not tolerated at any of JBS' companies.

Companies offer competitive compensation terms, adopting meritocracy as one of its core factors to reward employees for their contributions to the company's results. Employees benefits include health and life insurance, in accordance to the policies of each individual company.

Employee rights of being associated to labor unions or other social organizations are fully respected at all business units.

Additionally, JBS promotes a variety of initiatives that contribute to the growth and development of its employees, amongst them:

❖ **Leadership Academy** – aimed at leaders that formally evaluated as outstanding in terms of results and behavior. Originally developed by JBS Beef (Brazil), its main objective is to strengthen the knowledge and skills of these employees, preparing them for JBS' current and future challenges. Initially aimed at employees with coordinating positions, the program was also expanded to supervisors. In 2016, a total of 149 training sessions were administered covering a wide diversity of subjects relevant to the business. Sixty-five groups of supervisors were concluded, totaling 1.7 thousand participants, in addition to 41 groups of coordinators and managers, totaling 588 employees.

❖ **Internal Talent Program** – aimed at developing, training and capacitating Brazilian operations team members with potential to become future supervisors. Employees seeking new challenges may apply to participate through their managers. Initially focused on the Beef business and Seara, in 2016 the program was extended for the Leather and New Business divisions. Training normally lasts between 6 to 8 months and covers, in addition to leadership development, technical and routine management questions. In 2016, 70 employees were trained and another 27 are still under training. At Seara, the program, previously restricted to operations, was extended to the commercial and logistics departments. JBS USA also has its own Internal Talent Program, which was developed within a period of 6 months and includes rotating periods at several operational areas, development of leadership skills, and learning from others leaders. In 2016, 82 team members participated in this initiative.

## Human Capital (continued)

- ❖ **External Talents** – with 70 newly created positions in 2016 at JBS' Beef Division in Brazil, program was developed as a substitute to internships. After one year of monitoring by a manager, the professional will be able to take on technical or leadership positions.
- ❖ **Supervision Project** – tool developed by JBS' Beef Division in Brazil to individually evaluate the performance of its 650 production supervisors, which enables management to identify skills that need improvement, and adequate them to desired employee profile.
- ❖ **Seara University** – creation of a distance learning platform available to approximately 7 thousand team members at Seara in Brazil, including human resources, administrative, technical and leadership. The platform gathers different career development paths, assessing different subjects related to operational and administrative activities.
- ❖ **Labor Attorney Program** – created by the JBS Beef division in Brazil Carnes to further prepare labor attorneys. Aimed at professional who have graduated for a maximum of two years, it consists of a 90-day training program held at JBS headquarters in São Paulo, when young attorneys will gain technical and practical experience, as well as behavioral training and an update on a wide variety of legal subjects. Out of 1620 applicants, 12 attorneys concluded the program and are currently allocated in several regions of the country.
- ❖ **Trainee Program** – developed in Brazil with an industrial focus, the program aims to select recently graduated young individuals with an engineering background to become a JBS Beef division team member. The idea is to develop them into leaders capable of managing processes and plants at JBS' plants, as well as take on more strategic positions and add value to the business.

The program is currently being revised with the objective of having a more regionalized approach and a duration of one year instead of its current one year and a half. In 2016, there were more than 20 thousand applicants. Out of the current program, which will end in the mid-17, there are 26 participant trainees. Seara also had its own trainee program in 2016, with a one-year duration and focused on production.

Additionally, JBS USA offers a similar initiative, aimed at developing future leaders by way of an 18-month job rotation program within production units located in the United States, Canada and Mexico. In 2016, the program attracted more than 1 thousand candidates, out of which 65 became actual participants. Retention rate for these talents has been approximately 85%.

- ❖ **Value Youngsters (Jovens de Valor)** – initiative aimed at Brazilian university students, created with the objective of disseminating information about JBS. Program based on: the [jovensdevalorjbs.com.br](http://jovensdevalorjbs.com.br) platform, which registered 9,416 users in 2016; the JBS at University Program, which promotes lectures about JBS's values at universities – for the year, a total of 34 lectures and visits were made, reaching 3.3 thousand young individuals – and the JBS Value Immersion Project, which selects students to visit and get to know the company after a project competition on social media. More than 1.2 thousand young individuals applied for this initiative, out of which 20 selected to visit company headquarters in São Paulo. The initiative also includes a Facebook profile that registered more than 3 thousand posts and approximately 37 mil followers.



# Sustainability

In addition to disseminating sustainability throughout its value chain, JBS integrates various and important global and local forums in order to integrate debates and efforts that aim to contribute to the development of this theme in the sectors in which it is present. Some examples:

- ❖ **British Poultry Council (BPC)** – It represents the participants of the poultry industry in Europe, bringing companies and other stakeholders closer to governments and regulators. It promotes discussions on best practices in food safety, focusing on the health and well-being of birds. In addition to being an active participant in the BPC committees, Moy Park is a member of its Board of Directors.
- ❖ **Brazil Climate, Forests and Agriculture Coalition** – composed by Brazilian agribusiness leaders and leading civil society organizations, among other stakeholders, it addresses issues arising from climate change from the perspective of a new economy based on low greenhouse gas emissions.
- ❖ **Field to Market** – It seeks to create opportunities throughout the agricultural supply chain in the United States for continued improvements in productivity, environmental quality and human well-being. It promotes an industry-wide dialogue, based on science and open to technology options.
- ❖ **Working Group on Sustainable Livestock (GTPS)** – Formed by representatives from different segments that are part of the cattle value chain in Brazil. It seeks to promote the development of sustainable, socially just, environmentally correct and economically viable livestock. JBS has been a member of GTPS since 2011.
- ❖ **National Pact Institute for the Eradication of Slavery (InPACTO)** – aims to strengthen actions against slave labor in Brazil. Since 2007, JBS has been a signatory of the National Pact for the Eradication of Slave Labor in Brazil and has been a member of the Institute since 2014.
- ❖ **Leather Working Group (LWG)** – Working for the leather industry, LWG is formed by international brands, tanneries, suppliers and retailers, and aims to promote sustainable environmental management practices appropriate to such industry.

JBS Leather is a member of the Executive Committee and has 17 certified facilities, 15 with gold medal and 2 with silver. All ranked "A" in traceability.

- ❖ **'Livestock Technical Committee', from Global GAP** – Discusses and defines trends, requirements and parameters of animal welfare worldwide. Seara is a member of this technical committee.
- ❖ **The Canadian Roundtable for Sustainable Beef (CRSB)** – Connects industry leaders, seeking breakthroughs in sustainability practices for the Canadian meat industry. JBS USA is a founding member and a Board of Directors member.
- ❖ **The Global Roundtable for Sustainable Beef (GRSB)** – Seeks continued improvement of the sustainability of the global beef value chain through leadership, science, engagement and collaboration. In addition to being a founding member, JBS serves on the Board of Directors and the Executive Committee.



## Social Commitment

To deal with socioeconomic issues is an intrinsic activity of JBS. Due to the size and scope of its operations, the Company is, in many cities, the main - if not the only - employer. Its activities, therefore, have a very high social impact. Through direct and indirect job creation, the Company plays an important role among the communities where it operates, contributing to local economic development.

JBS also seeks to contribute to society by supporting initiatives related to education and training of children and young people, the professionalization of youth and adults, and the training and social inclusion of people with special needs.

These are some of the Company's social programs:

- ❖ **Germinare Institute** – JBS is the main sponsor of Germinare Institute, a business school located in São Paulo / SP (Brazil). The great differential is its methodology, approved by the Ministry of Education, which complements the traditional curriculum with themes and activities that seeks to stimulate the entrepreneurial spirit and the development of business managers. The goal, therefore, is to form leaders of the future. It offers free, high-quality, full-time education for youths between 12 and 18 years old (Elementary and High School students). It occupies the 11th place in the ranking of schools in the city of São Paulo and it is among the 100 best in the national rank, according to the National High School Examination (ENEM), which verifies the level of learning of students who have finished high school in Brazil.
- ❖ **Professionalization of the recycling sector** – in Brazil, several actions are promoted to support recycling in the country, which include training of waste pickers and improvements in structure and equipment of cooperatives and associations in which they participate. JBS contributes to the development of a chain of business opportunities, through the promotion of the professionalization of the recycling sector, the reduction of production costs - enabling the recycling of materials that can be reused - and the generation of income. In this way, it generates socioeconomic and environmental benefits, in line with the National Solid Waste Policy. The cooperatives of recyclable waste pickers supported by JBS are located in the states of São Paulo (Penápolis, Bauru and Lençóis Paulista) and Paraná (Maringá).
- ❖ **Special Chefs** – JBS sponsors this initiative, which seeks to promote social inclusion of Down syndrome individuals by way of gastronomy and organizes cooking sessions with renowned chefs in São Paulo, seeking that the recipe learning process and use of ingredients by participants may contribute to develop their autonomy, self-esteem and motor coordination. The Friboi brand financially supports the Special Chefs Program since 2013, while also supplying products and promoting all developed activities. In 2016, it celebrated its 10-year anniversary and celebrated it with a variety of activities, such as three new hamburger recipes on the Friboi food trucks. Approximately 800 guests attended the event. For its sponsorship of the Special Chefs Institute, JBS received the Marketing Best Award, under the Social Action category.
- ❖ **The Prince's Countryside Fund** – by way of donations and support of this initiative, Moy Park aims to contribute to the social economical and environmental development of rural communities in areas of operation. The Prince's Countryside Fund develops more than 120 projects in the United Kingdom, benefiting approximately 100 thousand people.
- ❖ **Feeding Britain's Future** – initiative aimed at educating young individuals that are seeking work opportunities in the food industry, which is the highest employer in the United Kingdom, with more than 3.7 million people. Created and managed by the IGD association, it features professional capacitation programs and visits to production units.
- ❖ **Farm Africa** – Moy Park is a partner on this initiative, committed to the fight against hunger by way of projects that train agriculture workers to become self sufficient. The company is committed to donating £100,000 to the charity institution during a period of three years until 2018. Throughout 2016, different groups of employees raised more than £13,000 for the project, by way of promoting and participating in marathons and other sports and social activities.



# Financial Performance



# Economic Outlook

## Global Outlook

According to the UN's World Economic Situation and Prospects 2016 report, the global economy grew by 2.2% in 2016, the lowest rate since 2009. The report states that behind low global economic growth are low levels of investment, slower global trade and productivity, in addition to high levels of debt. In addition, low commodity prices has increased this effect in several commodity exporting countries at the same time conflicts and geo-politic tension continue to weigh in several regions of the globe.

## United States

The Bureau of Economic Analysis comments that the United States GDP grew by 1.6% in 2016, compared to 2.6% in 2015. U.S. GDP growth is attributed to positive contributions from personal spending, housing investments, municipal, state and federal government spending, partially compensated by a negative contribution from private and fixed non-residential investments.

With regards to the beef industry, USDA's Cattle Report from January 31, 2017, pointed to a growth in cattle herd for the third consecutive year, potentially attributed to a combination of strong earnings for cattle growers in 2014 and 2015 and good pasture conditions. Beef production grew by 6% compared to 2015, due to an increase in the number of slaughtered animals as well as carcasses. For 2017, the USDA forecasts a growth in slaughtering, as animals confined between the end of 2016 and the first half of 2017 have already been sold, and a 3% increase in beef production in comparison to 2016.

For poultry, 2016 was a year of recovering access to markets that had embargoed exports from the United States, which combined with stable grain prices below US\$4.00 per bushel, contributed to industry profitability.

For pork, higher demand at the end of 2016 coupled with production restrictions resulted in an 18% increase in pork prices in comparison to December of last year. In addition, pork exports grew by 4.5% when compared to 2015, de 4,5%, with a highlight to exports to China, which increased by 17.7% in relation to the prior year. For 2017, the USDA estimates that pork exports will grow by 4% compared to 2016.

## Brazil

According to IBGE, the Brazilian economy retracted by 3.6% in 2016 in comparison to 2015, when it had decreased by 3.8%. Inflation, also according to IBGE, totaled 6.29%, the lowest rate since 2013. Food and beverage prices increased by 8.62% in 2016 compared to 12.9% in 2015.

For the beef sector, 2016 was a challenging year. The industry has been reducing capacity over the last few years due to lower cattle availability, while the price of the *arroba* remained between R\$150 and R\$160 throughout the year, which pressured beef production costs. Additionally, the economic crisis coupled with high inflation and unemployment rates negatively impacted domestic consumption, which, in conjunction with the appreciation of the Brazilian Real and lower export demand, specially from oil producing countries, impacted the industry's profitability.

The outlook for 2017 is more favorable. From a supply perspective, higher cattle availability is expected on the back of lower cow retention and animal confinement in 2016 due to higher grain prices, which should come to the market in 2017, reducing beef production costs. On the demand side, domestic consumption should remain stable in relation to 2016, with a positive impact from exports to the United States, which began at the end of 2016.

According to data from Avisite and the Brazilian Association of Pullet Producers (APINCO), poultry meat production in Brazil totaled 13.5 million tons in 2016, stable in comparison to 2015. Exports increased by 1.9% in volume to 626.4 million tons, with a 4.5% decrease in revenue to US\$5.9 billion. For 2017, the outlook for Brazilian poultry exports is positive due to increasing demand from China and a positive impact from avian influenza cases in important poultry consuming and producing markets in Europe and Asia.

Source: JBS, , Avisite, APINCO, BACEN, BEA, ONU, SECEX.



## Financial and Operacional Performance

# 4Q16 and 2016 Consolidated Results

### Consolidated analysis of the main operational indicators for JBS

R\$ million	4Q16		3Q16		Δ%	4Q15		Δ%	2016		2015		Δ%
	R\$ MM	% NR	R\$ MM	% NR		4Q16 vs 3Q16	R\$ MM		% NR	4Q16 vs 4Q15	R\$ MM	% NR	
<b>Net Revenue</b>	<b>41,630.6</b>	<b>100.0%</b>	<b>41,166.2</b>	<b>100.0%</b>	1.1%	<b>47,161.2</b>	<b>100.0%</b>	-11.7%	<b>170,380.5</b>	<b>100.0%</b>	<b>162,914.5</b>	<b>100.0%</b>	4.6%
Cost of Goods Sold	(35,694.2)	-85.7%	(35,821.7)	-87.0%	-0.4%	(41,467.0)	-87.9%	-13.9%	(149,066.7)	-87.5%	(140,324.2)	-86.1%	6.2%
<b>Gross Income</b>	<b>5,936.3</b>	<b>14.3%</b>	<b>5,344.5</b>	<b>13.0%</b>	11.1%	<b>5,694.3</b>	<b>12.1%</b>	4.3%	<b>21,313.8</b>	<b>12.5%</b>	<b>22,590.3</b>	<b>13.9%</b>	-5.7%
Selling Expenses	(2,461.0)	-5.9%	(2,212.2)	-5.4%	11.2%	(2,816.6)	-6.0%	-12.6%	(9,849.7)	-5.8%	(9,377.9)	-5.8%	5.0%
General and Adm. Expenses	(1,529.8)	-3.7%	(1,069.4)	-2.6%	43.1%	(1,216.2)	-2.6%	25.8%	(4,861.3)	-2.9%	(4,025.3)	-2.5%	20.8%
Net Financial Income (expense)	(939.8)	-2.3%	(1,378.7)	-3.3%	-31.8%	(1,736.6)	-3.7%	-45.9%	(6,311.3)	-3.7%	(1,300.6)	-0.8%	385.3%
Equity in earnings of subsidiaries	3.5	0.0%	8.3	0.0%	-57.4%	10.7	0.0%	-66.8%	17.5	0.0%	58.9	0.0%	-70.3%
Other Income (expense)	(19.2)	0.0%	29.9	0.1%	-	(112.3)	-0.2%	-82.9%	127.3	0.1%	(66.7)	0.0%	-
<b>Operating Income</b>	<b>990.1</b>	<b>2.4%</b>	<b>722.5</b>	<b>1.8%</b>	37.0%	<b>(176.7)</b>	<b>-0.4%</b>	-	<b>436.4</b>	<b>0.3%</b>	<b>7,878.7</b>	<b>4.8%</b>	-94.5%
Income and social contribution taxes	(250.9)	-0.6%	232.8	0.6%	-	(33.0)	-0.1%	661.1%	271.1	0.2%	(2,750.0)	-1.7%	-
Participation of non-controlling shareholders	(45.3)	-0.1%	(68.1)	-0.2%	-33.5%	(65.4)	-0.1%	-30.8%	(331.5)	-0.2%	(488.5)	-0.3%	-32.1%
<b>Net Income (Loss)</b>	<b>693.9</b>	<b>1.7%</b>	<b>887.1</b>	<b>2.2%</b>	-21.8%	<b>(275.1)</b>	<b>-0.6%</b>	-	<b>376.0</b>	<b>0.2%</b>	<b>4,640.1</b>	<b>2.8%</b>	-91.9%
<b>Adjusted EBITDA</b>	<b>3,112.9</b>	<b>7.5%</b>	<b>3,144.5</b>	<b>7.6%</b>	-1.0%	<b>3,131.6</b>	<b>6.6%</b>	-0.6%	<b>11,286.9</b>	<b>6.6%</b>	<b>13,300.4</b>	<b>8.2%</b>	-15.1%
<b>Net Income per share (R\$)</b>	<b>0.26</b>		<b>0.32</b>		-18.8%	<b>n.a.</b>		-	<b>0.14</b>		<b>1.60</b>		-91.3%

### Net Revenue

JBS consolidated net revenue in 4Q16 totaled R\$41,630.6 million, a decrease of 11.7% in relation to 4Q15, due to the appreciation of the Real in relation to the Dollar, (which experienced an average exchange rate of R\$3.84 at the end of 4Q15 and R\$3.29 at the end of 4Q16) and due to a reductions in net revenue at Pilgrim's, JBS Mercosul and Seara of 2.7%, 3.5% and 12.8%, respectively.

In 4Q16, approximately 72% of JBS global sales came from the markets where the company operates and 28% from exports.

In 2016, JBS' consolidated net revenue reached R\$170,380.5 million, an increase of R\$7,466.0 million or 4.6% higher than 2015.



## Financial and Operacional Performance (cont.)

### EBITDA

JBS EBITDA for the quarter was R\$3,112.9 million, stable when compared with 4Q15, with a margin of 7.5%. This result reflects the reduction in EBITDA for Seara and JBS Mercosul, offset by an increase in EBITDA for JBS USA Beef, JBS USA Pork and PPC.

In 2016, JBS EBITDA was R\$11.3 billion, a reduction of 15.1% over 2015.

R\$ million	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
<b>Net income for the period</b>	<b>739.1</b>	<b>955.2</b>	-22.6%	<b>(209.7)</b>	-	<b>707.5</b>	<b>5,128.6</b>	-86.2%
Financial income (expense), net	939.8	1,378.7	-31.8%	1,736.6	-45.9%	6,311.3	1,300.6	385.3%
Current and deferred income taxes	250.9	(232.8)	-	33.0	661.1%	(271.1)	2,750.0	-
Depreciation and amortization	1,153.6	1,061.1	8.7%	1,121.8	2.8%	4,500.6	3,692.8	21.9%
Equity in subsidiaries	(3.5)	(8.3)	-57.4%	(10.7)	-66.8%	(17.5)	-58.9	-70.3%
Restructuring, reorganization, donations and indemnity	32.9	(9.4)	-	460.6	-92.9%	56.1	487.2	-88.5%
<b>(=) EBITDA</b>	<b>3,112.9</b>	<b>3,144.5</b>	<b>-1.0%</b>	<b>3,131.6</b>	<b>-0.6%</b>	<b>11,286.9</b>	<b>13,300.4</b>	<b>-15.1%</b>

### Net Financial Results

JBS registered net financial expenses of R\$939.8 million in 4Q16. The net result from FX variation and the fair value of adjustments on derivatives was positive R\$34.4 million. Interest expense was R\$884.6 million, while interest revenue was R\$32.3 million. Taxes, contributions, tariffs and others resulted in an expense of R\$121.8 million.

In 2016, JBS had a net financial expense of R\$6,311.3 million.

### Net Income

JBS recorded net income of R\$693.9 million in 4Q16, reverting the loss recorded during the same period last year, equivalent to an EPS of R\$0.26.

In 2016, the Company recorded a net income of R\$376.0 million, equivalent to an EPS of R\$0.14.

### Cash Flow from Investing Activities

In 4Q16, total cash flow from investing activities by JBS was R\$1,096.6 million, of which R\$1,046.3 million related to purchases of property, plant and equipment (CAPEX). Thirty percent of the CAPEX refers to renovation and 70% to modernization and expansion.

In 2016, total cash flow from investing activities by JBS was R\$3,539.4 million, of which R\$3,649.0 related to the acquisition of property, plant and equipment (CAPEX).



## Financial and Operacional Performance (cont.)

### Operating and Free Cash Flow

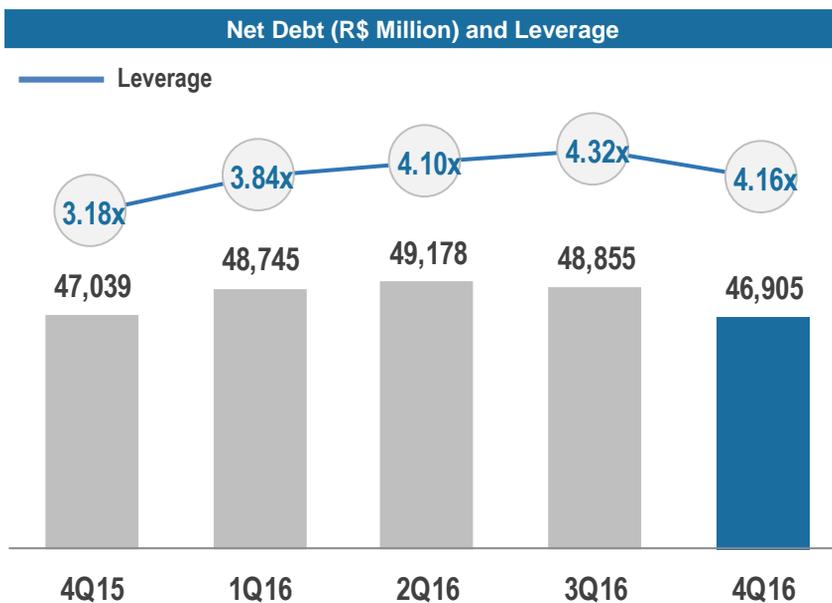
The Company recorded R\$4,005.5 million in cash from operating activities in 4Q16 and R\$3,667.4 million in 2016.

Free cash generation in 4Q16 was R\$2,908.9 million and in 2016 was R\$128.0 million after investments totaling R\$3,539.4 million.

### Indebtedness

JBS ended 4Q16 with net debt of R\$46,904.8 million, a reduction of R\$1,950.4 million in relation to 3Q16, and leverage reduced from 4.32x in 3Q16 to 4.16x.

R\$ million	12/31/16	09/30/16	Var.%
<b>Gross debt</b>	<b>56,260.4</b>	<b>56,162.4</b>	<b>0.2%</b>
(+) Short Term Debt	18,148.8	17,556.8	3.4%
(+) Long Term Debt	38,111.6	38,605.7	-1.3%
(-) Cash and Equivalents	9,355.6	7,307.2	28.0%
<b>Net debt</b>	<b>46,904.8</b>	<b>48,855.2</b>	<b>-4.0%</b>
Leverage	<b>4.16x</b>	<b>4.32x</b>	



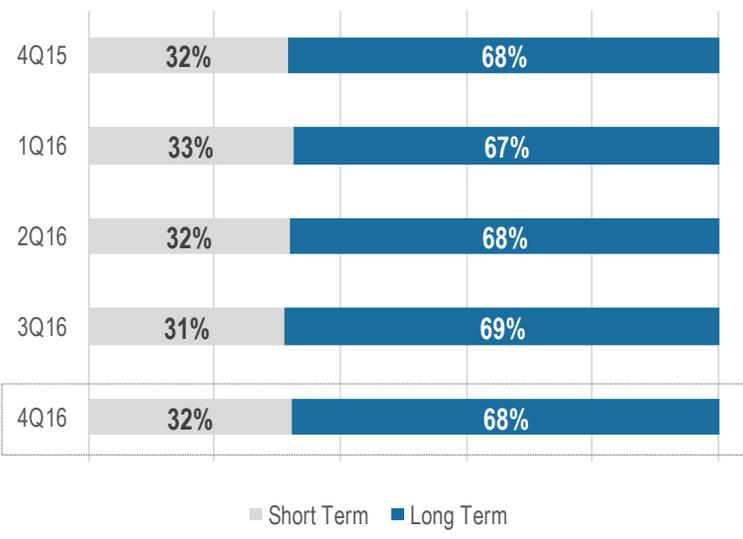
# Financial and Operacional Performance (cont.)

## Indebtedness (cont.)

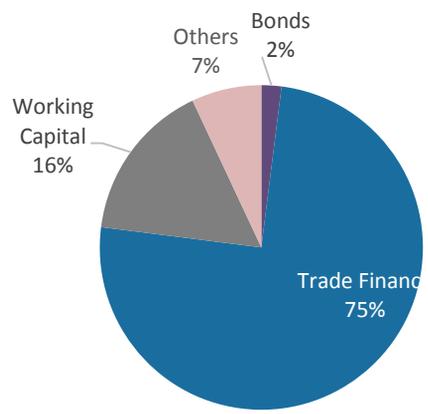
The Company ended the quarter with R\$9,355.6 million in cash. Additionally, JBS USA has a US\$1,670.0 million fully available unencumbered line under its revolving credit facilities equivalent to R\$5,442.7 million at the exchange rate at the end of the quarter.

At the end of 4Q16, the percentage of short-term debt (ST) in relation to total debt was 32%, of which 75% is trade finance related to exports from JBS Brazilian businesses.

Debt profile ST / LT

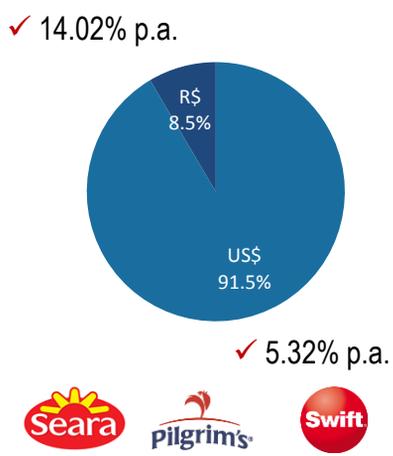


Breakdown of ST debt by type

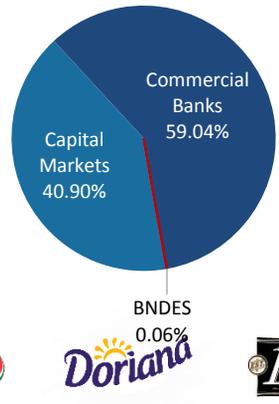


At the end of the period, 91.5% of JBS consolidated debt was denominated in U.S. dollars, with an average cost of 5.32% per annum. The proportion of debt denominated in BRL was 8.5% of the consolidated debt, which had an average cost of 14.02% per annum.

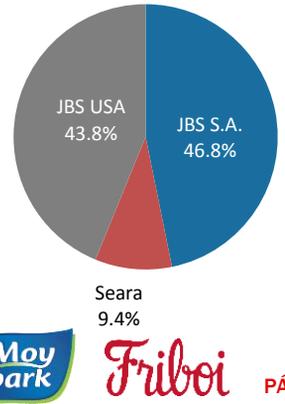
Breakdown by Currency & Average Cost



Breakdown by Source



Breakdown by Company



## Financial and Operacional Performance (cont.)

### Recent and Subsequent Events

#### ***Acquisition of Plumrose USA***

JBS announced that on March 13, 2017, it entered into a definitive share purchase agreement with Danish Crown A/S to acquire Plumrose USA in the United States.

Plumrose offers an array of prepared foods and high value added products including bacon, hams, sliced deli meats and cooked ribs, sold under well-known brands, and is a respected company, known for quality, service and superior products.

The acquisition includes:

- (i) five prepared foods facilities located in Indiana, Iowa (2), Mississippi and Vermont; and
- (ii) two distribution centers located in Indiana and Mississippi.

Plumrose annual net revenue is estimated at \$500 million and the price for the acquisition was valued at \$ 230 million.

The acquisition of Plumrose is a continuation of JBS' strategy of expanding its portfolio of branded, high value added prepared foods, and strengthens its customer base and geographical distribution in the United States.

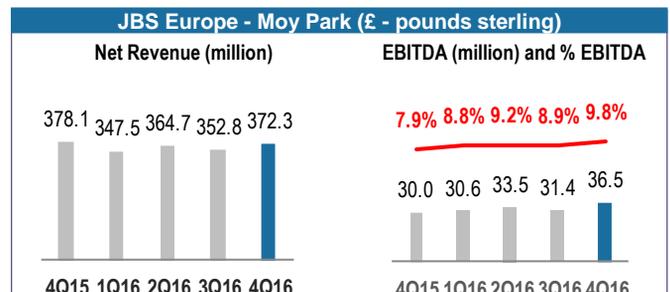
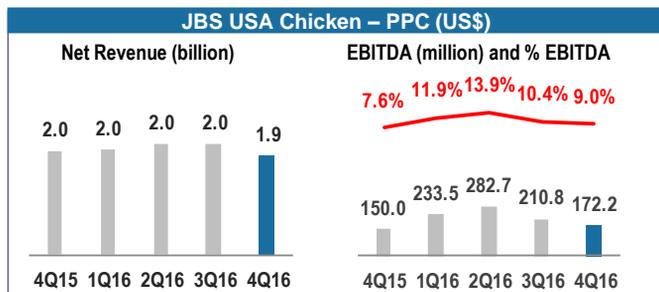
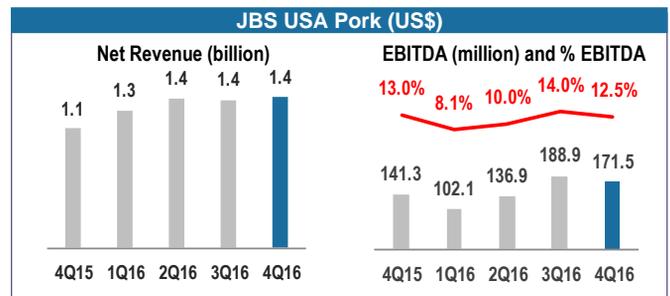
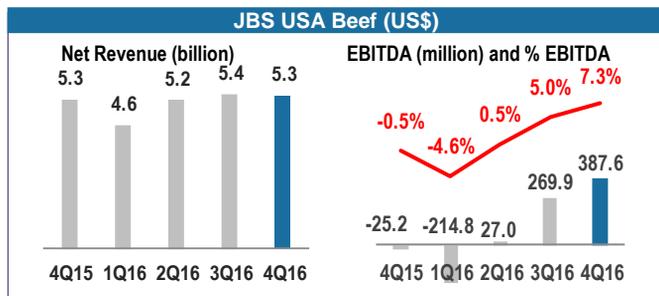
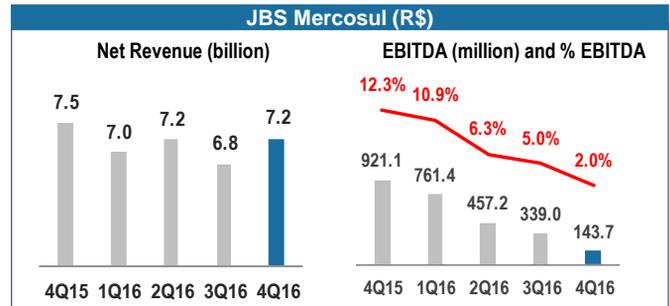
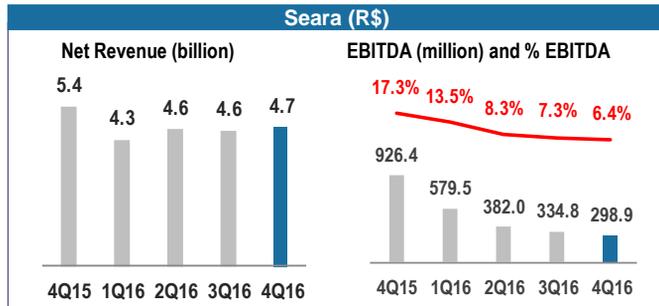
The transaction was approved by Danish Crown's and JBS' Board of Directors, and is subject to the usual regulatory approvals, including US antitrust authorities.



# Financial and Operational Performance (cont.)

## Analysis of the main financial indicators of JBS by Business Unit (in local currency)

Million		4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
<b>Net Revenue</b>									
Seara	R\$	4,683.5	4,579.7	2.3%	5,368.8	-12.8%	18,154.6	18,715.1	-3.0%
JBS Mercosul	R\$	7,227.6	6,787.2	6.5%	7,487.6	-3.5%	28,204.3	28,622.2	-1.5%
JBS USA Beef	US\$	5,333.0	5,359.9	-0.5%	5,250.7	1.6%	20,560.7	22,134.0	-7.1%
JBS USA Pork	US\$	1,373.0	1,352.3	1.5%	1,087.7	26.2%	5,345.8	3,430.4	55.8%
JBS USA Chicken	US\$	1,908.2	2,031.7	-6.1%	1,960.8	-2.7%	7,931.1	8,180.1	-3.0%
JBS Europe	£	372.3	352.8	5.5%	378.1	-1.5%	-	-	-
<b>EBITDA</b>									
Seara	R\$	298.9	334.8	-10.7%	926.4	-67.7%	1,595.3	3,371.8	-52.7%
JBS Mercosul	R\$	143.7	339.0	-57.6%	921.1	-84.4%	1,701.3	2,315.1	-26.5%
JBS USA Beef	US\$	387.6	269.9	43.6%	-25.2	-	472.2	590.5	-20.0%
JBS USA Pork	US\$	171.5	188.9	-9.2%	141.3	21.4%	612.7	346.7	76.7%
JBS USA Chicken	US\$	172.2	210.8	-18.3%	150.0	14.8%	899.2	1,213.5	-25.9%
JBS Europe	£	36.5	31.4	16.3%	30.0	21.7%	-	-	-
<b>EBITDA Margin</b>									
Seara	%	6.4%	7.3%	-0.93 p.p.	17.3%	-10.87 p.p.	8.8%	18.0%	-9.23 p.p.
JBS Mercosul	%	2.0%	5.0%	-3.01 p.p.	12.3%	-10.31 p.p.	6.0%	8.1%	-2.06 p.p.
JBS USA Beef	%	7.3%	5.0%	2.23 p.p.	-0.5%	7.75 p.p.	2.3%	2.7%	-0.37 p.p.
JBS USA Pork	%	12.5%	14.0%	-1.48 p.p.	13.0%	-0.50 p.p.	11.5%	10.1%	1.35 p.p.
JBS USA Chicken	%	9.0%	10.4%	-1.35 p.p.	7.6%	1.38 p.p.	11.3%	14.8%	-3.50 p.p.
JBS Europe	%	9.8%	8.9%	0.91 p.p.	7.9%	1.87 p.p.	-	-	-



## Financial and Operacional Performance (cont.)

### Seara

Seara posted net sales of R\$4,683.5 million in 4Q16, a reduction of 12.8% over 4Q15, principally due to lower volumes and sales prices in export markets, partially offset by a positive performance in the domestic market. In 2016, net revenue totaled R\$18,154.6 million, a decrease of 3.0% compared with 2015, also due to lower exports.

In the domestic market, net revenue in 4Q16 increased 8.4% in relation to 4Q15, with a positive performance in all three product segments, with prepared foods and fresh poultry being the main highlights. In the Prepared Foods category, net revenue registered an increase of 11.9% in comparison with 4Q15, with growth both in volume and in average sales prices, despite the challenging environment for internal demand. For the fresh poultry segment, net revenue was 9.3% higher than 4Q15, mainly due to an increase in volumes sold. Throughout the year, despite the challenging scenario of raw material costs, Seara remained focused on operational improvements and managed to evolve in several fundamental aspects intrinsic to its business, including: better indexes in its service level and expansion of its customer base, reaching 149,000 points of sale at the end of 4Q16, 6,000 more clients than in 3Q16, showing that the brand continues to gain the preference of the consumer.

As a result of its strategy execution, Seara was the highest growing brand in Brazil in 2016, climbing 12 positions and ranking 15<sup>th</sup> amongst the 50 most valued brands in the country. Additionally, Seara continued to evolve through innovation with the launching of several new products and the Seara Gourmet brand thus expanding its portfolio of higher value added products.

In the export market, Seara recorded a decrease of 29.6% in net revenue compared with 4Q15, mainly due to a reduction in the fresh poultry segment which recorded a drop in volume sold and in sales prices compared to the same period last year, impacted by the appreciation of the Real. The reduction in volumes is a reflection of the Company' strategy to adjust inventory levels in some of its main destination markets throughout 2016, after a 2H15 of higher exports. The reduction in sales prices was due to the elevated price level observed in 4Q15, as well as the FX appreciation. QoQ comparison shows a gradual recovery in chicken prices in USD in the international market, which has been occurring since the second half of last year, with average prices slightly superior to 3Q16.

Seara EBITDA in 4Q16 was R\$298.9 million, a reduction of 67.7% in relation to 4Q15, mainly due to an increase in grain costs that pressured feed costs in the quarter, despite the decline witnessed in the last few months. EBITDA margin was 6.4%. In 2016, Seara EBITDA totaled R\$1,595.3 million, a decrease of 52.7% in relation to 2015, with EBITDA margin of 8.8%.

### Highlights

R\$ Million	4Q16		3Q16		Δ%	4Q15		Δ%	2016		2015		Δ%
	R\$	% NR	R\$	% NR	QoQ	R\$	% NR	YoY	R\$	% NR	R\$	% NR	YoY
Net Revenue	4,683.5	100.0%	4,579.7	100.0%	2.3%	5,368.8	100.0%	-12.8%	18,154.6	100.0%	18,715.1	100.0%	-3.0%
COGS	(3,981.9)	-85.0%	(3,861.1)	-84.3%	3.1%	(3,885.5)	-72.4%	2.5%	(14,874.0)	-81.9%	(13,472.3)	-72.0%	10.4%
Gross Profit	701.5	15.0%	718.6	15.7%	-2.4%	1,483.3	27.6%	-52.7%	3,280.6	18.1%	5,242.8	28.0%	-37.4%
EBITDA	298.9	6.4%	334.8	7.3%	-10.7%	926.4	17.3%	-67.7%	1,595.3	8.8%	3,371.8	18.0%	-52.7%

Seara	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Birds Processed (thousand)	294,617.9	327,362.0	-10.0%	383,203.1	-23.1%	1,306,958.5	1,307,292.5	0.0%
Hogs processed (thousand)	1,348.9	1,362.0	-1.0%	1,271.2	6.1%	5,300.2	4,920.6	7.7%



## Financial and Operacional Performance (cont.)

### Seara

#### Breakdown of Net Revenue

Domestic Market	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
<b>Net Revenue (million R\$)</b>								
Fresh Poultry	1,044.6	804.2	29.9%	955.5	9.3%	3,603.6	3,122.2	15.4%
Fresh Pork	114.4	99.0	15.5%	107.3	6.6%	394.3	413.4	-4.6%
Processed / Prepared Products	1,396.3	1,312.3	6.4%	1,247.7	11.9%	5,093.9	4,527.2	12.5%
Others	25.7	18.4	39.7%	70.6	-63.6%	121.4	314.7	-61.4%
<b>TOTAL</b>	<b>2,581.0</b>	<b>2,233.9</b>	<b>15.5%</b>	<b>2,381.1</b>	<b>8.4%</b>	<b>9,213.3</b>	<b>8,377.5</b>	<b>10.0%</b>
<b>Volume (thousand tons)</b>								
Fresh Poultry	173.3	137.0	26.5%	158.9	9.0%	601.3	593.2	1.4%
Fresh Pork	15.8	15.5	1.4%	15.1	4.0%	58.4	60.5	-3.5%
Processed / Prepared Products	194.7	183.3	6.2%	190.5	2.2%	720.5	701.1	2.8%
Others	-	-	-	-	-	-	23.9	-100.0%
<b>TOTAL</b>	<b>383.8</b>	<b>335.7</b>	<b>14.3%</b>	<b>364.6</b>	<b>5.3%</b>	<b>1,380.2</b>	<b>1,378.8</b>	<b>0.1%</b>
<b>Average Price (R\$/Kg)</b>								
Fresh Poultry	6.03	5.87	2.6%	6.01	0.3%	5.99	5.26	13.9%
Fresh Pork	7.26	6.38	13.9%	7.08	2.6%	6.75	6.83	-1.2%
Processed / Prepared Products	7.17	7.16	0.2%	6.55	9.5%	7.07	6.46	9.4%
Others	-	-	-	-	-	-	13.17	-

Exports	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
<b>Net Revenue (million R\$)</b>								
Fresh Poultry	1,712.9	1,912.8	-10.4%	2,538.3	-32.5%	7,546.3	8,884.9	-15.1%
Fresh Pork	308.6	326.0	-5.3%	310.5	-0.6%	1,015.5	998.5	1.7%
Processed / Prepared Products	81.0	107.0	-24.3%	139.0	-41.7%	379.6	426.0	-10.9%
Others	-	-	-	-	-	-	28.3	-100.0%
<b>TOTAL</b>	<b>2,102.5</b>	<b>2,345.8</b>	<b>-10.4%</b>	<b>2,987.7</b>	<b>-29.6%</b>	<b>8,941.3</b>	<b>10,337.6</b>	<b>-13.5%</b>
<b>Volume (thousand tons)</b>								
Fresh Poultry	316.3	357.2	-11.4%	378.3	-16.4%	1,362.4	1,451.4	-6.1%
Fresh Pork	36.4	42.8	-14.8%	35.8	1.8%	138.7	117.3	18.3%
Processed / Prepared Products	8.8	11.4	-23.2%	13.1	-32.8%	39.5	45.0	-12.3%
Others	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>361.5</b>	<b>411.4</b>	<b>-12.1%</b>	<b>427.2</b>	<b>-15.4%</b>	<b>1,540.6</b>	<b>1,613.7</b>	<b>-4.5%</b>
<b>Average Price (R\$/Kg)</b>								
Fresh Poultry	5.41	5.35	1.1%	6.71	-19.3%	5.54	6.12	-9.5%
Fresh Pork	8.47	7.63	11.1%	8.68	-2.4%	7.32	8.51	-14.0%
Processed / Prepared Products	9.23	9.37	-1.5%	10.64	-13.2%	9.62	9.46	1.7%
Others	-	-	-	-	-	-	-	-



## Financial and Operacional Performance (cont.)

### JBS Mercosul

JBS Mercosul had net revenue of R\$7,227.6 million, a decrease of 3.5% compared with 4Q15, due to a decrease in export volumes. EBITDA was R\$143.7 million, a reduction of 57.6% compared with 4Q15, impacted by non-recurring expenses totaling R\$263.0 million, mainly related to a discontinued brand write-off. EBITDA margin was 2.0%. However, not considering non-recurring expenses, EBITDA margin would be 5.6%.

Net revenue in 2016 was R\$28,204.3 million, a reduction of 1.5% in relation to 2015, due to a decrease in sales volumes in both markets, given the 3.8% reduction in the number of cattle processed in the period. EBITDA for this business unit was R\$1,701.3 million, 26.5% lower than 2015, with EBITDA margin of 6.0%.

### Highlights

R\$ Million	4Q16		3Q16		Δ%	4Q15		Δ%	2016		2015		Δ%
	R\$	% NR	R\$	% NR	QoQ	R\$	% NR	YoY	R\$	% NR	R\$	% NR	YoY
Net Revenue	7,227.6	100.0%	6,787.2	100.0%	6.5%	7,487.6	100.0%	-3.5%	28,204.3	100.0%	28,622.2	100.0%	-1.5%
COGS	(5,923.3)	-82.0%	(5,509.7)	-81.2%	7.5%	(5,631.3)	-75.2%	5.2%	(22,253.2)	-78.9%	(22,350.1)	-78.1%	-0.4%
Gross Profit	1,304.3	18.0%	1,277.5	18.8%	2.1%	1,856.3	24.8%	-29.7%	5,951.2	21.1%	6,272.1	21.9%	-5.1%
EBITDA	143.7	2.0%	339.0	5.0%	-57.6%	921.1	12.3%	-84.4%	1,701.3	6.0%	2,315.1	8.1%	-26.5%

JBS Mercosul	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Bovines processed (thousand)	1,915.8	1,989.6	-3.7%	1,845.3	3.8%	7,968.4	8,285.0	-3.8%



## Financial and Operational Performance (cont.)

### JBS Mercosul

#### Breakdown of Net Revenue

Domestic Market	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
<b>Net Revenue (million R\$)</b>								
Fresh and Chilled Products	3,892.3	3,439.8	13.2%	2,968.1	31.1%	13,803.2	11,922.9	15.8%
Processed Products	342.7	344.6	-0.6%	367.1	-6.7%	1,460.8	1,533.2	-4.7%
Others	363.4	313.0	16.1%	312.4	16.3%	1,411.4	1,752.7	-19.5%
<b>TOTAL</b>	<b>4,598.4</b>	<b>4,097.5</b>	<b>12.2%</b>	<b>3,647.7</b>	<b>26.1%</b>	<b>16,675.4</b>	<b>15,208.8</b>	<b>9.6%</b>
<b>Volume (thousand tons)</b>								
Fresh and Chilled Products	304.5	292.6	4.1%	232.5	31.0%	1,135.8	1,159.2	-2.0%
Processed Products	35.7	34.9	2.0%	40.5	-12.1%	157.5	174.0	-9.5%
Others	166.8	146.6	13.7%	156.8	6.4%	650.7	607.8	7.1%
<b>TOTAL</b>	<b>506.9</b>	<b>474.2</b>	<b>6.9%</b>	<b>429.8</b>	<b>17.9%</b>	<b>1,944.0</b>	<b>1,941.0</b>	<b>0.2%</b>
<b>Average Price (R\$/Kg)</b>								
Fresh and Chilled Product	12.78	11.75	8.8%	12.77	0.1%	12.15	10.29	18.2%
Processed Items	9.61	9.86	-2.5%	9.05	6.2%	9.28	8.81	5.3%
Others	2.18	2.14	1.9%	1.99	9.5%	2.17	2.88	-24.8%
<b>Exports</b>								
<b>Net Revenue (million R\$)</b>								
Fresh and Chilled Products	2,003.5	1,953.8	2.5%	2,409.6	-16.9%	8,246.3	8,191.5	0.7%
Processed Products	34.0	222.4	-84.7%	236.3	-85.6%	813.0	983.4	-17.3%
Others	591.7	513.5	15.2%	1,194.0	-50.4%	2,469.6	4,238.5	-41.7%
<b>TOTAL</b>	<b>2,629.2</b>	<b>2,689.7</b>	<b>-2.2%</b>	<b>3,839.9</b>	<b>-31.5%</b>	<b>11,528.9</b>	<b>13,413.4</b>	<b>-14.0%</b>
<b>Volume (thousand tons)</b>								
Fresh and Chilled Products	136.0	151.2	-10.0%	165.8	-18.0%	585.1	625.9	-6.5%
Processed Products	5.8	19.1	-69.8%	13.4	-56.9%	63.0	69.2	-9.0%
Others	18.8	21.6	-12.8%	80.7	-76.7%	95.2	283.8	-66.5%
<b>TOTAL</b>	<b>160.6</b>	<b>191.8</b>	<b>-16.3%</b>	<b>259.9</b>	<b>-38.2%</b>	<b>743.2</b>	<b>978.9</b>	<b>-24.1%</b>
<b>Average Price (R\$/Kg)</b>								
Fresh and Chilled Beef	14.73	12.92	14.0%	14.53	1.4%	14.09	13.09	7.7%
Processed Beef	5.90	11.65	-49.4%	17.68	-66.7%	12.91	14.21	-9.1%
Others	31.47	23.81	32.1%	14.80	112.6%	25.95	14.93	73.8%



## Financial and Operacional Performance (cont.)

### **JBS USA Beef (including Australia and Canada)**

Net revenue totaled US\$5,333.0 million, stable compared with 4Q15, due to a decline in beef prices in the domestic market, offset by an increase in volumes in both domestic and export markets. EBITDA was US\$387.6 million, with an EBITDA margin of 7.3%, the highest in 2016, reverting the negative result recorded in 4Q15.

In 2016, net revenue totaled US\$20,560.7 million compared to US\$22,134.0 million in 2015. EBITDA was US\$472.2 million, 20% lower than the previous year, as a consequence of the results recorded during the first half of the year, which was more challenging, offset by a positive performance during the second half of the year. EBITDA margin was 2.3%.

In the United States, the increase in cattle availability and the reduction in beef cattle prices contributed to a decrease in raw-material costs during the second half of the year, which, coupled with an increase in domestic and international demand, as well as management focus on operational efficiency, allowed for a margin recovery in the country.

The operation in Australia continued to be impacted by the lower availability of cattle, which contributed to a reduction in slaughter numbers during 2016. However, the Company managed to maintain positive margins due to an increase in sales prices and management focus on profitability.

### Highlights (US GAAP)

US\$ Million	4Q16		3Q16		Δ%	4Q15		Δ%	2016		2015		Δ%
	US\$	% NR	US\$	% NR	QoQ	US\$	% NR	YoY	US\$	% NR	US\$	% NR	YoY
Net Revenue	5,333.0	100.0%	5,359.9	100.0%	-0.5%	5,250.7	100.0%	1.6%	20,560.7	100.0%	22,134.0	100.0%	-7.1%
COGS	(4,931.9)	-92.5%	(5,081.7)	-94.8%	-2.9%	(5,288.0)	-100.7%	-6.7%	(20,063.0)	-97.6%	(21,541.7)	-97.3%	-6.9%
Gross Profit	401.1	7.5%	278.2	5.2%	44.2%	(37.3)	-0.7%	-	497.7	2.4%	592.3	2.7%	-16.0%
EBITDA	387.6	7.3%	269.9	5.0%	43.6%	-25.2	-0.5%	-	472.2	2.3%	590.5	2.7%	-20.0%

JBS USA Beef (including AUS and CAN)	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Bovines processed (thousand)	2,462.1	2,426.9	1.4%	2,374.2	3.7%	9,421.0	9,429.5	-0.1%

### Breakdown of Net Revenue

Domestic Market	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Net Revenue (US\$ million)	3,888.2	4,022.4	-3.3%	3,899.9	-0.3%	15,255.7	16,327.8	-6.6%
Volume (tons)	1,085.1	1,046.6	3.7%	1,020.9	6.3%	4,077.3	3,808.0	7.1%
Average Price (US\$/Kg)	3.58	3.84	-6.8%	3.82	-6.2%	3.74	4.29	-12.7%
Exports	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Net Revenue (US\$ million)	1,444.8	1,337.5	8.0%	1,350.8	7.0%	5,305.0	5,806.3	-8.6%
Volume (tons)	358.7	325.3	10.3%	332.4	7.9%	1,301.6	1,310.1	-0.6%
Average Price (US\$/Kg)	4.03	4.11	-2.0%	4.06	-0.9%	4.08	4.43	-8.0%



## Financial and Operacional Performance (cont.)

### JBS USA Pork

The JBS USA Pork business unit reported net revenue of US\$1,373.0 million in 4Q16, an increase of 26.2% over 4Q15, due to the integration of the assets acquired in November 2015, which allowed the Company to increase the number of hogs processed by 22.4% in the period.

EBITDA was US\$171.5 million, an increase of 21.4% over the same period last year, with an EBITDA margin of 12.5%, boosted by a growth of 76.3% in exports compared with 4Q15 and 38.8% when compared with 3Q16. The main destinations for JBS pork were Greater China, Japan and South Korea.

In 2016, net revenue was US\$5,345.8 million, which corresponds to an increase of 55.8% in relation to 2015. EBITDA was US\$612.7 million, 76.7% higher than the previous year, with a margin of 11.5%.

### Highlights (US GAAP)

US\$ Million	4Q16		3Q16		Δ%	4Q15		Δ%	2016		2015		Δ%
	US\$	% NR	US\$	% NR	QoQ	US\$	% NR	YoY	US\$	% NR	US\$	% NR	YoY
Net Revenue	1,373.0	100.0%	1,352.3	100.0%	1.5%	1,087.7	100.0%	26.2%	5,345.8	100.0%	3,430.4	100.0%	55.8%
COGS	(1,197.2)	-87.2%	(1,164.3)	-86.1%	2.8%	(942.2)	-86.6%	27.1%	(4,750.1)	-88.9%	(3,074.1)	-89.6%	54.5%
Gross Profit	175.8	12.8%	188.0	13.9%	-6.5%	145.5	13.4%	20.8%	595.7	11.1%	356.3	10.4%	67.2%
EBITDA	171.5	12.5%	188.9	14.0%	-9.2%	141.3	13.0%	21.4%	612.7	11.5%	346.7	10.1%	76.7%

JBS US Pork	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Hogs Processed (thousand)	6,553.4	5,779.7	13.4%	5,353.3	22.4%	23,726.9	15,645.3	51.7%

### Breakdown of Net Revenue

Domestic Market	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Net Revenue (US\$ million)	1,113.8	1,143.1	-2.6%	941.6	18.3%	4,524.9	2,880.5	57.1%
Volume (thousand tons)	564.3	519.0	8.7%	498.4	13.2%	2,167.0	1,402.1	54.6%
Average Price (US\$/Kg)	1.97	2.20	-10.4%	1.89	4.5%	2.09	2.05	1.6%
Exports	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Net Revenue (US\$ million)	259.2	209.2	23.9%	146.1	77.4%	820.9	550.0	49.3%
Volume (thousand tons)	134.0	96.5	38.8%	76.0	76.3%	405.7	263.8	53.8%
Average Price (US\$/Kg)	1.93	2.17	-10.7%	1.92	0.6%	2.02	2.09	-3.0%



## Financial and Operacional Performance (cont.)

### JBS USA Chicken (PPC)

Pilgrim's Pride (PPC) recorded net revenue of US\$1,908.2 million in 4Q16, a decrease of 2.7% in comparison with 4Q15. EBITDA totaled US\$172.2 million, an increase of 14.8% over same period of 2015, with a margin of 9.0%. The solid result during the quarter is attributed to the positive performance of fresh domestic segments, with case-ready and small birds being the main highlights, in addition to better exports. Operations in Mexico also contributed positively to the results, despite being impacted by the depreciation of the Mexican Peso in relation to the US Dollar.

In 2016, net revenue was US\$7,931.1 million, a reduction of 3.0% in relation to 2015. EBITDA was US\$899.2 million, 25.9% lower than the previous year, with a margin of 11.3%.

Yearly results were impacted by a change in the product mix and by investments made in PPC facilities, which reduced production volume and increased costs. Despite the impact in the short term, PPC management believes that these changes will translate into more consistent results and higher margins, given a portfolio of higher value added products, strengthening its relationship with key customers.

### Highlights (US GAAP)

US\$ Million	4Q16		3Q16		Δ%	4Q15		Δ%	2016		2015		Δ%
	US\$	% NR	US\$	% NR	QoQ	US\$	% NR	YoY	US\$	% NR	US\$	% NR	YoY
Net Revenue	1,908.2	100.0%	2,031.7	100.0%	-6.1%	1,960.8	100.0%	-2.7%	7,931.1	100.0%	8,180.1	100.0%	-3.0%
COGS	(1,727.7)	-90.5%	(1,821.5)	-89.7%	-5.1%	(1,800.1)	-91.8%	-4.0%	(7,016.8)	-88.5%	(6,925.7)	-84.7%	1.3%
Gross Profit	180.5	9.5%	210.2	10.3%	-14.2%	160.7	8.2%	12.3%	914.4	11.5%	1,254.4	15.3%	-27.1%
EBITDA	172.2	9.0%	210.8	10.4%	-18.3%	150.0	7.6%	14.8%	899.2	11.3%	1,213.5	14.8%	-25.9%



## Financial and Operational Performance (cont.)

### JBS Europe (Moy Park)

JBS Europe recorded net revenue of £372.3 million in 4Q16, a decrease of 1.5% compared with 4Q15. Like for Like sales however, after adjusting for discontinued business and difference in year end cut of dates, shows an increase of 7.4% reflecting the ongoing growth of the business.

EBITDA was £36.5 million in the quarter, an increase of 21.7% compared with 4Q15, with an EBITDA margin of 9.8% versus a margin of 7.9% in 4Q15. For the year, EBITDA totaled £131.9 million, an increase of 13.5% in relation to 2015, with an EBITDA margin of 9.2%, compared to 8.1% in 2015, due to an improvement in operational efficiencies and an enhanced focus on cost control.

With a high innovative capacity, in 2016 JBS Europe continued its strategy to offer high quality, value added products which, coupled with its partnership with its customers and the synergies from its operations, has been gradually generating better results.

### Highlights

£ Million	4Q16		3Q16		Δ%	4Q15		Δ%	2016		2015		Δ%
	£	% NR	£	% NR	QoQ	£	% NR	YoY	£	% NR	£	% NR	YoY
Net Revenue	372.3	100.0%	352.8	100.0%	5.5%	378.1	100.0%	-1.5%	1,437.4	100.0%	1,442.3	100.0%	-0.3%
COGS	(325.2)	-87.3%	(312.8)	-88.7%	4.0%	(340.6)	-90.1%	-4.5%	(1,265.8)	-88.1%	(1,293.1)	-89.7%	-2.1%
Gross Profit	47.2	12.7%	40.0	11.3%	17.8%	37.5	9.9%	25.7%	171.6	11.9%	149.2	10.3%	15.0%
EBITDA	36.5	9.8%	31.4	8.9%	16.3%	30.0	7.9%	21.7%	131.9	9.2%	116.2	8.1%	13.5%
<b>JBS Europe (Moy Park)</b>													
			4Q16	3Q16	Δ%	4Q15	Δ%		2016	2015	Δ%		
Birds Processed (thousand)			66,482.8	65,477.7	1.5%	66,999.3	-0.8%		265,708.3	258,494.9	2.8%		

## Financial and Operational Performance (cont.)

### JBS Europe (Moy Park)

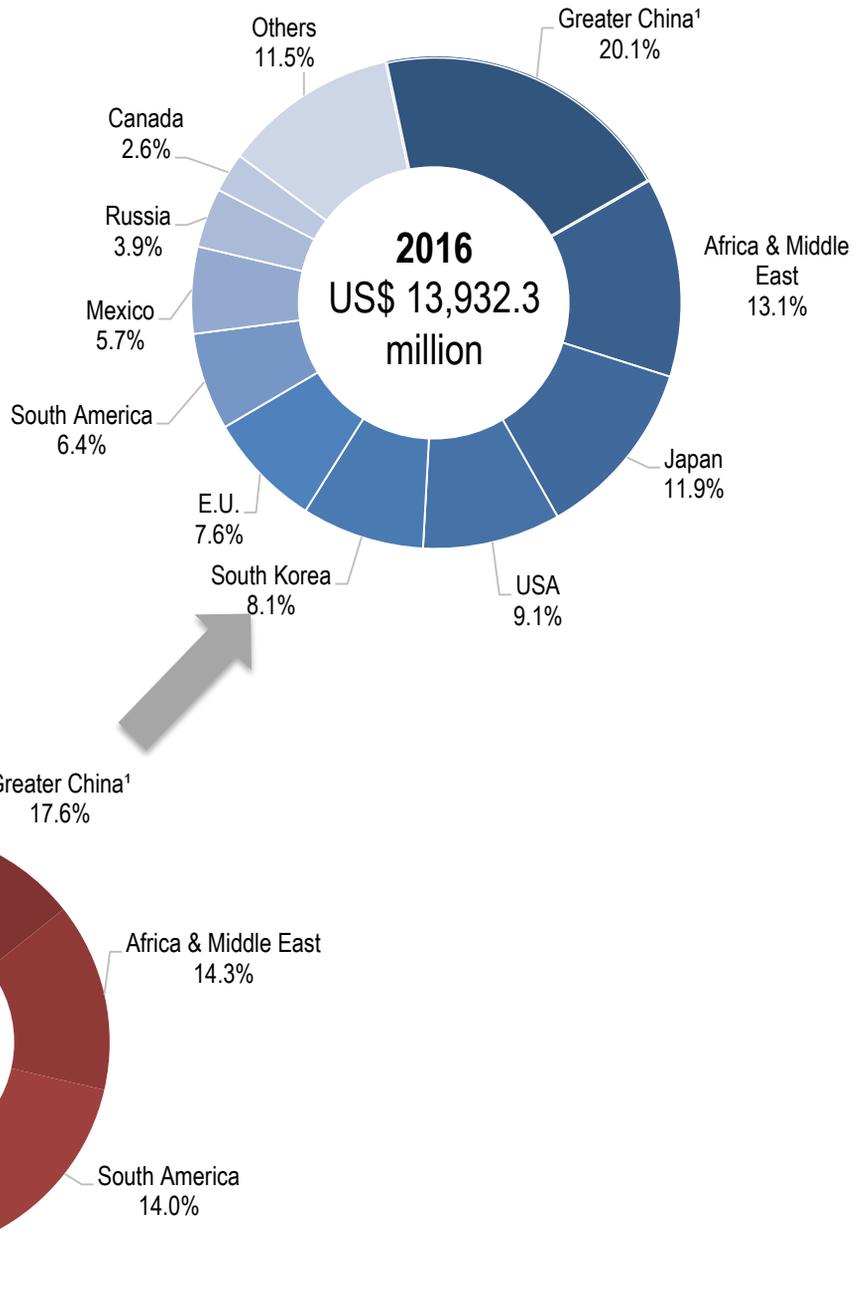
#### Breakdown of Net Revenue

Domestic Market	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
<b>Net Revenue (million £)</b>								
Fresh Poultry	161.9	144.7	11.8%	159.2	1.6%	600.6	573.7	4.7%
Processed / Prepared Products	145.7	145.8	0.0%	158.7	-8.2%	583.7	620.3	-5.9%
Others	14.5	15.5	-6.7%	22.0	-34.3%	72.1	92.3	-21.9%
<b>TOTAL</b>	<b>322.1</b>	<b>306.0</b>	<b>5.2%</b>	<b>340.0</b>	<b>-5.3%</b>	<b>1,256.3</b>	<b>1,286.2</b>	<b>-2.3%</b>
<b>Volume (thousand tons)</b>								
Fresh Poultry	48.9	45.8	6.7%	50.4	-3.1%	188.5	180.5	4.4%
Processed / Prepared Products	38.4	38.3	0.3%	42.8	-10.2%	155.6	168.9	-7.9%
Others	31.4	30.7	2.3%	52.5	-40.2%	154.8	197.7	-21.7%
<b>TOTAL</b>	<b>118.7</b>	<b>114.8</b>	<b>3.4%</b>	<b>145.7</b>	<b>-18.5%</b>	<b>498.9</b>	<b>547.1</b>	<b>-8.8%</b>
<b>Average Price (£/Kg)</b>								
Fresh Poultry	3.31	3.16	4.8%	3.16	4.8%	3.19	3.18	0.3%
Processed / Prepared Products	3.79	3.80	-0.3%	3.71	2.2%	3.75	3.67	2.2%
Others	0.46	0.50	-8.8%	0.42	9.6%	0.47	0.47	0.0%
<b>Exports</b>								
<b>Net Revenue (million £)</b>								
Fresh Poultry	5.0	4.9	1.4%	7.9	-37.2%	24.0	36.4	-33.9%
Processed / Prepared Products	32.3	30.7	5.3%	18.9	71.0%	110.1	78.0	41.1%
Others	13.0	11.2	15.6%	11.3	14.7%	47.1	41.7	12.9%
<b>TOTAL</b>	<b>50.3</b>	<b>46.8</b>	<b>7.4%</b>	<b>38.1</b>	<b>31.8%</b>	<b>181.2</b>	<b>156.1</b>	<b>16.1%</b>
<b>Volume (thousand tons)</b>								
Fresh Poultry	1.5	1.7	-12.6%	2.4	-37.7%	7.8	11.3	-30.9%
Processed / Prepared Products	9.2	8.8	4.5%	7.1	29.7%	33.6	28.4	18.3%
Others	28.5	24.7	15.4%	22.9	24.4%	100.7	92.0	9.6%
<b>TOTAL</b>	<b>39.3</b>	<b>35.3</b>	<b>11.3%</b>	<b>32.5</b>	<b>21.0%</b>	<b>142.1</b>	<b>131.6</b>	<b>8.0%</b>
<b>Average Price (£/Kg)</b>								
Fresh Poultry	3.32	2.86	16.0%	3.30	0.8%	3.09	3.23	-4.4%
Processed / Prepared Products	3.50	3.48	0.7%	2.66	31.8%	3.28	2.74	19.3%
Others	0.45	0.45	0.1%	0.49	-7.8%	0.47	0.45	3.0%

## Financial and Operacional Performance (cont.)

### Tables and Charts

**Graph I - JBS Consolidated Exports Breakdown in 2015 and 2016**



Note 1. Considers China and Hong Kong

**Table I - 4Q16 Breakdown of Production Costs by Business Unit (%)**

4Q16 (%)	Consolidated	JBS Mercosul	Seara	USA Beef	USA Pork	USA Chicken	JBS Europe
Raw material (livestock)	77,1%	86,9%	69,8%	84,6%	73,1%	53,0%	52,2%
Processing (including ingredients and packaging)	11,4%	7,2%	18,9%	5,1%	12,3%	28,3%	31,1%
Labor Cost	11,5%	5,9%	11,2%	10,3%	14,7%	18,7%	16,7%



## Dividend Policy and Payment Evolution

The minimum mandatory dividend of JBS is 25% of net income as provided for in the Corporations Act and by the Company's bylaws, based upon the non consolidated financial statements.

The declaration of annual dividends, including dividends in excess of the minimum mandatory dividend, requires approval at the Annual General Shareholders Meeting by a majority vote of the shareholders of JBS and will depend on various factors.

These factors include operational results, financial condition, cash requirements and future prospects of the Company among other factors that the board of directors and shareholders of JBS deem relevant.

### Dividends distribution evolution:

Reference Date	Total amount In R\$	Amount per share In R\$
12/31/2015	1,102,027,069.27	0.4054588810
12/31/2014	483,528,556.10	0.1673795780
12/31/2013	220,140,456.17	0.0767453370
12/31/2012	170,748,202.70	0.0595100000
12/31/2009	61,476,484.75	0.0243617747
12/31/2008	12,321,251.17	0.0087950000
12/31/2007	17,465,000.00	0.0122860000

There were no dividend payments for 2010 and 2011, since the Company recorded losses in this period.

The company has accrued dividends in December 31, 2016 of R\$89.3 million to be submitted at the General Meeting of Shareholders, calculated as follows:

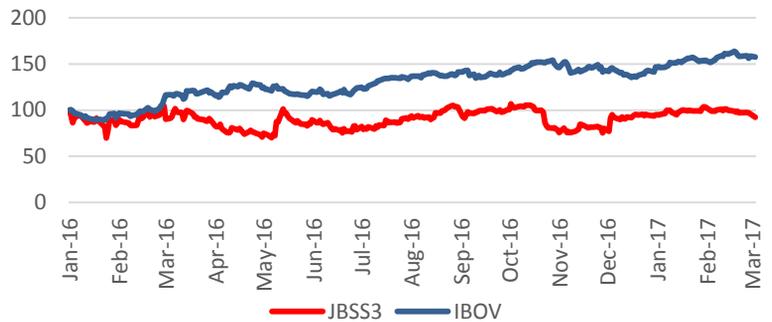
In R\$ Thousand	12.31.2016
<b>Net income</b>	<b>375,973</b>
Legal reserve – (5%)	(18,800)
Expired dividends – 2012	230
<b>Adjusted base for dividends calculation</b>	<b>357,403</b>
Mandatory dividends (25%)	89,352
<b>Declared dividends</b>	<b>89,352</b>

## Performance of the Share

JBS share price ended 2016 quoted at R\$11.40 in the São Paulo Stock Exchange (BM&FBovespa).

The Company's market value totaled R\$32,568.1 million at the end of 2016.

### JBSS3 vs IBOV



## Adherence to the Arbitration Chamber

The Company, its shareholders, directors and members of the Fiscal Council undertake to resolve through arbitration any dispute or controversy that may arise between them related to or resulting from in particular the application, validity, effectiveness, interpretation, violation and effects of the provisions contained in the Contract of the Novo Mercado, the Listing Rules of the Novo Mercado, the Bylaws, the shareholders' agreements filed at the Company's headquarters under Corporate Law, the regulations issued by the National Monetary Council, by the Central Bank of Brazil, by the CVM, by BOVESPA and any other rules applicable to the operation of the capital market in general to the market Arbitration Chamber in accordance with Commitment Clauses and Arbitration Rules, conducted in accordance with the Chamber Regulation.

## Relationship with External Audit

BDO RCS Auditores Independentes SS was hired by JBS SA for the provision of external audit services related to audits of financial statements of JBS SA, individual and consolidated.

JBS policy to hire eventual services not related to external audit from the independent auditor is based on principles that preserve the independency of the auditor, such as: (a) the auditor should not audit its own work, (b) the auditor should not exercise managerial functions in its client and (c) the auditor should not promote the interests of its client.

The auditor's payment refers to professional services related to the audit process of consolidated financial statements, quarterly revisions of the Company's financial statements, corporate audits and some temporary revisions of certain subsidiaries, as per request by the appropriate legislation. Payments related to the audit process refers to services of due diligence traditionally performed by an external auditor in acquisitions and advisory regarding accountancy standards and transactions.

Payments not related to audit process corresponds to, mainly, services provided of compliance with the tax requirements to the Company's subsidiaries out of Brazil.

Aiming to be in compliance with CVM Instruction 381/200, JBS S.A. informs that BDO RCS Auditores Independentes did not provide any other services unrelated to the audit that represented more than 5% of its total payment regarding audit process during 2016.





**JBS S.A.**

**Financial statements and Independent auditors' report**

As of December 31, 2016 and 2015



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

## **INDEPENDENT AUDITOR'S REPORT ON THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS**

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

### **Opinion**

We have audited the individual and consolidated financial statements of **JBS S.A. ("Company")**, identified as company and consolidated, respectively, which comprise the individual and consolidated statement of financial position as at December 31, 2016 and the respective individual and consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the corresponding notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying individual and consolidated financial statements present fairly, in all material respects, the individual and consolidated financial position of **JBS S.A.** as at December 31, 2016, its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with Brazilian accounting practices and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

### **Basis for opinion**

We conducted our audit in accordance with Brazilian and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Individual and Consolidated Financial Statements section of our report. We are independent of the Company and its controlled companies in accordance with the relevant ethical principles established in the Code of Ethics for Professional Accountants and in the professional standards issued by the Brazilian Federal Association of Accountants (CFC), and we have fulfilled our other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Evaluation of impairment loss**

At least annually, Management evaluates the risk of impairment of its assets, based on the method of value in use or discounted cash flow, which requires Management to adopt some premises based on information generated by its internal reports and involves significant judgement on the future results of its business.

### **Revenue recognition**

The Company recognizes its revenues when the billed goods are actually delivered to its clients. Therefore, several controls are established to guarantee that revenues are recognized in the proper accrual period pursuant to the requirements of the effective accounting standards. This process involves transactions in the domestic and foreign markets, the particularities of each location where the Company conducts its operations and of the contracts supporting each transaction.

Accordingly, a detailed analysis of these specific conditions, as well as Management's judgment, determine the values and timing of recognition.

The accounting closing period is the main parameter for the revenue recognition not to include amounts from wrong periods respecting the moment of the transfer of the risks and benefits of each transaction.

### **Evaluating the recovery of state and federal tax credits**

As mentioned in Note 8, the Company has state and federal tax credits. The tax credits arise from its business transactions, and their realization result from the tax incentives granted by tax legislation to exporters. The Company's Management evaluates the risk of not recovering these tax credits, because the use of a great portion of these credits is only legally possible by means of: compensation against other federal and state taxes, payments to suppliers of inputs and equipment, when these have this program, request of approval and reimbursement, in cash, of the mentioned tax credits, to the tax authorities.

### **Audit response**

We have evaluated and questioned the future cash flow forecasts of the cash generating units (CGUs) prepared by Management and the procedure used in its preparation, including a comparison with its most recent business plans and we tested the value in use. We have questioned the Management's main assumptions of long-term growth rates forecasted through comparisons with economic and sectorial forecasts, and the discount rate, evaluating the Company's capital cost, as well as the appropriateness of the disclosures made in Note 13.

### **Audit response**

- Evaluating and testing relevant Information Technology systems;
- Reviewing the application of the criteria determined by the Company's internal control and Management's judgment for the recognition of revenue on the documents supporting the delivery and transfer of risks and benefits of the products;
- Evaluating the appropriateness of the assumptions used by Management and if the adopted policies for revenue recognition are in accordance with Brazilian accounting practices and the IFRS issued by IASB;
- Reviewing the appropriate disclosure in Note 24 to the financial statements in accordance with Brazilian accounting practices and the IFRS issued by IASB.

### **Audit response**

- Evaluating the Company's procedures and controls to understand and evaluate its routines and understanding on the basis of recovery of state and federal tax credits, checking and verification of the relevant and necessary documentation by sampling to obtain approval for the compensation processes against other state and federal taxes;
- Detailed testing based on sampling on the documentation of the mentioned state and federal tax credits, involving: (i) evaluating the possibility of taking tax credits based on the tax legislation; (ii) accounting records and tax books;
- Obtaining legal understanding from internal and external legal counselors on certain tax issues related to the Company's activities.

Reviewing the appropriate disclosure in the financial statements in accordance with Brazilian accounting practices and the IFRS issued by IASB.

### **Derivative financial instruments**

The Company has recorded balances of revenues and expenses arising from derivative financial instruments referring to several contracts entered into with top tier financial institutions. At least every three months, Management evaluates its financial assets and liabilities at fair value, based on information about each operation hired and on the respective market information at the closing dates of the financial statements, whose hierarchy is linked to levels 1 and 2, that is, based on prices quoted on an active market and on other information available of quoted financial instruments, respectively. This requires Management to maintain effective controls over the adoption of some premises, mainly in the evaluation of risks of exposure to currency, credit and interest rates, based on information generated by its internal reports.

### **Contingencies**

According to Note 22 to the financial statements, the Company and its controlled companies have ongoing discussions involving administrative and legal proceedings, and assessment of risks related to civil, labor, social security and tax aspects arising from their operations. As at December 31, 2016, the Company and its controlled companies have matters being discussed at several procedural levels. The proceedings whose losses are considered possible and probable by the internal legal counselors are disclosed at their historical values and those considered probable also have a provision recognized. This matter requires critical judgment involving significant estimates based on the legal opinions from internal and external legal counselors used to ground the likelihood of favorable outcomes and estimates of losses related to these risks or legal discussions.

### **News disclosed by the media involving companies of the group and its shareholders**

There are ongoing investigations from the Federal Police, the Federal Public Prosecution Office and from the Federal Audit Court involving the names of shareholders and officers of the group J&F, parent company of JBS S.A., related to pension funds investments, obtaining tax benefits, and loans and financing from federal public banks.

### **Audit response**

Our audit procedures included, among others:

- Evaluation of conciliation and confirmation controls showing the integrity and accuracy of the records.
- Evaluation of the sufficient and appropriate documentation and monitoring the transactions;
- Evaluation of estimates and evaluation criteria used and measurement of derivative financial instruments;
- Crosschecking of the transactions and whether they are duly incorporated by the Policy of Financial Risk Management and Commodities;
- Evaluation of the appropriate accounting policies and adequate disclosure in Note 30.

### **Audit response**

Our audit procedures included, among others:

- Obtaining confirmation letter replies from the internal legal counselors of the Company and its controlled companies, as well as legal opinions on the understanding of certain aspects of tax legislation regarding the risks and ongoing discussions;
- Evaluating the procedures adopted by the internal legal department for the control and assessment of the processes in all procedural levels, and the basis for the judgment of estimates of losses and prognosis adopted considering the information and better understanding available, supported by external legal counselors;
- Evaluating the appropriate disclosure in the notes to the financial statements in accordance with Brazilian accounting practices and the IFRS issued by IASB.

### **Audit response**

Our audit procedures included, among others:

- Accompanying the development and progress of these investigations with Company's representation on the matter;
- Evaluating the Company's internal control regarding payments, as well as examining documents by sampling;
- Representation of the Company's internal legal advisors on the context and extension of the involvement of the investigated individuals and related companies.

### **Relevant components in the consolidation of the financial statements**

The consolidated financial statements are prepared in accordance with Brazilian accounting practices and the IFRS issued by IASB and some relevant and significant controlled companies are audited by other independent auditors.

### **Audit response**

The audit procedures followed by the group auditors included communication with the component auditors of the controlled companies in order to discuss the identified audit risks, the focus, scope and time of the work. We have issued audit instructions and reviewed the working papers discussing the results found. Regarding the identified key audit matters, we have discussed with the component auditors and evaluated their impact on the Company's financial statements.

### **Other matters**

#### **Statements of value added**

The individual and consolidated statements of value added, prepared under the responsibility of the Company's management for the year ended December 31, 2016, and presented as supplemental information for IFRS purposes, were submitted to the same audit procedures followed for the audit of the Company's financial statements. In order to form an opinion, we have checked whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether its form and contents meet the criteria established in Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, the statements of value added were properly prepared, in all material respects, in accordance with the criteria established in this Technical Pronouncement and are consistent with the individual and consolidated financial statements taken as a whole.

### **Other information accompanying the individual and consolidated financial statements and auditor's report**

The Company's management is responsible for the other information that comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of audit conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the individual and consolidated financial statements**

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with Brazilian accounting practices and with IFRSs, issued by IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its controlled companies or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's responsibilities for the audit of the individual and consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian standards and ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian standards and ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its controlled companies' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its controlled companies' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its controlled companies to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

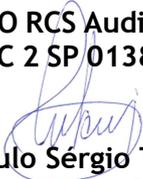
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

São Paulo, March 13, 2017.



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

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

JBS S.A.

**Statements of financial position**  
**In thousands of Brazilian Reais - R\$**

	Note	Company		Consolidated	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	4	4,712,796	11,257,943	9,355,622	18,843,988
Trade accounts receivable	5	2,767,655	3,435,691	9,589,185	12,119,662
Inventories	6	1,673,501	2,128,993	9,608,474	11,109,744
Biological assets	7	-	-	2,673,113	2,873,447
Recoverable taxes	8	698,885	1,409,696	1,677,791	2,874,987
Derivative assets	30	-	84,779	38,250	737,891
Other current assets		369,246	298,476	977,370	1,250,319
<b>TOTAL CURRENT ASSETS</b>		<b>10,222,083</b>	<b>18,615,578</b>	<b>33,919,805</b>	<b>49,810,038</b>
<b>NON-CURRENT ASSETS</b>					
Biological assets	7	-	-	977,040	1,100,353
Recoverable taxes	8	2,948,627	789,505	4,718,535	1,558,612
Related party receivables	9	5,231,553	4,897,835	1,315,526	1,968,043
Investments in associates, subsidiaries and joint ventures	10	16,334,231	19,534,850	362,627	354,134
Property, plant and equipment	11	11,475,628	11,693,038	33,110,891	35,381,110
Deferred income taxes	21	-	-	454,117	-
Intangible assets	12	46,494	467,540	5,012,095	6,892,534
Goodwill	13	9,085,970	9,085,970	21,916,694	24,411,441
Other non-current assets		455,627	478,827	1,028,433	1,026,702
<b>TOTAL NON-CURRENT ASSETS</b>		<b>45,578,130</b>	<b>46,947,565</b>	<b>68,895,958</b>	<b>72,692,929</b>
<b>TOTAL ASSETS</b>		<b>55,800,213</b>	<b>65,563,143</b>	<b>102,815,763</b>	<b>122,502,967</b>

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

**JBS S.A.**
**Statements of financial position  
In thousands of Brazilian Reais - R\$**

	Note	Company		Consolidated	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>LIABILITIES AND EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Trade accounts payable	14	2,050,265	2,448,362	10,716,987	12,421,018
Loans and financing	15	12,281,028	14,791,919	18,148,818	20,906,613
Accrued income taxes and other taxes	17	165,030	102,665	500,930	843,919
Accrued payroll and social charges	18	412,296	387,426	2,595,381	2,891,953
Dividends payable	19	90,503	1,103,308	90,503	1,103,308
Other financial liabilities	20	7,659	445,164	161,114	901,916
Derivative liabilities	30	-	-	133,125	-
Other current liabilities		684,898	1,026,780	1,001,766	1,068,740
<b>TOTAL CURRENT LIABILITIES</b>		<b>15,691,679</b>	<b>20,305,624</b>	<b>33,348,624</b>	<b>40,137,467</b>
<b>NON-CURRENT LIABILITIES</b>					
Loans and financing	15	14,021,384	14,951,523	38,111,596	44,976,113
Accrued income taxes and other taxes	17	71,841	117,913	228,752	297,138
Accrued payroll and social charges	18	-	-	437,218	597,699
Other financial liabilities	20	31,427	37,950	102,145	233,855
Deferred income taxes	21	1,935,493	1,893,861	3,828,080	4,310,495
Provisions	22	222,407	197,100	1,245,239	1,533,100
Other non-current liabilities		54,657	29,929	599,482	795,722
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>16,337,209</b>	<b>17,228,276</b>	<b>44,552,512</b>	<b>52,744,122</b>
<b>EQUITY</b>					
Share capital - common shares	23	23,576,206	23,576,206	23,576,206	23,576,206
Capital reserve		(1,743,893)	(791,230)	(1,743,893)	(791,230)
Other reserves		73,516	81,066	73,516	81,066
Profit reserves		5,045,937	4,756,937	5,045,937	4,756,937
Other comprehensive income		(3,180,441)	406,264	(3,180,441)	406,264
<b>Attributable to company shareholders</b>		<b>23,771,325</b>	<b>28,029,243</b>	<b>23,771,325</b>	<b>28,029,243</b>
<b>Attributable to non-controlling interest</b>		<b>-</b>	<b>-</b>	<b>1,143,302</b>	<b>1,592,135</b>
<b>TOTAL EQUITY</b>		<b>23,771,325</b>	<b>28,029,243</b>	<b>24,914,627</b>	<b>29,621,378</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>55,800,213</b>	<b>65,563,143</b>	<b>102,815,763</b>	<b>122,502,967</b>

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

**JBS S.A.**
**Statements of income (loss) for the years ended December 31, 2016 and 2015**  
**In thousands of Brazilian Reais - R\$**

	Note	Company		Consolidated	
		2016	2015	2016	2015
<b>NET REVENUE</b>	24	<b>27,725,781</b>	<b>28,890,356</b>	<b>170,380,526</b>	<b>162,914,526</b>
Cost of sales	28	<u>(22,072,243)</u>	<u>(22,903,929)</u>	<u>(149,066,700)</u>	<u>(140,324,213)</u>
<b>GROSS PROFIT</b>		<b>5,653,538</b>	<b>5,986,427</b>	<b>21,313,826</b>	<b>22,590,313</b>
General and administrative expenses	28	<u>(2,034,632)</u>	<u>(1,539,863)</u>	<u>(4,861,262)</u>	<u>(4,025,330)</u>
Selling expenses	28	<u>(2,680,590)</u>	<u>(3,093,130)</u>	<u>(9,849,683)</u>	<u>(9,377,895)</u>
Other expense		<u>(9,646)</u>	<u>(23,679)</u>	<u>(65,492)</u>	<u>(66,726)</u>
Other income		<u>15,210</u>	<u>-</u>	<u>192,797</u>	<u>-</u>
<b>OPERATING EXPENSE</b>		<b>(4,709,658)</b>	<b>(4,656,672)</b>	<b>(14,583,640)</b>	<b>(13,469,951)</b>
<b>OPERATING PROFIT</b>		<b>943,880</b>	<b>1,329,755</b>	<b>6,730,186</b>	<b>9,120,362</b>
Finance income	25	<u>4,559,611</u>	<u>10,891,555</u>	<u>4,477,128</u>	<u>11,573,979</u>
Finance expense	25	<u>(8,045,297)</u>	<u>(10,382,585)</u>	<u>(10,788,437)</u>	<u>(12,874,595)</u>
		<u>(3,485,686)</u>	<u>508,970</u>	<u>(6,311,309)</u>	<u>(1,300,616)</u>
Share of profit of equity-accounted investees, net of tax	10	<u>2,065,708</u>	<u>3,498,037</u>	<u>17,503</u>	<u>58,935</u>
<b>PROFIT (LOSS) BEFORE TAXES</b>		<b>(476,098)</b>	<b>5,336,762</b>	<b>436,380</b>	<b>7,878,681</b>
Current income taxes	21	<u>943,794</u>	<u>(55,992)</u>	<u>(286,818)</u>	<u>(2,979,735)</u>
Deferred income taxes	21	<u>(91,723)</u>	<u>(640,656)</u>	<u>557,936</u>	<u>229,701</u>
		<u>852,071</u>	<u>(696,648)</u>	<u>271,118</u>	<u>(2,750,034)</u>
<b>NET INCOME</b>		<b>375,973</b>	<b>4,640,114</b>	<b>707,498</b>	<b>5,128,647</b>
<b>ATTRIBUTABLE TO:</b>					
Company shareholders				<u>375,973</u>	<u>4,640,114</u>
Non-controlling interest				<u>331,525</u>	<u>488,533</u>
				<u>707,498</u>	<u>5,128,647</u>
<b>Basic earnings per share - common shares (R\$)</b>	26	<b>0.14</b>	1.60	<b>0.14</b>	1.60
<b>Diluted earnings per share - common shares (R\$)</b>	26	<b>0.14</b>	1.60	<b>0.14</b>	1.60

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

JBS S.A.

Statements of comprehensive income for the years ended December 31, 2016 and 2015  
In thousands of Brazilian Reais - R\$

	Reference	Company		Consolidated	
		2016	2015	2016	2015
Net income	SCSE	375,973	4,640,114	707,498	5,128,647
<b>Other comprehensive income (loss)</b>					
<b>Items that may be subsequently reclassified to profit or loss:</b>					
Foreign currency translation adjustments	SCSE	(3,586,705)	2,009,306	(3,844,326)	2,675,752
<b>Total other comprehensive income (loss)</b>		<b>(3,586,705)</b>	<b>2,009,306</b>	<b>(3,844,326)</b>	<b>2,675,752</b>
<b>Comprehensive income (loss)</b>		<b>(3,210,732)</b>	<b>6,649,420</b>	<b>(3,136,828)</b>	<b>7,804,399</b>
<b>Total comprehensive income (loss) attributable to:</b>					
Company shareholders	IS	(3,210,732)	6,649,420	(3,210,732)	6,649,420
Non-controlling interest	IS	-	-	73,904	1,154,979
		<b>(3,210,732)</b>	<b>6,649,420</b>	<b>(3,136,828)</b>	<b>7,804,399</b>

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



**JBS S.A.**  
**Statements of changes in equity for the years ended December 31, 2016 and 2015**  
**In thousands of Brazilian Reals - R\$**

Note	Capital reserves						Profit reserves		Other comprehensive income		Retained earnings (loss)	Total	Non-controlling interest	Total equity
	Share capital	Premium on issue of shares	Capital transaction	Stocks option	Treasury shares	Other reserves	Legal	Investments statutory	VAE <sup>(1)</sup>	ATA <sup>(2)</sup>				
<b>December 31, 2014</b>	<b>21,506,247</b>	<b>211,879</b>	<b>90,338</b>	<b>914</b>	<b>(451,700)</b>	<b>87,877</b>	<b>191,855</b>	<b>4,069,960</b>	<b>101,658</b>	<b>(1,704,700)</b>	-	<b>24,104,328</b>	<b>1,768,702</b>	<b>25,873,030</b>
Net income	-	-	-	-	-	-	-	-	-	-	4,640,114	<b>4,640,114</b>	488,533	<b>5,128,647</b>
Comprehensive income	-	-	-	-	-	-	-	-	103,918	1,905,388	-	<b>2,009,306</b>	666,446	<b>2,675,752</b>
<b>Total comprehensive income (loss)</b>	-	-	-	-	-	-	-	-	<b>103,918</b>	<b>1,905,388</b>	<b>4,640,114</b>	<b>6,649,420</b>	<b>1,154,979</b>	<b>7,804,399</b>
Acquisition of non-controlling interest without a change in control	23	-	8,795	-	-	-	-	-	-	-	-	<b>8,795</b>	-	<b>8,795</b>
Purchase of treasury shares	23	-	-	-	(1,432,670)	-	-	-	-	-	-	<b>(1,432,670)</b>	-	<b>(1,432,670)</b>
Sale of treasury shares	23	-	-	-	982	-	-	-	-	-	-	<b>982</b>	-	<b>982</b>
Cancellation treasury shares	23	-	-	-	979,817	-	-	(979,817)	-	-	-	-	-	-
Stock option exercise	23	-	-	9,348	-	-	-	-	-	-	-	<b>9,348</b>	-	<b>9,348</b>
Share-based compensation	23	-	-	31,951	-	-	-	-	-	-	-	<b>31,951</b>	7,789	<b>39,740</b>
Realization other reserves	23	-	-	-	-	(6,811)	-	-	-	-	6,811	-	-	-
Proposed dividends	19	-	-	-	-	-	-	-	-	-	(1,102,027)	<b>(1,102,027)</b>	-	<b>(1,102,027)</b>
Legal reserve	23	-	-	-	-	-	232,006	-	-	-	(232,006)	-	-	-
Investments statutory	23	-	-	-	-	-	-	3,312,892	-	-	(3,312,892)	-	-	-
Capitalization of reserve	23	2,069,959	-	-	-	-	-	(2,069,959)	-	-	-	-	-	-
PPC share repurchase	-	-	(240,884)	-	-	-	-	-	-	-	-	<b>(240,884)</b>	(104,177)	<b>(345,061)</b>
PPC dividend to non-controlling interest	19	-	-	-	-	-	-	-	-	-	-	-	(1,235,158)	<b>(1,235,158)</b>
<b>DECEMBER 31, 2015</b>	<b>23,576,206</b>	<b>211,879</b>	<b>(141,751)</b>	<b>42,213</b>	<b>(903,571)</b>	<b>81,066</b>	<b>423,861</b>	<b>4,333,076</b>	<b>205,576</b>	<b>200,688</b>	-	<b>28,029,243</b>	<b>1,592,135</b>	<b>29,621,378</b>
Net income	-	-	-	-	-	-	-	-	-	-	375,973	<b>375,973</b>	331,525	<b>707,498</b>
Comprehensive income (loss)	-	-	-	-	-	-	-	-	(8,507)	(3,578,198)	-	<b>(3,586,705)</b>	(257,621)	<b>(3,844,326)</b>
<b>Total comprehensive income (loss)</b>	-	-	-	-	-	-	-	-	<b>(8,507)</b>	<b>(3,578,198)</b>	<b>375,973</b>	<b>(3,210,732)</b>	<b>73,904</b>	<b>(3,136,828)</b>
Purchase of treasury shares	23	-	-	-	(821,139)	-	-	-	-	-	-	<b>(821,139)</b>	-	<b>(821,139)</b>
Stock option exercise	23	-	-	3,311	-	-	-	-	-	-	-	<b>3,311</b>	-	<b>3,311</b>
Share-based compensation	23	-	16,145	122,696	-	-	-	-	-	-	-	<b>138,841</b>	4,457	<b>143,298</b>
Treasury shares used in stock option plan	23	-	-	(93,799)	99,200	-	-	(5,401)	-	-	-	-	-	-
Realization other reserves	23	-	-	-	-	(7,550)	-	-	-	-	7,550	-	-	-
Declared dividends	19	-	-	-	-	-	-	-	-	-	(89,352)	<b>(89,352)</b>	-	<b>(89,352)</b>
Reversal of dividends	19	-	-	-	-	-	-	-	-	-	230	<b>230</b>	-	<b>230</b>
Legal reserve	23	-	-	-	-	-	18,800	-	-	-	(18,800)	-	-	-
Investments statutory	23	-	-	-	-	-	-	275,601	-	-	(275,601)	-	-	-
Partial acquisition of a business	3	-	-	-	-	-	-	-	-	-	-	-	132,946	<b>132,946</b>
PPC share repurchase	-	-	(279,077)	-	-	-	-	-	-	-	-	<b>(279,077)</b>	(117,051)	<b>(396,128)</b>
Capital contribution to PPC by non-controlling interest holders	23	-	-	-	-	-	-	-	-	-	-	-	25,310	<b>25,310</b>
Dividend to non-controlling interest	19	-	-	-	-	-	-	-	-	-	-	-	(575,180)	<b>(575,180)</b>
Others	-	-	-	-	-	-	-	-	-	-	-	-	6,781	<b>6,781</b>
<b>DECEMBER 31, 2016</b>	<b>23,576,206</b>	<b>211,879</b>	<b>(404,683)</b>	<b>74,421</b>	<b>(1,625,510)</b>	<b>73,516</b>	<b>442,661</b>	<b>4,603,276</b>	<b>197,069</b>	<b>(3,377,510)</b>	-	<b>23,771,325</b>	<b>1,143,302</b>	<b>24,914,627</b>

<sup>(1)</sup> Valuation adjustments to equity;

<sup>(2)</sup> Accumulated translation adjustments and exchange variation in subsidiaries.

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



**JBS S.A.**  
**Statements of cash flows for the years ended December 31, 2016 and 2015**  
**In thousands of Brazilian Reais - R\$**

	Notes	Company		Consolidated	
		2016	2015	2016	2015
<b>Cash flows from operating activities</b>					
Net income		375,973	4,640,114	707,498	5,128,647
<b>Adjustments for:</b>					
Depreciation and amortization	7, 11 and 12	696,880	663,728	4,500,595	3,692,830
Allowance for doubtful accounts	5	7,196	26,377	19,197	20,851
Share of profit of equity-accounted investees	10	(2,065,708)	(3,498,037)	(17,503)	(58,935)
Gain (loss) on assets sales		(12,411)	23,592	(101,945)	(25,823)
Tax expense	21	(852,071)	696,648	(271,118)	2,750,034
Finance expense (income), net	25	3,485,686	(508,970)	6,311,309	1,300,616
Share-based compensation	23	122,696	31,951	143,298	39,740
Provisions	22	25,308	18,674	25,265	(23,752)
Impairment of intangible assets	12	452,578	-	452,578	-
		<u>2,236,127</u>	<u>2,094,077</u>	<u>11,769,174</u>	<u>12,824,208</u>
<b>Changes in assets and liabilities:</b>					
Trade accounts receivable		(594,308)	310,823	(225,966)	1,046,543
Inventories		455,905	288,615	184,650	405,551
Recoverable taxes		(554,651)	(99,492)	(1,161,583)	(307,594)
Other current and non-current assets		(44,201)	(28,689)	62,670	(396,038)
Biological assets		-	-	(1,347,654)	(1,272,239)
Trade accounts payable		(328,741)	772,778	61,752	1,370,183
Other current and non-current liabilities		(454,066)	653,431	(533,206)	(581,385)
<b>Changes in operating assets and liabilities</b>		<u>(1,520,062)</u>	<u>1,897,466</u>	<u>(2,959,337)</u>	<u>265,021</u>
Interest paid		(1,850,264)	(2,654,681)	(4,118,055)	(4,144,834)
Interest received	25	1,313,607	1,237,109	518,359	970,690
Income taxes paid		-	-	(1,542,746)	(2,530,300)
<b>Net cash provided by operating activities</b>		<u>179,408</u>	<u>2,573,971</u>	<u>3,667,395</u>	<u>7,384,785</u>
<b>Cash flow from investing activities</b>					
Purchases of property, plant and equipment	11	(497,298)	(1,829,996)	(3,648,974)	(5,637,894)
Purchases of intangible assets	12	-	-	(142,355)	(65,845)
Proceeds from sale of property, plant and equipment	11	59,774	44,506	287,891	509,959
Proceeds from sale or redemption of investment securities		-	-	-	1,271,422
Additional investments in associates, joint-ventures and subsidiaries	10	(483,214)	(2,073,066)	-	-
Working capital adjustment of acquired company	3	-	-	30,165	-
Acquisitions, net of cash acquired	3	-	-	(482,538)	(15,472,133)
Dividends received		989,986	-	-	-
Related party transactions	9	247,687	(3,085,327)	403,692	(1,380,683)
Other		(37,736)	-	12,722	19,233
<b>Net cash provided by (used in) investing activities</b>		<u>279,199</u>	<u>(6,943,883)</u>	<u>(3,539,397)</u>	<u>(20,755,941)</u>
<b>Cash flow from financing activities</b>					
Proceeds from loans and financings	15	14,355,999	14,250,931	29,254,938	46,945,857
Payments of loans and financings	15	(13,299,704)	(15,511,704)	(28,509,382)	(37,943,363)
Derivatives received	30	-	9,289,777	-	9,639,339
Derivatives paid	30	(6,087,716)	-	(5,983,200)	-
Dividends paid	19	(1,102,158)	(482,732)	(1,102,158)	(482,732)
Dividends paid to non-controlling interest	19	-	-	(575,180)	(1,235,158)
Stock option exercise		3,311	9,348	3,311	9,348
Purchase of treasury shares PPC		-	-	(396,128)	(345,061)
Sale of treasury shares PPC		-	-	25,310	-
Purchase of treasury shares	23	(821,139)	(1,432,670)	(821,139)	(1,432,670)
Proceeds from sale of treasury shares	23	-	982	-	982
Others		-	-	6,781	8,795
<b>Net cash provided by (used in) financing activities</b>		<u>(6,951,407)</u>	<u>6,123,932</u>	<u>(8,096,847)</u>	<u>15,165,337</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>					
		(52,347)	-	(1,519,517)	2,139,380
Net change in cash and cash equivalents		(6,545,147)	1,754,020	(9,488,366)	3,933,561
Cash and cash equivalents beginning of period		11,257,943	9,503,923	18,843,988	14,910,427
<b>Cash and cash equivalents at the end of period</b>		<u>4,712,796</u>	<u>11,257,943</u>	<u>9,355,622</u>	<u>18,843,988</u>

**Non-cash transactions:**

	Notes	Company		Consolidated	
		2016	2015	2016	2015
Increase in subsidiaries' investments through assumption of credit	10	-	(1,837,888)	-	-
Decrease in subsidiaries' investments through assumption of credit	10	<b>651,586</b>	-	-	-
Negative investment transference		<b>(195,004)</b>	-	-	-
Subsidiary's net assets incorporation		<b>23,336</b>	-	-	-
Contingent liability from Moy Park	20	-	430,000	-	430,000
Treasury shares cancellation	23	-	(979,817)	-	(979,817)
Dividends declared but not paid	19	<b>(89,352)</b>	(1,102,027)	<b>(89,352)</b>	(1,102,027)
Capitalization of reserve	23	-	(2,069,959)	-	(2,069,959)

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

**JBS S.A.**
**Economic value added for the year ended December 31, 2016 and 2015  
In thousands of Brazilian Reais - R\$**

	Company		Consolidated	
	2016	2015	2016	2015
<b>Revenue</b>				
Sales of goods and services	29,079,823	30,517,762	173,107,165	165,724,096
Other income (expenses), net	19,006	(10,838)	161,980	(56,422)
Allowance for doubtful accounts	(7,196)	(26,377)	(19,197)	(20,851)
	<b>29,091,633</b>	<b>30,480,547</b>	<b>173,249,948</b>	<b>165,646,823</b>
<b>Goods</b>				
Cost of services and goods sold	(19,912,464)	(19,297,109)	(112,678,245)	(107,020,334)
Materials, energy, services from third parties and others	(3,484,103)	(3,880,939)	(25,691,355)	(24,248,994)
Loss / Recovery of assets	(452,578)	-	(452,578)	-
Others	-	-	(28,479)	(469)
	<b>(23,849,145)</b>	<b>(23,178,048)</b>	<b>(138,850,657)</b>	<b>(131,269,797)</b>
<b>Gross added value</b>	<b>5,242,488</b>	<b>7,302,499</b>	<b>34,399,291</b>	<b>34,377,026</b>
<b>Depreciation and Amortization</b>	<b>(696,880)</b>	<b>(663,728)</b>	<b>(4,500,595)</b>	<b>(3,692,830)</b>
<b>Net added value generated</b>	<b>4,545,608</b>	<b>6,638,771</b>	<b>29,898,696</b>	<b>30,684,196</b>
<b>Net added value by transfer</b>				
Equity in earnings of subsidiaries	2,065,708	3,498,037	17,503	58,935
Financial income	4,559,611	13,791,228	4,477,128	19,900,062
Others	(15,177)	(28,813)	15,588	(172,451)
<b>NET ADDED VALUE TOTAL TO DISTRIBUTION</b>	<b>11,155,750</b>	<b>23,899,223</b>	<b>34,408,915</b>	<b>50,470,742</b>
<b>DISTRIBUTION OF ADDED VALUE</b>				
<b>Labor</b>				
Salaries	1,962,719	2,556,092	16,293,358	13,997,920
Benefits	285,673	168,199	2,947,854	2,487,582
FGTS (Brazilian Labor Social Charge)	117,462	96,778	259,199	234,230
	<b>2,365,854</b>	<b>2,821,069</b>	<b>19,500,411</b>	<b>16,719,732</b>
<b>Taxes and contribution</b>				
Federal	(991,519)	1,170,216	131,208	3,712,101
State	1,237,827	1,894,510	1,949,350	2,601,278
Municipal	16,828	14,434	41,616	25,117
	<b>263,136</b>	<b>3,079,160</b>	<b>2,122,174</b>	<b>6,338,496</b>
<b>Capital Remuneration from third parties</b>				
Interests and exchange variation	7,912,423	13,188,827	10,509,663	21,001,386
Rents	120,849	105,482	732,480	587,156
Others	117,515	64,571	836,689	695,325
	<b>8,150,787</b>	<b>13,358,880</b>	<b>12,078,832</b>	<b>22,283,867</b>
<b>Owned capital remuneration</b>				
Dividends	89,352	1,102,027	89,352	1,102,027
Net income attributable to company shareholders	286,621	3,538,087	286,621	3,538,087
Non-controlling interest	-	-	331,525	488,533
	<b>375,973</b>	<b>4,640,114</b>	<b>707,498</b>	<b>5,128,647</b>
<b>ADDED VALUE TOTAL DISTRIBUTED</b>	<b>11,155,750</b>	<b>23,899,223</b>	<b>34,408,915</b>	<b>50,470,742</b>

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

**JBS S.A.**

Notes to the financial statements for the years ended December 31, 2016 and 2015  
(Expressed in thousands of Brazilian reais)

**1 Operating activities**

JBS S.A ("JBS" or the "Company"), is a company listed on the "Novo Mercado" segment of the São Paulo Stock Exchange (BM&FBOVESPA S.A. - *Bolsa de Valores, Mercadorias & Futuros*) under the ticker symbol "JBSS3". JBS also trades its American Depository Receipts over the counter under the symbol "JBSAY". The Company's registered office is Avenue Marginal Direita do Tietê, 500, Vila Jaguara, São Paulo, Brazil.

The issuance of these consolidated financial statements was authorized by the Board of Directors on March 13th, 2017.

The Company and its subsidiaries ("Company" or "Consolidated") is the world's largest company in processing animal protein as measured by total revenue.

The financial statements presented herein include the Company's individual operations in Brazil as well as the activities of its subsidiaries. Below is a summary of the Company's main operating activities by entity and geographic location, as well as ownership percentage as of December 31, 2016 and December 31, 2015.

**Company**

Description	Activities	Units	State
JBS S.A. (JBS, Company)	<ul style="list-style-type: none"> <li>- Beef processing: slaughter, cold storage and production of canned and beef by-products.</li> <li>- Leather production, processing and commercialization.</li> <li>- Production and commercialization of steel cans, plastic resin, soap base for production, soap bar, biodiesel, glycerin, fatty acid, collagen and wrapper derived from cattle tripe; management of industrial residue; soybeans purchase and sale, tallow, palm oil, caustic soda, stearin, transportation services, dog biscuits, direct sales to customers of beef and related items by stores named "Mercado da Carne"; production, cogeneration and commercialization of electric power.</li> <li>- Distribution centers and harbors.</li> </ul>	86	AC, AM, BA, CE, ES, GO, MA, MG, MS, MT, PA, PE, PR, RJ, RO, RS, SC, SP, TO

**Consolidated: Main activities in Brazil**

Description	Activities	Units	State	Participation	December 31, 2016	December 31, 2015
Seara Alimentos Ltda. (Seara Alimentos)	<ul style="list-style-type: none"> <li>- Chicken and pork processing: raising, slaughtering and processing of broiler chickens and hogs; production and commercialization of beef and food products; and production of pet food and concentrates.</li> <li>- Distribution centers and harbors.</li> </ul>	54	BA, CE, DF, MG, MS, MT, PE, PR, RJ, RN, RS, SC and SP	Direct	100%	100%
Meat Snacks Partners do Brasil Ltda (Meat Snacks)	<ul style="list-style-type: none"> <li>- Beef Jerky production.</li> </ul>	2	SP	Indirect	50%	50%
Enersea Comercializadora de Energia Ltda. (Enersea)	<ul style="list-style-type: none"> <li>- Commercialization of electric power.</li> </ul>	2	SC and SP	Direct	99.99%	99.99%
JBS Confinamento Ltda. (JBS Confinamento)	<ul style="list-style-type: none"> <li>- Cattle fattening services.</li> </ul>	7	SP, GO, MS, MT	Direct	100%	100%
Brazservice Wet Leather S.A (Brazservice)	<ul style="list-style-type: none"> <li>- Production, processing and commercialization of wet blue leather.</li> </ul>	1	MT	Direct	100%	100%

**Consolidated: Main activities outside of Brazil**

Description	Activities	Units	Country	Participation	December 31, 2016	December 31, 2015
JBS USA Holding Lux, S.à.r.l. (JBS USA)	<ul style="list-style-type: none"> <li>- Beef, pork and lamb processing : slaughter, cold storage, production of by-products;</li> <li>- Chicken processing: raising, slaughtering and processing of broiler chickens, production and commercialization of products derived from processing operations;</li> <li>- Cattle fattening services;</li> <li>- Transportation services.</li> </ul>	214	Australia, Canada, Luxembourg, Mexico and United States of America	Indirect	100%	100%
JBS Argentina S.A. (JBS Argentina)	<ul style="list-style-type: none"> <li>- Beef processing; slaughter, cold storage and production of canned beef and beef by-products.</li> </ul>	3	Argentina	Direct	99.71%	99.71%
JBS Global UK, Friboi (JBS Global UK)	<ul style="list-style-type: none"> <li>- Trading fresh and processed beef, pork, lamb and chicken products.</li> </ul>	1	United Kingdom	Indirect	100%	100%
JBS Toledo NV (Toledo)	<ul style="list-style-type: none"> <li>- Trading operations for the European market; cooked frozen meat commercialization; logistic operations; warehousing; customization and new products development.</li> </ul>	1	Belgium	Indirect	100%	100%
JBS Paraguay S.A (JBS Paraguay)	<ul style="list-style-type: none"> <li>- Beef processing.</li> </ul>	2	Paraguay	Indirect	100%	100%
Frigorífico Canelones S.A (Canelones)	<ul style="list-style-type: none"> <li>- Beef processing.</li> </ul>	1	Uruguay	Indirect	100%	100%
Rigamonti Salumificio SpA (Rigamonti)	<ul style="list-style-type: none"> <li>- Bresaola production and commercialization.</li> </ul>	3	Italy	Direct	100%	100%
Conceria Priante (Priante)	<ul style="list-style-type: none"> <li>- Semi-finished and finished leather production.</li> </ul>	4	Italy	Direct	100%	100%
JBS Leather International (Leather International)	<ul style="list-style-type: none"> <li>- Wet blue, semi-finished and finished leather production.</li> </ul>	18	Argentina, British Virgin Islands, Germany, Hong Kong, Netherlands, Paraguay and Uruguay	Direct	100%	100%

**JBS S.A.**

Notes to the financial statements for the years ended December 31, 2016 and 2015  
(Expressed in thousands of Brazilian reais)

**Consolidated: Main activities outside of Brazil**

Description	Activities	Units	Country	Participation	December 31, 2016	December 31, 2015
Seara Holding Europe B.V. (Seara Holding)	- Animal protein products trading.	4	Netherlands	Indirect	100%	100%
Moy Park Holdings (Europe) Limited (Moy Park)	- Production of fresh, high quality locally farmed poultry and convenience food products.	14	United Kingdom, France, Netherlands, Republic of Ireland.	Indirect	100%	100%

JBS Foods International (JBS FI): Incorporated in the Netherlands in November 2016. Currently, it has no operational activities and included on its statements of financial position is only costs and expenses inherent to the reorganization as announced to the market. After the reorganization occurs, JBS FI will hold all international business of JBS and Seara.

**2 Basis of preparation**

The consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil (BRGAAP), in compliance with the law of joint stock companies (Lei das sociedades por ações - Leis das SA's), pronouncements, interpretations and orientations issued by the Brazilian Accounting Pronouncements Committee (Comitê de Pronunciamentos Contábeis) - CPC and requirements of the Brazilian Securities Commission - CVM and with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB). The accounting practices adopted in Brazil require the disclosure of the Economic Value Added (Demonstração do Valor Adicionado - DVA), individual and consolidated, while the IFRS rules do not require its disclosure. As a consequence, due to IFRS rules, DVA is disclosed as supplementary information, without any loss to these consolidated financial statements. The Company individual financial statements are identified as "Company" and the consolidated financial statements are identified as "Consolidated".

The presentation of our financial condition and results of operation requires that certain judgments and estimates be made regarding the effects of matters that are inherently uncertain and that impact the carrying value of assets and liabilities. Significant assets and liabilities that are subject to these estimates include the useful life of the property, plant and equipment, estimated fair value and value in-use of long-lived assets, allowance for doubtful accounts, inventories, deferred income taxes, provisions for tax, civil, and labor liabilities, determining the fair value of financial instruments (assets and liabilities) and other similar estimates. The settlement of a transaction involving these estimates may result in values that are different from those estimated. Certain of our accounting policies require higher degrees of judgment than others in their application. Actual results may differ from those estimated depending upon the variables, assumptions or conditions used by management.

Significant accounting policies related to property plant and equipment, inventory, revenue recognition, reportable segments and borrowings are described within the primary footnotes of the consolidated financial statements.

In order to provide an understanding regarding how our management forms its judgments about future events, including the variables and assumptions underlying the estimates and the sensitivity of those judgments to different variables and conditions, certain of our critical accounting policies are discussed below:

**a. Accounting for business combinations and impairment of goodwill and intangible assets**

We have made acquisitions that generated a significant amount of goodwill and intangible assets, with both indefinite and finite lives, including the 2015 acquisitions of Primo, Cargill and Moy Park, among others as described in Note 3.

According to International Financial Reporting Standards (IFRS) 3 "Business Combinations", the excess of the acquisition price, the amount of any non-controlling interest in the acquiree (when applicable), and the fair value, at the acquisition date, of any previous equity interest in the acquiree over the fair value of the net identifiable asset acquired at that date is recorded as goodwill. The acquisition price consists of cash paid, the fair value of equity issued and the fair value of contingent consideration. IFRS 3 does not permit that goodwill and intangible assets with indefinite useful lives be amortized however they should be tested at least annually for impairment at December 31.

Management uses judgment to identify tangible and intangible assets and liabilities, valuing such assets and liabilities, and in determining their remaining useful lives. The valuation of these assets and liabilities is based on the assumptions and criteria which include in some cases estimates of future cash flows discounted at the appropriate rates. The use of different assumptions used for valuation purposes, including estimates of future cash flows or discount rates, may result in differences in the estimates of the value of assets acquired and liabilities assumed.

Assets and liabilities are initially recorded at our best estimate of fair value. We generally engage third party valuation firms to assist in valuing the acquired assets and liabilities. When third parties are involved in developing these estimates, management evaluates the appropriateness of the significant inputs and assumptions used in the valuation estimates, which often involves an iterative process with the third party appraisers. We also evaluate the qualifications and reputation of the third party appraisers and assess the reasonableness of the overall fair value measurements through comparison to other acquisitions. Through this process, we obtain sufficient information to ascertain that the valuation methodologies used comply with IFRS 13 "Fair Value Measurement".

The estimates of the fair value of assets acquired and liabilities assumed 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 the facts and circumstances existing at the acquisition date which, if known, would have affected the amounts recognized on that date. These adjustments are infrequent and have historically not been material.

For impairment testing, assets are grouped together into the group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

CGUs are tested for impairment annually or whenever events and circumstances indicate that the recoverable amount of the CGU is less than its carrying amount. CGU groups containing goodwill are tested for impairment annually and whenever events and circumstances indicate that the recoverable amount may be less than the carrying amount. The recoverable amount is the higher of fair value less cost to sell or value in-use. The Company first estimates the value in-use of the CGUs and if it is lower than the carrying amount, the Company will estimate the fair value less cost to sell. During the years ended December 31, 2016 and 2015, our estimates of the CGU groups' value in-use exceeded their carrying amounts and therefore estimates of fair value less cost to sell were not determined. Our estimates of value in-use contain uncertainties due to judgment in assumptions, including revenue growth, costs and expenses, capital expenditures, working capital and discount rates as described in Note 13.

**b. Biological Assets**

Management uses estimates and judgments in determining the fair value of live assets, poultry, hogs and cattle that include to market prices, average lifecycle growth, as well as the laying and reproduction profile. Biological assets are generally carried at cost unless an active market exists. Market prices for cattle and hogs are based on the Company's knowledge of a limited market for transactions at various points of the consumable and bearer assets' lifecycle. Biological assets are described in Note 7.

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**c. Deferred and Current Income Taxes**

We recognize deferred tax effects of tax loss carry forwards and cumulative temporary differences between the financial statement carrying amounts and the tax basis of our assets and liabilities. We estimate our income taxes based on regulations in the various jurisdictions where we conduct business. This requires us to estimate our actual current tax exposure and to assess temporary differences that result from different treatment of certain items for tax and accounting purposes.

A portion of the tax benefit corresponding to the tax losses carried forward may not be recorded as an asset, as Management cannot determine whether realization is probable. Tax losses and negative bases of social contribution in Brazil have no expiration date, however, the annual offset in Brazil is limited to 30% of pretax income. The carryforward periods for other jurisdictions are limited to 10 to 20 years.

We regularly review the deferred tax assets for recoverability and will only recognize if we believe that it is probable that there will be sufficient taxable profit based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. We reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available. Deferred and Current Income taxes are described in Note 21.

**d. Provisions**

The preparation of our consolidated financial statements requires management to make estimates and assumptions regarding civil, labor and tax matters which affect the valuation of assets and liabilities at the date of the financial statements, as well as the revenues and expenses during the reported period. In particular, given the uncertain nature of Brazilian tax legislation, the assessment of potential tax liabilities requires significant management judgment.

We are subject to lawsuits, investigations and other claims related to employment, environmental, product, taxes and other matters. We are required to assess the likelihood of any adverse judgments or outcomes, as well as the amount of probable losses, for these matters.

Provisions are recorded when losses are considered to be probable and the amount can be reliably measured. No provision is recorded if the risk of loss is assessed to be reasonably possible but not probable. Reasonably possible losses are disclosed in the notes to these financial statements. If the risk of loss is assessed as remote, no provision or disclosure is necessary. We discuss our material provisions in Note 22 to our financial statements.

**e. Financial Instruments**

Financial instruments are recorded only as of the date we become a party to the relevant instrument. The financial asset or liability is initially recorded at its fair value, plus any costs of the transaction that are directly attributable to the acquisition or issue of the financial assets or liability. The subsequent measurement of financial instruments occurs as of each reporting date in accordance with the rules set forth depending on the nature of the relevant financial assets and liabilities, which are classified as follows: (1) fair value through profit or loss; (2) loans and receivables; (3) liabilities at amortized cost; and (4) derivative financial instruments. We have not designated any of our derivative instruments as cash flow hedges and therefore all fair value adjustments have been recorded in profit and loss for all periods presented.

**Non-derivative financial assets at fair value through profit or loss:** Financial assets are carried at their fair value if they are 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 the Company's documented risk management and investment strategy. 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 as finance income or expense of the period. The financial instruments classified in this category are "financial investments".

**Loans and receivables:** Loans granted 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 relevant 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 at banks, trade accounts receivable and related party receivables.

**Liabilities at amortized cost:** The Company records debt securities and subordinated debt on the date on which they originated. Financial liabilities are derecognized when its contractual obligations are cancelled or expired. The Company has the following non-derivative financial liabilities: loans and financing, trade accounts payable, debts with related parties, dividends payable, other financial liabilities and other payables.

**Derivative financial instruments and hedge activities:** In accordance with the Group's risk management policy, the Company purchases or sells financial derivative instruments in order to minimize the risk of loss from exposures to fluctuations in foreign exchange rates, interest rates, commodity prices, and other market variability, which can affect the valuation of current and non-current assets and liabilities, future cash flow and profit. These financial instruments are recognized after the Company becomes a party to the contractual provisions of the instruments. Derivatives are initially measured at fair value and any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes thereafter are recognized in profit or loss. The fair value of derivative instruments is calculated by the Company's treasury department, based on information regarding each contracted transaction and market information on the reporting dates such as interest rates and exchange rates. The fair values of commodity future contracts are calculated based on daily settlements as a result of changes in market prices of future contracts and commodities. The fair value of swap contracts are obtained by calculating independently the present value of the asset and liability legs. The future prices used to calculate the curve of derivative contracts were drawn from the Bloomberg database. Cash settlements from derivative transactions are classified in the statement of cash flows and fair value adjustments are presented in the statement of income consistent with the nature of the derivative instrument. The majority of gains and losses for all years presented relate to the Company's prior practice of entering into derivative contracts to protect the Company against devaluation of the Brazilian real, and have been recorded as a component of finance income (expense) as shown in Note 25.

Along with non-derivative financial assets and non-derivative financial liabilities, derivative assets and derivative liabilities are offset and the net amount is presented in the statement of financial position when the Company has a legally enforceable right to offset the amounts and intends to settle them on a net basis or realize the asset and liability simultaneously. If these criteria are not met, the financial instruments are presented on a gross basis in the statement of financial position. Derivative assets and liabilities, by type of contract, are presented in Note 30 in our consolidated financial statements.

**f. Foreign currency translation****Functional and representation currency**

The functional currency of a company is the local currency within the primary economic environment in which it operates. These consolidated financial statements are presented in Brazilian Reals (R\$), which is the Company's presentation and functional currency. All financial information is presented in thousands of reais, except when otherwise indicated.

Transactions in foreign currencies other than a Company's functional currency are initially measured in the respective functional currencies of each entity using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are remeasured at the closing exchange rate on the statement of financial position. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income, under the caption "Finance income" or "Finance expense".



**Group companies with a different functional currency**

The consolidated financial statements of the subsidiaries located abroad are prepared using each subsidiary's respective functional currency. The results and financial position of all entities with a functional currency different from its immediate parent's functional currency and the Group's presentation currency (R\$) are translated into the parent's functional and Group's presentation currency as follows:

- i. assets and liabilities are translated at the current rate at the date of each closing period;
- ii. income and expenses are translated at the monthly average rate; and
- iii. all resulting exchange differences are recognized in accumulated other comprehensive income (loss), and are presented in the statement of comprehensive income (loss) as foreign currency translation adjustments with in equity.

**g. Individual financial statements**

The individual financial statements presents the evaluation of investments in associates, subsidiaries and joint ventures by the equity method. In order to reach the same income statement and equity attributable to company shareholders in the individual and consolidated financial statements, the same adjustments of accounting practice upon the adoption of IFRS and CPCs, were done on both financial statements. The carrying value of these investments includes the breakdown of acquisition costs and goodwill.

**h. Consolidated financial statements and investments in associates and joint ventures**

The Company consolidates all majority-owned subsidiaries. The Company controls a non-majority owned entity when it is exposed or has the right to variable return resulting with its involvement with the entity and it has the ability to affect those through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date at which control is transferred to the Group. Consolidation is discontinued from the date that control ceases.

Investments in associates and joint ventures are recorded by the equity method. An associate is an entity over which the Company has significant influence but does not exercise control. Joint ventures are all entities over which the Company shares control with one or more parties.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the Group. Intercompany transactions, balances, income and expenses transactions between group companies are eliminated in consolidation.

The non-controlling interest represents the portion of consolidated subsidiaries not owned by the Group and is presented in the consolidated financial statements as a part of shareholder's equity, and the net income (loss) attributable to non-controlling interest is presented in the statement of income.

When the Company acquires or disposes of shares of an entity that it already controls, any gains or losses resulting from the difference between the amount paid or received and the carrying amount of the non-controlling interest on a per share basis is kept at shareholder's equity in the caption of "Capital transactions".

**i. Present value adjustment in assets and liabilities**

When relevant assets and liabilities are adjusted to present value, considering the following assumptions for the calculation: i) the amount to be discounted; ii) the dates of realization and settlement; and iii) the discount rate.

**j. New standards, amendments and interpretations that are not yet effective**

The following new standards have been issued by IASB but are not effective for 2016.

IFRS 9 "Financial instruments" addresses the classification and measurement of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and the hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018 and early adoption is permitted. The Company is currently assessing the standard's full impact.

IFRS 15, "Revenue from Contracts with Customers", replaces IAS 11, "Construction Contracts", IAS 18, "Revenue" and related interpretations and introduces the principles to be applied by an entity to measure and recognize revenue. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a full retrospective and modified retrospective approach for the adoption. Under the modified retrospective approach entities will recognize transitional adjustments in retained earnings on the date of initial application (January 1, 2018), without restating the comparative period. Companies will only need to apply the new rules to contracts that are not completed as of the date of initial application. The effective date is January 1, 2018. In certain regions, the Company has commenced with identifying and cataloging the various types of revenue transactions to which we are a party. The Company will continue to evaluate the impact of adopting IFRS on our consolidated financial statements and have not yet selected a transition approach to implement the standard. The Company will not early adopt.

IFRS 16 "Leases": This standard supersedes the existing standard on leasing, IAS 17 - Leases, and related interpretations, and establishes the principles for the recognition, measurement, presentation and disclosure on leasing for both parties to a contract, in other words, clients (lessee) and suppliers (lessor). Lessees are required to recognize a lease liability reflecting the present fair value of future payments on the lease and a "right to use an asset" for almost all leases contracts, excepting some short-term leases and contracts of assets of a small amount. For lessors the accounting treatment remains almost unchanged, with the classification of leases as operational or financial leases. The standard is effective as of January 1, 2019. The adoption of IFRS 16 will have a material impact on the Company's consolidated financial statements as a result of the requirement to record the right to use asset and lease liability for leases currently classified as operating leases. The Company has not defined the transition method that will be used, but has determined that it will not early adopt IFRS 16.

Under the International Accounting Standards Board's disclosure initiative, amendments were made to IAS 7 "Statement of Cash Flows" that are effective for periods beginning after January 1, 2017. The amendments require disclosures that enable users of the financial statements to evaluate changes from liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities in the 2017 interim and annual consolidated financial statements.

There are no other accounting standards that are not yet effective that would be expected to have a material impact on the Company's financial statements.

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**3 Business Combination**

The Company applies the acquisition method to account for business combinations with entities not under common control. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the cash or equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from contingent consideration. Generally all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values as of the acquisition date. The group recognizes any non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

Goodwill is initially measured as the excess of the consideration transferred and the fair value of any non-controlling interest in the acquiree (when applicable), and the fair value at the acquisition date of any previous equity interest in the acquisition, over the fair value of net assets acquired. When the consideration is less than the fair value of the net assets acquired, the gain is recognized directly in the statement of income of the period as 'Bargain gain'.

The Company, and the acquiring subsidiaries as indicated below, entered into the following business combinations during the years ending December 31, 2015. There were no significant business combinations for the year ended December 31, 2016.

Acquired company	Acquiring subsidiary	% of voting interests acquired	Background and rationale for the acquisition	Goodwill tax deductible	Date of acquisition
AMSE02 Holding Ltda. (Big Frango)	JBS Aves (Seara Alimentos subsidiary)	100%	- Vertically integrated poultry business based in Rolândia, Brazil; - Production capacity of 8 million birds per month in its plant; - Big Frango's acquisition further strengthens Seara Alimentos' strategic position in the Brazilian chicken market.	No <sup>(1)</sup>	February 2015
Australian Consolidated Food Holdings Pty. Limited (Primo)	JBS Australia	100%	- Leading producer of ham, bacon and small goods in Australia and New Zealand; - Primo acquisition allows JBS Australia to expand its pork operations as well as entry into the consumer ready and value-added markets.	No	March 2015
Provemex Holding LLC (Tyson Mexico)	Pilgrim's Pride Corporation	100%	- Vertically integrated poultry business based in Gomez Palacio, Durango, Mexico; - Production capacity of three million birds per week in its three plants and employs more than 4,500 people in its plants, offices and seven distribution centers; - Tyson Mexico acquisition further strengthens PPC's strategic position in the Mexican poultry market.	No	June 2015
Moy Park Holdings Europe Ltd. (Moy Park)	JBS S.A.	100%	- Leader in high value added poultry categories and a reference in the development and innovation of poultry food products; - Its customer base includes the main retailers and foodservice chains in UK and Continental Europe; - Moy Park's acquisition makes JBS the largest poultry processor in the world as measured by total revenue.	No <sup>(1)</sup>	September 2015
Cargill Inc.'s U.S. pork business (Cargill)	Swift Pork	100%	- Acquisition of two pork processing plants, five feed mills and four hog farms; - Cargill pork acquisition strengthens Swift Pork's strategic position in the U.S. and enables expansion into hog production.	Yes	October 2015
FRS S/A Agroavícola Industrial (FRS)	JBS Aves (Seara Alimentos subsidiary)	100%	- Vertically integrated poultry business based in Porto Alegre, Brazil; - Production capacity of 21 million birds per month in its plants; - FRS acquisition further strengthens Seara' strategic position in the Brazilian poultry market.	No <sup>(1)</sup>	December 2015

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The assets acquired and liabilities assumed in the business combinations noted above were have been measured at their fair values at as set forth below:

FAIR VALUE	Acquisitions in 2015					
	Big Frango	Primo	Tyson Mexico	Cargill	Moy Park <sup>(3)</sup>	FRS
Cash and cash equivalents	18,746	15,167	17,173	-	732,196	636
Trade accounts receivable	76,402	356,662	74,999	310,457	373,530	-
Inventories	32,077	365,959	103,943	271,365	490,479	1,078
Biological assets	42,483	-	107,437	637,558	311,434	-
Other assets	143,906	51,675	11,340	13,240	375,842	53,151
Property, plant and equipment	227,802	1,048,631	648,875	1,036,000	1,449,205	593,749
Intangible	156,318	551,696	81,943	911,618	2,164,568	101,045
<b>ASSETS</b>	<b>697,734</b>	<b>2,389,790</b>	<b>1,045,710</b>	<b>3,180,238</b>	<b>5,897,254</b>	<b>749,659</b>
Trade accounts payable	148,286	364,089	66,861	259,027	1,128,709	41,476
Loans and financings	553,345	-	-	-	1,877,720	-
Other liabilities	282,568	133,010	29,962	81,862	786,694	838,359
Current and deferred taxes	89,353	4,555	162,502	-	323,439	199,482
Non-controlling interest	-	-	-	-	(4,480)	-
<b>LIABILITIES</b>	<b>1,073,552</b>	<b>501,654</b>	<b>259,325</b>	<b>340,889</b>	<b>4,112,082</b>	<b>1,079,317</b>
<b>Net assets and liabilities</b>	<b>(375,818)</b>	<b>1,888,136</b>	<b>786,385</b>	<b>2,839,349</b>	<b>1,785,172</b>	<b>(329,658)</b>
Acquisition price <sup>(2)</sup>	30,000	3,834,603	1,176,093	5,463,096	5,602,378	436,898
<b>Goodwill</b>	<b>405,818</b>	<b>1,946,467</b>	<b>389,708</b>	<b>2,623,747</b>	<b>3,817,206</b>	<b>766,556</b>

The individual net revenue and net income from the acquisition date through each period end for all business combinations are presented below:

Company	Net revenue		Net income (loss)	
	2016	2015	2016	2015
Big Frango	1,497,657	1,040,296	67,736	190,362
Primo	3,776,394	2,903,436	46,696	22,654
Tyson Mexico	493,617	843,883	(119)	45,642
Cargill	10,123,867	1,006,791	589,365	41,977
Moy Park	6,822,727	1,925,773	144,740	68,377
FRS	19,363	n/a	(567)	n/a

During the year ended December 31, 2016, we recorded adjustments in the Tyson Mexico, Cargill and FRS acquisitions based upon final fair value assessments. These adjustments are comprised of changes in fair value of property, plant and equipment, goodwill and deferred tax liability. Due to immateriality, these adjustments have not been retrospectively applied. The adjustments in the aggregate consisted of an increase in property, plant and equipment of R\$259,696, a decrease in a trademark intangible of R\$120,288, an increase in deferred tax liability of R\$27,571, which resulted in a decrease to goodwill of R\$111,837. Also during the year ended December 31, 2016, the Company received R\$30,165 as a result of the finalization of a working capital adjustment related to the 2015 acquisition of Cargill. This amount has been recorded as a reduction of goodwill.

**Pro-forma information:**

Net sales and net income for the Company is presented below on a pro-forma basis assuming the acquisitions occurred at the beginning of the year of each acquisition:

	2016	2015
Pro-forma net revenue	n/a	180,759,061
Pro-forma net income (loss)	n/a	7,956,447

This pro-forma financial information is presented for informational purposes only and does not purport to represent what the Company's results of operations would have been had it completed the acquisition on the date assumed, nor is it necessarily indicative of the results that may be expected in future periods.

**Other transactions:**

As set forth below, the Company completed other non-material acquisitions. The excess of the purchase price over the fair values of the net tangible assets and identifiable intangible assets was recorded as goodwill.

Company	Date of acquisition	% of voting interests acquired	Acquisition price <sup>(2)</sup>	Goodwill	Goodwill deductible for tax
Conceria Priante S.p.A	March 2015	100%	39,529	16,509	Yes
Knox International Trading Co Pty Limited	June 2015	100%	7,810	18,579	No
Seara Norte Alimentos Ltda.	July 2015	100%	71,987	26,606	No <sup>(1)</sup>
Scott Technology Limited	April 2016	50.1%	124,229	105,294	No

<sup>(1)</sup> - **Criteria for goodwill deductibility in Brazil:** All goodwill generated in these business combinations in Brazil is eligible to be deducted for tax purposes, but it becomes effectively tax deductible only after a legal merger between the parent company and the acquired company occurs. Therefore, up until the merger is consummated, the goodwill is not deductible for tax purposes. The Company intends to take all necessary steps in order to cause the goodwill arising from these acquisitions to be tax deductible in the future.

<sup>(2)</sup> - **Acquisition price:** Acquisitions were paid with cash and cash equivalents.

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<sup>(3)</sup> - **Moy Park:** Moy Park's acquisition purchase price, after the earn-out agreement, includes the fair value of contingent consideration of R\$430,000 which was fully paid in September 30, 2016.

**Subsequent events**

On January, 2017, the Company's indirect subsidiary PPC acquired 100% of the membership interest of JFC LLC and its subsidiaries (together, GNP) for a cash purchase of R\$1,1 billion (US\$350 million) subject to customary working capital adjustments. GNP is a vertically integrated poultry business based in the state of Minnesota, United States of America. The acquired business has a production capacity of 2.1 million birds per five-day work week in its three plants and currently employs 1,755 people. The plants are located in geographic areas where PPC is not currently present, providing PPC the opportunity to expand its production and customer bases. This acquisition further strengthens the Company's strategic position in the U.S chicken market. Data included in these consolidated financial statements does not include any data related to GNP.

At a meeting held on March 13, 2017, the Board of Directors of JBS S.A. resolved to authorize JBS USA, a subsidiary of the Company, to acquire all of the shares of Plumrose USA, Inc. ("Plumrose"), with assets located in several states of the United States, consisting of 5 prepared foods facilities and 2 distribution centers. Plumrose offers an array of prepared foods and high value added products including bacon, hams, sliced deli meats and cooked ribs, sold under well-known brands. The price for the acquisition is approximately R\$750 million (US\$230 million). The acquisition of Plumrose is a continuation of JBS' strategy of expanding its portfolio of branded, high value added prepared foods, and strengthens its customer base and geographical distribution in the United States.

**4 Cash and cash equivalents**

Cash and cash equivalents include cash on hand and at banks as well as financial investments with original maturities of three months or less. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an immaterial risk of changes in fair value. Cash and cash equivalents is comprised of the following:

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Cash and banks	2,024,404	6,244,789	5,608,922	10,776,155
CDB (bank certificates of deposit)	2,654,365	1,584,422	3,712,673	4,285,299
Money market funds	-	-	-	353,802
National treasury bills - Tesouro Selic	34,027	3,428,732	34,027	3,428,732
	<b>4,712,796</b>	<b>11,257,943</b>	<b>9,355,622</b>	<b>18,843,988</b>

The Brazilian bank certificates of deposit – CDB are held at high quality financial institutions and earn interest based on floating rates that approximate the overnight interbank lending rate (Certificado de Depósito Interbancário).

Brazilian national treasury bills, also known as Tesouro Selic, are bonds purchased from financial institutions having conditions and characteristics that are similar to CDB's.

**5 Trade accounts receivable, net**

Trade accounts receivable correspond to amounts owed by customers in the ordinary course of business. If the receivable is due within one year or less the account receivable is classified as a current asset, otherwise the receivable is classified as a non-current asset. Accounts receivable are presented at amortized cost less any impairment. Accounts receivable denominated in currencies other than the entities' functional currency are remeasured using the exchange rate in effect at the end of the reporting period. The age of accounts receivable along with the allowance for doubtful accounts and present value adjustment are as follows at December 31, 2016 and 2015:

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Current receivables	2,438,141	3,107,119	8,415,098	9,950,459
Overdue receivables:				
From 1 to 30 days	167,629	248,610	791,597	1,475,312
From 31 to 60 days	179,443	105,701	270,548	456,220
From 61 to 90 days	31,686	50,348	97,132	192,307
Above 90 days	75,693	54,230	267,754	355,789
Allowance for doubtful accounts	(119,859)	(114,962)	(238,084)	(266,733)
Present value adjustment	(5,078)	(15,355)	(14,860)	(43,692)
	<b>329,514</b>	<b>328,572</b>	<b>1,174,087</b>	<b>2,169,203</b>
	<b>2,767,655</b>	<b>3,435,691</b>	<b>9,589,185</b>	<b>12,119,662</b>

The diversity of the trade accounts receivable portfolio significantly reduces our exposure to credit risk. To further mitigate our risk, parameters have been put in place when credit is provided to customers such as requiring minimum financial ratios, analyzing the operational health of customers, and reviewing references from credit monitoring entities.

The allowance for doubtful accounts is estimated based on an analysis of the age of the receivable balances. An allowance is recorded for long standing and overdue receivables, considering the probability of loss based on historical experience. The resulting bad debt expense is recognized in the statement of income within "Selling Expenses". Below are the changes in the allowance for doubtful accounts:

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>Initial balance</b>	(114,962)	(88,585)	(266,733)	(192,367)
Additions	(13,148)	(26,377)	(30,985)	(60,989)
Exchange variation	-	-	19,459	(16,888)
Write-offs	8,251	-	40,175	3,511
<b>Final balance</b>	<b>(119,859)</b>	<b>(114,962)</b>	<b>(238,084)</b>	<b>(266,733)</b>

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Notes to the financial statements for the years ended December 31, 2016 and 2015  
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**6 Inventories**

Inventories are stated at the lower of the average cost of acquisition or production and the net realizable value. The cost of inventory is based on the first-in, first-out principle. In the case of finished products and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Biological assets are transferred into inventory at the point of slaughter based on their carrying amounts, which is either historical cost or market value depending on the Company's accounting policies described in Note 7.

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Finished products	953,077	1,365,859	5,741,792	6,786,778
Work in process	379,173	416,961	810,131	1,079,250
Raw materials	166,132	197,684	1,376,927	1,449,727
Warehouse spare parts	175,119	148,489	1,679,624	1,793,989
	<b>1,673,501</b>	<b>2,128,993</b>	<b>9,608,474</b>	<b>11,109,744</b>

**7 Biological assets**

The Company's live animals consist of cattle, chickens and hogs and segregated into consumables and bearer assets. Animals for slaughter are designated for "in natura" meat production and/or processed and by-products, and until they reach the appropriate weight for slaughter they are classified as immature. The slaughtering and production processes occur in a very short period of time and, as a consequence, only live animals transferred to slaughter are classified as mature. The animals designated for production (breeder chickens and hogs), are those which are intended to produce other biological assets. Until they reach the age of reproduction they are classified as immature and when they are able to start the reproductive cycle are classified as mature.

**Chicken and eggs:**

**Current (consumable)** - are broiler chickens that will be slaughtered upon maturity. Broiler chickens remain in development for a period of 30 to 48 days to produce fresh meat and/or commercialized products. Due to the broilers short development period, it is not possible to measure fair value reliably and therefore broilers are accounted for at acquisition cost plus the costs incurred during development, which generally consists of feed and grower costs.

**Non-current (bearer assets)** - are breeder chickens that are set aside for breeding and have an estimated useful life of 68 weeks. The animals in this category are segregated between mature, when they are in the breeding stage and immature when they are under development.

The costs associated breeder chickens are accumulated up to the production stage (immature) and amortized over their productive lives based on an estimate of their capacity to produce eggs (mature). There is no active market for breeder chickens. Amortization of the mature hen is included in cost of sales in the statement of income.

**Cattle:**

**Current (consumable)** - are owned cattle in feedlots and grass-fed cattle which remains under development for 90 to 120 days. Cattle are carried at market value due to the existence of active markets. The gain or loss in fair value of cattle is recognized in the statement of income in the period in which it occurs as a reduction of (or increase in) gross revenue.

**Hogs and lambs:**

**Current (consumable)** - are hogs and lambs that will be slaughtered upon maturity. Hogs and lambs remain in development for a period of 170 to 175 days to produce fresh meat and/or industrialized products. The carrying value of these hog biological assets in Brazil is approximated by its acquisition cost plus costs incurred during the maturing period. In the U.S., an active market for live hogs exists and therefore these hog biological assets are carried at market value less costs to finish.

**Non-current (bearer assets)** - Refers to hogs that are intended for breeding which have an estimated useful life of 28 months. The costs associated with breeder hogs are accumulated up to the production stage and amortized over their productive lives based on an estimate of their capacity to produce new assets (hogs). There is no active market for breeder hogs. Amortization of breeder hogs is included in cost of sales in the statement of income.

The fair value measurement of biological assets are categorized as 'Level 2' within the fair value hierarchy. Refer to Note 30 for information on fair value hierarchy.

Current biological assets (consumable):	Consolidated			
	December 31, 2016		December 31, 2015	
	Amount	Quantity (thousands)	Amount	Quantity (thousands)
<b>Carried at cost:</b>				
Chicken	1,418,111	537,603	1,639,042	548,226
Hogs	621,229	2,815	530,848	2,542
Lambs	-	-	23,628	29
	<b>2,039,340</b>	<b>540,418</b>	<b>2,193,518</b>	<b>550,797</b>
<b>Carried at market value:</b>				
Hogs	583,522	1,852	612,351	1,802
Cattle	50,251	19	67,578	22
	<b>633,773</b>	<b>1,871</b>	<b>679,929</b>	<b>1,824</b>
<b>Total current:</b>				
Chicken	1,418,111	537,603	1,639,042	548,226
Hogs	1,204,751	4,667	1,143,199	4,344
Cattle	50,251	19	67,578	22
Lambs	-	-	23,628	29
	<b>2,673,113</b>	<b>542,289</b>	<b>2,873,447</b>	<b>552,621</b>

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Non-current biological assets (bearer assets):	Consolidated			
	December 31, 2016		December 31, 2015	
	Amount	Quantity (thousands)	Amount	Quantity (thousands)
<b>Carried at cost:</b>				
Mature chickens (breeding stage), net of amortization	421,583	20,427	401,555	19,057
Immature chickens (in development)	382,429	15,684	510,077	16,499
Hogs	173,028	399	188,721	369
<b>Total non-current:</b>	<b>977,040</b>	<b>36,510</b>	<b>1,100,353</b>	<b>35,925</b>
<b>Total of biological assets:</b>	<b>3,650,153</b>	<b>578,799</b>	<b>3,973,800</b>	<b>588,546</b>
<b>Changes in biological assets:</b>			<b>Current</b>	<b>Non-current</b>
<b>Balance at December 31, 2015</b>			<b>2,873,447</b>	<b>1,100,353</b>
Increase by reproduction (born) and cost to reach maturity			23,296,843	1,630,635
Reduction for slaughter, sale or consumption			(26,917,454)	(244,211)
Increase by purchase			2,967,124	646,663
Decrease by death			(33,688)	(17,786)
Fair value adjustments, net			19,528	-
Changes from non-current to current			830,401	(830,401)
Exchange rate variation			(363,088)	(160,272)
Amortization			-	(1,147,941)
<b>Balance at December 31, 2016</b>			<b>2,673,113</b>	<b>977,040</b>
<b>Changes in biological assets:</b>			<b>Current</b>	<b>Non-current</b>
<b>Balance at December 31, 2014</b>			<b>1,567,866</b>	<b>633,689</b>
Increase by reproduction (born) and cost to reach maturity			20,521,966	1,387,641
Reduction for slaughter, sale or consumption			(22,456,918)	(150,175)
Increase by purchase			1,465,658	495,259
Decrease by death			(40,071)	(8,342)
Fair value adjustments, net			21,308	-
Changes from non-current to current			606,639	(606,639)
Exchange rate variation			321,483	42,170
Amortization			-	(967,579)
Acquired in business combinations			865,516	274,329
<b>Balance at December 31, 2015</b>			<b>2,873,447</b>	<b>1,100,353</b>

**8 Recoverable taxes**

Recoverable taxes as of December 31, 2016 and 2015 was comprised of the following:

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Value-added tax on sales and services - ICMS	1,020,792	935,612	2,462,189	2,212,951
Excise tax - IPI	36,883	35,401	113,981	111,932
Social contribution on billings - PIS and COFINS	1,193,325	891,230	1,972,962	1,517,128
Withholding income tax - IRRF/IRPJ	1,363,354	303,182	1,722,394	456,788
Reintegra	15,557	20,045	50,535	49,002
Other	17,601	13,731	74,265	85,798
	<b>3,647,512</b>	<b>2,199,201</b>	<b>6,396,326</b>	<b>4,433,599</b>
Current	698,885	1,409,696	1,677,791	2,874,987
Non-current	2,948,627	789,505	4,718,535	1,558,612
	<b>3,647,512</b>	<b>2,199,201</b>	<b>6,396,326</b>	<b>4,433,599</b>

**Value-added tax on sales and services - ICMS:** Refers to excess credits derived from purchases of raw materials, packaging and other materials over tax charges due on domestic sales. The Company carries a substantial balance of ICMS recoverable taxes in Brazil since exports are not subject to the tax. The Company expects to recover the total amount of the tax credit, including Brazilian ICMS credits from other states (based on the difference between the statutory rate of tax and the effective rate for ICMS collection in the state of origin) either through the use of the credits to offset tax charges on domestic sales or the credits can be used to pay purchases of fixed assets, packaging, electricity, and other vendors. These excess credits do not expire.

**Excise tax - IPI:** Refers to value added taxes incurred upon the production of foreign and domestic goods in Brazil. The rates may differ according to the type of product, volume or selling price. These credits do not expire and can be used to pay other federal taxes or reimbursed in cash.

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**Social contribution on billings - PIS and COFINS:** Refers to Brazilian federal value added taxes (non-cumulative PIS and COFINS credits) arising from purchases of raw materials, packaging and other materials used in products sold in markets outside of Brazil. Such taxes are recovered through domestic sales in Brazil (as export sales are exempt from such taxes) and can be offset against other federal taxes, such as income taxes. These excess credits from federal social contribution on billings do not expire.

**Withholding income tax - IRRF/IRPJ:** Refers mainly to Brazilian withholding income tax levied on short-term investments, deductions and remaining foreign tax credits and prepayments of income tax and social contribution paid by estimate, which can be offset against income tax payable in each jurisdiction. R\$198,696 relates to withholding income taxes and R\$1,164,658 relates to prepayment of income taxes in foreign jurisdictions.

**Reintegration of the Special Tax Values - Reintegra:** Refers to tax incentives for exports. Tax credit amounts are calculated by multiplying the statutory rate by gross revenue from the export of certain commercial products. The tax credit is refundable and therefore the Company expects to recover such tax credits in cash.

**9 Related parties transactions**

The main balances of assets and liabilities, as well as the transactions resulting in income (loss) for any period, that relate to transactions between related parties or arose from transactions at prices and conditions established between the related parties. Transference of costs includes borrowing costs, interest and management fee, when applicable. Below is presented the current balance of such transactions:

COMPANY	Currency	Maturity	Costs transfer (administrative and funding)	Statement of financial position accounts		Effect on net income	
				December 31, 2016	December 31, 2015	2016	2015
<b>Direct subsidiaries</b>							
Seara Alimentos	R\$	01/01/2018	Corresponds to CDI + 1% p.m.	<b>3,120,338</b>	1,380,125	<b>520,805</b>	158,047
JBS Embalagens Metálicas	R\$	01/01/2018	Corresponds to CDI + 1% p.m.	<b>145,109</b>	116,895	<b>28,023</b>	21,533
JBS Confinamento	R\$	01/01/2018	Corresponds to CDI + 1% p.m.	<b>128,899</b>	68,491	<b>15,928</b>	10,478
Brazservice	R\$	01/01/2018	Corresponds to CDI + 1% p.m.	<b>79,883</b>	19,443	<b>11,724</b>	4,103
Tannery	R\$	09/01/2016	Corresponds to CDI + 1% p.m.	-	41,824	<b>3,083</b>	7,538
Enersea	R\$	01/01/2018	Corresponds to CDI + 1% p.m.	-	-	<b>240</b>	-
JBS Holding GMBH <sup>(1)</sup>	EUR	-	-	-	435,291	-	-
JBS Global Meat	R\$	-	-	-	52,328	-	-
JBS HU	US\$	02/28/2018	2,25% p.y.	<b>(2,827)</b>	-	<b>(33)</b>	-
JBS Global Investments	US\$	03/13/2017	-	<b>(28,443)</b>	677,439	-	-
<b>Indirect subsidiaries</b>							
JBS Aves	R\$	01/01/2018	Corresponds to CDI + 1% p.m.	<b>1,882,114</b>	2,181,770	<b>391,163</b>	394,011
Zenda	US\$	09/11/2017	2,5% p.y.	<b>21,601</b>	25,897	<b>456</b>	117
JBS USA	US\$	03/25/2016	Corresponds to Libor + 2.5% to 3% p.y.	-	-	-	(4,776)
Frigorífico Canelones	US\$	05/08/2017	3,5% p.y.	<b>(32,876)</b>	-	<b>(276)</b>	-
Itaholb	EUR	-	-	<b>(82,245)</b>	(101,668)	-	-
				<b>5,231,553</b>	<b>4,897,835</b>	<b>971,113</b>	<b>591,051</b>

<sup>(1)</sup> - JBS Holding GMBH - Partially settled through a remittance and dividends distribution, according to note 10 - Investments in associates, subsidiaries and joint ventures.

Additional information among the transactions between related parties are pointed such as the purchase of cattle for slaughter between JBS and its subsidiary JBS Confinamento and the sale of finished products to "trading companies" JBS Global (UK), Toledo, and Sampco and of leather in different stages to the subsidiaries Trump Asia and Priante. Such transactions are made at regular price and market conditions in their region because it takes the market prices applied with third parties clients. The number of cattle supplied by JBS Confinamento is irrelevant comparing to the volume demanded by JBS, same as the volume of exported through our tradings products over the volume of its exports.

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Following, are demonstrated all commercial transactions between related parties recognized in the individual financial statement:

COMPANY	Accounts receivable		Accounts payable		Purchases/Services rendered		Sale of products/Services rendered	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	2016	2015	2016	2015
<b>Direct subsidiaries</b>								
JBS Confinamento	340	380	12,518	26,753	223,323	240,843	6,254	7,043
Priante	14,061	34,889	89	76	-	-	52,824	170,031
Brazservice	1,906	426	2,447	2,603	57,423	104,721	87,221	64,586
Tannery	-	130	-	7	150	58,095	-	44,697
Seara Alimentos	13,972	13,651	128,800	273,125	286,123	373,104	237,336	184,938
Enersea	-	-	49	-	117,039	45,922	49,307	28,492
Rigamonti	-	-	-	11	-	-	-	1,633
JBS Argentina	-	-	-	-	14,607	13,548	-	-
<b>Indirect subsidiaries</b>								
JBS Global UK	33,716	63,036	-	41	-	-	248,074	272,884
JBS Australia Pty	-	-	938	297	16,166	35,678	-	-
Toledo	23,089	75,832	-	-	-	-	250,388	323,310
JBS Aves	1,573	1,727	139,727	359,017	335,236	672,888	69,092	61,495
Weddel	3,151	8,378	-	-	-	-	41,649	19,420
Sampco	57,701	54,435	-	-	20	-	394,171	410,848
JBS Leather Europe	-	-	-	2	-	-	-	-
Meat Snacks Partners	2,933	2,443	113	251	5,025	4,292	291,550	211,278
Frigorífico Canelones	-	-	745	-	5,782	9,508	-	-
Capital Joy	-	-	162	-	162	-	-	-
Trump Asia	33,182	74,602	155	-	31	84	331,360	327,753
JBS Paraguay	514	291	3,326	2,384	73,017	92,345	2,445	533
Zenda	12,071	6,013	380	1,145	6,131	2,002	46,201	37,956
Braslo Produtos de Carnes	13,590	10,761	-	-	-	972	195,055	181,878
Excelsior	4	13	-	-	-	-	80	59
JBS Chile	-	148	28	-	-	-	2,425	624
Seara Norte	157	-	-	-	-	-	1,936	-
JBS USA	3,391	-	-	-	-	-	6,357	788
Agrícola Jandelle	1,455	264	42,674	-	117,275	2,963	16,665	4,947
Avebom	-	23	-	87,441	-	99,285	-	124
Macedo	553	1,053	508	6,499	8,043	16,016	11,148	7,213
Sul Valle	-	4	-	24,908	-	27,855	4	20
JBS Leather Paraguay	103	-	1,651	-	21,341	1,882	529	153
Moy Park	-	-	-	-	-	-	25,995	-
Seara Meats	727	-	-	-	-	-	5,970	-
<b>Other related parties</b>								
Vigor	203	7,499	96,194	293,857	110,433	856,441	63,099	69,267
Itambé	415	287	-	-	-	131,675	6,087	7,456
Alpargatas	-	-	-	-	3	-	26	-
J&F Floresta Agropecuária	39	6	4,183	5,354	41,623	35,200	412	356
JB&J Agropecuária	282	97	48,015	1,968	339,134	29,414	3,945	1,675
Flora Produtos	6,096	6,565	2	7	58	1,199	131,312	46,727
Flora Distribuidora	191	18,562	36	51	591	539	1,479	159,652
Eldorado Celulose	218	13,171	356	985	4,914	35,814	2,702	41,256
Banco Original	10	13	-	-	-	-	195	182
Canal Rural Produções	-	-	300	250	3,712	2,883	1	12
Dan Vigor Indústria e Com.	9,744	-	3,355	-	3,355	-	35,071	-
Instituto Germinare	3	-	25	24	5,427	8,570	13	-
J&F Investimentos	395	16	-	-	-	-	2,173	181
ZMF Participações LTDA	8	6	-	-	-	-	40	68
	<b>235,793</b>	<b>394,721</b>	<b>486,776</b>	<b>1,087,056</b>	<b>1,796,144</b>	<b>2,903,738</b>	<b>2,620,591</b>	<b>2,689,535</b>

**Financial transactions**

The Company and its subsidiaries entered into an agreement in which Banco Original with Banco Original (Related party) acquires trade accounts receivables held against certain of the Company's customers in the Brazilian market. The assignments are done at market value through a permanent transfer to Banco Original of the risks and benefits of all accounts receivable. At December 31, 2016 and 2015, the unpaid balance of transferred receivables was R\$765,585 and R\$506,049 in the Company, and R\$1,446,934 and R\$797,106 in the Consolidated, respectively. During the years ended December 31, 2016 and 2015, JBS incurred financial costs related to this operation the amount of R\$88,047 and R\$34,833 in the Company, and R\$155,573 and R\$39,407 in the Consolidated, recognized in the consolidated financial statements as financial expenses.

Additionally on December 31, 2016 and 2015, the Company holds investments with Banco Original, in the amount of R\$62,062 and R\$72,992 in the Company and R\$134,290 and R\$93,445 in the Consolidated, recognized under the caption "Cash and cash equivalents", respectively. These cash investments, bank certificates of deposit - CDB and equivalents,

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have similar earnings to CDI (Depósito Interbancário). In the years ended December 31, 2016 and 2015, the Company earned interest from these investments in the amount of R \$12,665 and R\$3,251 in the Company, and R\$16,656 and R\$3,387 in the Consolidated, recognized in the consolidated financial statements under the caption "Finance income".

Included in loans and financings are R\$16,873 and R\$41,591 at December 31, 2016 and 2015, respectively, of bank notes issued by BNDES (Brazilian Development Bank) to two of the Company's subsidiaries, Seara Alimentos and Macedo. Outstanding borrowings under these notes bear interest at an average rate of 3.67% at December 31, 2016, which is payable on a monthly basis. The notes are due in 2017 and 2019 and may be pre-paid at any time without penalty.

### Receivables from related parties consist of the following

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
J&F Oklahoma	1,315,526	1,968,043

This amount represents the result of the use of a credit facility between the indirect subsidiary JBS Five Rivers (subsidiary of JBS USA) and J&F Oklahoma (subsidiary of J&F Investimentos S.A., which is not consolidated in the Company). The credit facility provides J&F Oklahoma with the ability to borrow up to R\$2 billion (US\$675 million) from JBS Five Rivers for the purchase of cattle to be kept in the JBS Five Rivers feed yards where they are fattened until ready for slaughter. Outstanding borrowings under this credit facility bear interest at 3.4%, which is payable on a quarterly basis, or at the time of any repayment of principal and the credit facility matures December 31, 2019.

Further, JBS Five Rivers is the guarantor of a J&F Oklahoma revolving credit facility with financial institutions. The J&F Oklahoma credit line has total availability of R\$5 billion (US\$1.4 billion) and is guaranteed by the accounts receivable and inventories of J&F Oklahoma and also, by certain fixed assets, accounts receivable and inventories of JBS Five Rivers up to a value of US\$250 million. Additionally, in the case of a J&F Oklahoma default under the revolving credit facility and the event of default is not covered by J&F Oklahoma's collateral or a guarantee by J&F Oklahoma's parent, JBS Five Rivers will be responsible for up to R\$815 million (US\$250 million) of the secured loans. The guarantee has not been recorded on our consolidated statement of financial position as the fair value is deemed insignificant.

### Commercial transactions

JBS Five Rivers, JBS Australia and JBS Canada are party to commercial agreements with J&F Oklahoma, J&F Australia and J&F Canada, respectively, as follows:

- cattle supply and feeding agreement: where JBS takes provides cattle fattening services to J&F and J&F pays JBS for the medicinal and feeding costs, including a daily yardage charge in line with market terms. Under the agreements, J&F has agreed to maintain sufficient cattle on JBS-owned feedlots so they remain 75% full in the U.S., 80% full in Australia and 75% full in Canada. Risk of loss of the cattle remains with J&F;
- sale and purchase cattle agreement whereby JBS is required to purchase from J&F a certain volume of animals per year. The minimum purchase commitments under those agreements are: i) JBS USA commitment of at least 800,000 animals/year, with a term of 2009 to 2019, ii) JBS Australia commitment of at least 200,000 animals year, with a term of 2011 to 2019, and iii) JBS Canada commitment of at least 50,000 animals/year, with a term of 2013 to 2019. The cattle sale and purchase agreements also contain provisions to share in gains and losses incurred by J&F on its sale of cattle to JBS; and;
- incentive agreement whereby J&F Oklahoma pays JBS Five Rivers an annual amount based upon J&F Oklahoma's financial performance arising from the sale of cattle fed and raised by JBS Five Rivers.

During the years ended December 31, 2016 and 2015, the amounts received under the cattle supply and feeding agreements were R\$2,8 billion (US\$856.2 million) and R\$3,5 billion (US\$896.5 million) respectively, and amounts paid under the cattle sale and purchase agreements were R\$10 billion (US\$3.1 billion) and R\$14 billion (US\$3.5 billion), respectively.

No allowance for doubtful accounts or bad debts expenses relating to related-party transactions were recorded for the years ended December 31, 2016 and 2015.

### 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 for the years ended December 31, 2016 and 2015 is the following:

	<u>2016</u>	<u>2015</u>
Salaries and wages	9,327	8,968
Variable cash compensation	3,000	2,500
Share-based compensation	2,000	2,500
	<u>14,327</u>	<u>13,968</u>

The Institutional Relations Executive Officer, Administrative and Control Director and Investor Relations Director are parties to the Brazilian employment contract regime called CLT (which is the Consolidation of Labor Laws), which follows all the legal prerogatives of payments and benefits.

Except for those described above, the other members of the Executive Board, and Management Board are not party to any employment contract or any other contracts for additional business benefits such as postemployment benefits or other long-term benefits, termination of work that does not conform to those requested by the CLT.

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**10 Investments in associates, subsidiaries and joint ventures**

Relevant information for investments in the year ended December 31, 2016:

	Participation	Total assets	Share capital	Equity + Goodwill	Net revenue	Net income (loss)
<b>In subsidiaries:</b>						
JBS Embalagens Metálicas	99.00%	91,278	2	(58,799)	-	(27,225)
JBS Global Investments	100.00%	28,443	259,099	28,443	-	(26)
JBS Confinamento	100.00%	609,829	599,401	469,362	69,906	(36,529)
JBS Slovakia Holdings	100.00%	21,175	7,826	21,173	-	(1,216)
Conceria Priante	100.00%	298,555	13,203	9,453	158,099	(12,525)
JBS Holding GMBH	100.00%	916,678	120	593,381	1,408,254	70,886
JBS Global Luxembourg	100.00%	37,818,144	3,605,987	5,564,272	116,209,041	2,556,290
JBS Leather International	100.00%	869,263	67,136	(86,426)	993,967	(103,671)
Brazservice	100.00%	82,056	23,063	(32,171)	96,028	(28,117)
Seara Alimentos	100.00%	21,345,790	4,259,089	4,620,972	18,154,563	(391,150)
Moy Park	100.00%	4,180,275	981,632	3,912,517	6,822,727	144,739
Rigamonti	100.00%	150,524	7,841	95,731	374,201	4,981
Enersea	99.99%	838	1,275	215	301,974	(983)
JBS Argentina	99.71%	537,297	382,579	309,982	1,063,436	(76,490)
JBS Mendoza	99.93%	900	165	253	-	230
JBS HU Liquidity Management	100.00%	17,544	52	17,460	-	(133)
Midtown Participações	100.00%	285,063	294,993	285,063	-	(3,359)
Beef Snacks Brasil	100.00%	44,438	40,993	44,226	-	1,113
JBS Foods International	100.00%	13,602	-	(49,450)	-	(52,955)
<b>In associates:</b>						
Vigor Alimentos	19.43%	4,614,795	1,347,636	1,580,376	4,928,052	(26,231)
<b>In joint ventures:</b>						
Meat Snack Partners	50.00%	127,980	23,762	111,124	472,121	45,200

**JBS S.A.**

Notes to the financial statements for the years ended December 31, 2016 and 2015  
(Expressed in thousands of Brazilian reais)

**In the Company:**

	December 31, 2015	Addition (disposal)	Exchange rate variation	Equity in subsidiaries		December 31, 2016
				Equity in subsidiaries	Income statement	
JBS Embalagens Metálicas	(31,258)	-	-	-	(26,953)	(58,211)
JBS Global Investments	34,109	-	(5,640)	-	(26)	28,443
JBS Holding Internacional	577,354	(484,329)	-	(103,940)	10,915	-
JBS Confinamento	505,891	-	-	-	(36,529)	469,362
JBS Slovakia Holdings	47,535	(17,694)	(8,000)	548	(1,216)	21,173
Conceria Priante	30,490	-	(4,453)	(4,059)	(12,525)	9,453
JBS Holding GMBH <sup>(1)</sup>	1,392,027	(648,473)	(233,139)	12,080	70,886	593,381
JBS Global Luxembourg <sup>(2)</sup>	5,347,766	(964,367)	(1,042,237)	(333,180)	2,556,290	5,564,272
FG Holding III	65	(65)	-	-	-	-
Vigor Alimentos	312,162	-	-	-	(5,097)	307,065
JBS Leather International	78,573	-	(1,066)	(60,262)	(103,671)	(86,426)
Brazservice	(4,054)	-	-	-	(28,117)	(32,171)
Seara Alimentos	5,337,249	-	-	(325,129)	(391,148)	4,620,972
Tannery	(18,087)	22,227	-	(103)	(4,037)	-
Meat Snack Partners	41,972	(9,000)	(8,575)	8,565	22,600	55,562
Moy Park <sup>(3)</sup>	5,477,678	(47,858)	(1,679,204)	17,162	144,739	3,912,517
Rigamonti	112,857	-	(22,107)	-	4,981	95,731
Enersea	-	1,198	-	-	(983)	215
JBS Argentina	-	445,609	(59,795)	(463)	(76,268)	309,083
JBS Mendoza	-	66	(41)	(2)	230	253
JBS HU Liquidity Management <sup>(4)</sup>	-	17,693	(100)	-	(133)	17,460
Midtown Participações <sup>(5)</sup>	239,122	52,329	-	-	(6,388)	285,063
Beef Snacks Brasil <sup>(6)</sup>	-	43,113	-	-	1,113	44,226
JBS Foods International	-	-	3,505	-	(52,955)	(49,450)
<b>Subtotal</b>	<b>19,481,451</b>	<b>(1,589,551)</b>	<b>(3,060,852)</b>	<b>(788,783)</b>	<b>2,065,708</b>	<b>16,107,973</b>
Accrual for loss on investments (*)	53,399	-	-	-	-	226,258
<b>Total</b>	<b>19,534,850</b>					<b>16,334,231</b>

<sup>(1)</sup> Transfer of the negative investments for other current liabilities.

<sup>(1)</sup> - JBS Holding GMBH: On September 2016, JBS Holding GMBH distributed dividends to the Company, partially to settle the outstanding balance with the Company in September 30, 2016.

<sup>(2)</sup> - JBS Global Luxembourg: On September 2016, JBS Global Luxembourg distributed dividends to the Company, through its indirect subsidiary JBS USA Holding Lux S.à.r.l.

<sup>(3)</sup> - Moy Park: On September 2016, Moy Park distributed dividends to the Company.

<sup>(4)</sup> - JBS HU Liquidity Management: On September 2016, for corporate structure simplification purposes, the investment from the subsidiary JBS HU was transferred to the Company, which was before held by its holding, JBS Slovakia.

<sup>(5)</sup> - Midtown Participações: On July 2016, JBS Global Meat was incorporated by its wholly-owned subsidiary (reverse incorporation), Midtown Participações Ltda., for corporate structure simplification purposes.

<sup>(6)</sup> - Beef Snacks Brasil: On September 2016, for corporate structure simplification purposes the investment from the subsidiary Beef Snacks Brasil, was transferred to the Company, which was before held by its holding, JBS Global Luxembourg.

**In the Consolidated:**

	December 31, 2015	Distributions	Equity in subsidiaries		December 31, 2016
			Equity in subsidiaries	Income statement	
Vigor Alimentos	312,162	-	-	(5,097)	307,065
Meat Snack Partners	41,972	(9,000)	(10)	22,600	55,562
<b>Total</b>	<b>354,134</b>	<b>(9,000)</b>	<b>(10)</b>	<b>17,503</b>	<b>362,627</b>

**JBS S.A.**

Notes to the financial statements for the years ended December 31, 2016 and 2015  
(Expressed in thousands of Brazilian reais)

**Relevant information for investments in the year ended December 31, 2015:**
**In the Company:**

	December 31, 2014	Addition (disposal)	Exchange rate variation	Equity in subsidiaries		December 31, 2015
				Equity in subsidiaries	Income statement	
JBS Embalagens Metálicas	(8,907)	-	-	-	(22,351)	(31,258)
JBS Global Investments	23,236	-	10,915	-	(42)	34,109
JBS Holding Internacional	467,095	149,138	-	(37,838)	(1,041)	577,354
JBS USA Holding Lux <sup>(1) (a)</sup>	5,207,927	(8,268,785)	3,100,135	(887,086)	2,269,652	1,421,843
JBS Confinamento	516,279	-	-	-	(10,388)	505,891
JBS Slovakia Holdings	36,649	-	11,687	1,015	(1,816)	47,535
Conceria Priante	33,129	-	8,784	-	(11,423)	30,490
JBS S/A (DMCC Branch)	313	(313)	-	-	-	-
JBS Leather Paraguay	(292)	(738)	57	-	973	-
JBS Holding GMBH	1,443,790	(654,703)	299,155	36,677	267,108	1,392,027
JBS Global Luxembourg	196,790	5,049,606	(805,126)	(40,773)	(474,574)	3,925,923
FG Holding III	66	-	-	-	(1)	65
JBS Global Meat	244,848	1,111	-	-	(6,837)	239,122
Vigor	268,026	(5,686)	-	7,620	42,202	312,162
JBS Leather International	235,341	10,058	85,570	(17,750)	(234,646)	78,573
Brazservice	(2,862)	-	-	-	(1,192)	(4,054)
Seara Alimentos <sup>(2)</sup>	1,681,733	1,837,889	-	191,871	1,625,756	5,337,249
Tannery	9,036	135	-	(158)	(27,100)	(18,087)
Meat Snack Partners	27,324	(8,000)	15,604	(9,689)	16,733	41,972
Moy Park <sup>(3)</sup>	-	5,602,378	(193,386)	309	68,377	5,477,678
Rigamonti <sup>(4)</sup>	-	114,587	(377)	-	(1,353)	112,857
<b>Subtotal</b>	<b>10,379,521</b>	<b>3,826,677</b>	<b>2,533,018</b>	<b>(755,802)</b>	<b>3,498,037</b>	<b>19,481,451</b>
Accrual for loss on investments (*)	12,061	-	-	-	-	53,399
<b>Total</b>	<b>10,391,582</b>					<b>19,534,850</b>

<sup>(1)</sup> Transfer of the negative investments for other current liabilities.

<sup>(1)</sup> JBS USA - In the year ended on December 31, 2015, JBS USA distributed dividends to liquidate the opening balance with the Company in September 30, 2015.

<sup>(2)</sup> Seara Alimentos - On April, 2015, JBS Foods S.A. was incorporated by its wholly owned subsidiary (reverse merger), Seara Alimentos Ltda., in a simplifying process of its corporate structure.

<sup>(3)</sup> Moy Park - On September 2015, the Company concluded the acquisition and took control of Moy Park.

<sup>(4)</sup> Rigamonti - For purposes of simplifying the corporate structure it was done the transference of Rigamonti, before wholly owned indirectly by the Company's indirect subsidiary, Itaholb. Rigamonti will now be a direct investment, and the Company will liquidate the balance with Itaholb through a capital reduction followed by Itaholb's liquidator as part as a structure simplification process.

**Other relevant information regarding investments:**

<sup>(a)</sup> - At year ended on 2015, the Company concluded a legal restructure of its subsidiary JBS USA, aiming to ensure our sustainable growth in the coming years and to support our strategy of being a leading global food company, with platforms divided in South America, North America, Europe and Asia Pacific. As a result of this restructure, it is now named JBS USA Holding Lux, a company replaced in Luxembourg and, a indirect investment through the wholly owned subsidiary JBS Global Luxembourg.

**In the Consolidated:**

	December 31, 2014	Distributions	Equity in subsidiaries		December 31, 2015
			Equity in subsidiaries	Income statement	
Vigor Alimentos	268,026	(5,686)	7,620	42,202	312,162
Meat Snack Partners	27,324	(8,000)	5,915	16,733	41,972
<b>Total</b>	<b>295,350</b>	<b>(13,686)</b>	<b>13,535</b>	<b>58,935</b>	<b>354,134</b>

**JBS S.A.**

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**11 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and losses due to impairment. Historical cost includes expenditures that are directly attributable to the purchase price of the items and the costs attributable to bringing the asset to its working condition for its intended use. When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these costs will flow to the Group and they can be measured reliably. The carrying amount of the replaced items or parts are deducted. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, such that the value of cost less its residual value after the useful life is fully depreciated (except for land and construction in progress).

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

When an asset's or CGU's carrying amount is written down immediately to the recoverable amount when it is higher than its estimated recoverable amount. The recoverable amount is the higher of the estimate of the assets' net selling price and value in use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within the statement of income.

The Company's construction in progress relates to investments for expansion, modernization and adaptation of plants for the purposes of increasing productivity and obtaining new certifications required by the market. When these assets are completed and placed in service, they are transferred to property, plant and equipment and depreciation commences.

Company	Useful life	Cost	Accumulated depreciation	Net amount	
				December 31, 2016	December 31, 2015
Buildings	10 to 50 years	3,859,257	(792,670)	3,066,587	3,005,487
Land	-	1,384,826	-	1,384,826	1,266,507
Machinery and equipment	10 to 25 years	6,064,937	(2,250,614)	3,814,323	3,855,647
Facilities	10 to 20 years	1,841,284	(487,311)	1,353,973	1,266,555
Computer equipment	3 to 5 years	231,226	(164,892)	66,334	74,494
Vehicles	5 to 10 years	623,333	(219,119)	404,214	403,246
Construction in progress	-	1,305,864	-	1,305,864	1,763,871
Others	5 to 10 years	139,540	(60,033)	79,507	57,231
		<b>15,450,267</b>	<b>(3,974,639)</b>	<b>11,475,628</b>	<b>11,693,038</b>

Consolidated	Useful life	Cost	Accumulated depreciation	Net amount	
				December 31, 2016	December 31, 2015
Buildings	5 to 50 years	14,842,627	(3,836,418)	11,006,209	11,751,395
Land	-	3,793,717	-	3,793,717	3,774,251
Machinery and equipment	5 to 25 years	21,702,010	(10,679,292)	11,022,718	11,609,603
Facilities	5 to 20 years	2,803,142	(885,855)	1,917,287	1,742,301
Computer equipment	2 to 7 years	688,179	(431,247)	256,932	281,114
Vehicles	2 to 10 years	977,995	(474,974)	503,021	554,466
Construction in progress	-	3,754,943	-	3,754,943	4,681,002
Others	5 to 15 years	1,594,407	(738,343)	856,064	986,978
		<b>50,157,020</b>	<b>(17,046,129)</b>	<b>33,110,891</b>	<b>35,381,110</b>

**Changes in property, plant and equipment:**

Company	December 31, 2015	Additions net of transferences <sup>(3)</sup>	Incorporations <sup>(1)</sup>	Disposals	Depreciation	December 31, 2016
Buildings	3,005,487	163,270	11,597	(2,079)	(111,688)	3,066,587
Land	1,266,507	121,601	717	(3,999)	-	1,384,826
Machinery and equipment	3,855,647	350,315	4,374	(16,377)	(379,636)	3,814,323
Facilities	1,266,555	179,231	294	(2,265)	(89,842)	1,353,973
Computer equipment	74,494	17,877	-	(196)	(25,841)	66,334
Vehicles	403,246	91,134	120	(22,012)	(68,274)	404,214
Construction in progress	1,763,871	(463,994)	5,987	-	-	1,305,864
Other	57,231	37,864	173	(435)	(15,326)	79,507
	<b>11,693,038</b>	<b>497,298</b>	<b>23,262</b>	<b>(47,363)</b>	<b>(690,607)</b>	<b>11,475,628</b>

<sup>(1)</sup> - On April, 2016, the direct subsidiaries Tannery and JBS Holding Internacional were incorporated by the Company.

**JBS S.A.**

Notes to the financial statements for the years ended December 31, 2016 and 2015  
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<b>Consolidated</b>	<b>December 31, 2015</b>	<b>Acquired in business combination <sup>(2)</sup></b>	<b>Additions net of transfers <sup>(3)</sup></b>	<b>Disposals</b>	<b>Business combinations adjustments</b>	<b>Depreciation</b>	<b>Exchange rate variation</b>	<b>December 31, 2016</b>
Buildings	11,751,395	12,647	1,022,885	(21,744)	59,710	(587,662)	(1,231,022)	<b>11,006,209</b>
Land	3,774,251	5,797	168,735	(13,903)	118,888	-	(260,051)	<b>3,793,717</b>
Machinery and equipment	11,609,603	8,372	2,316,823	(48,344)	81,396	(1,900,627)	(1,044,505)	<b>11,022,718</b>
Facilities	1,742,301	-	351,034	(3,684)	-	(155,121)	(17,243)	<b>1,917,287</b>
Computer equipment	281,114	749	113,330	(2,851)	(2)	(100,939)	(34,469)	<b>256,932</b>
Vehicles	554,466	248	121,223	(42,698)	(41)	(106,547)	(23,630)	<b>503,021</b>
Construction in progress	4,681,002	562	(592,897)	(29,370)	-	-	(304,354)	<b>3,754,943</b>
Other	986,978	583	147,841	(23,352)	(255)	(144,416)	(111,315)	<b>856,064</b>
	<b>35,381,110</b>	<b>28,958</b>	<b>3,648,974</b>	<b>(185,946)</b>	<b>259,696</b>	<b>(2,995,312)</b>	<b>(3,026,589)</b>	<b>33,110,891</b>

<sup>(2)</sup> - Refers to balances arising from Scott Technology's acquisition.

<sup>(3)</sup> - Additions for each category includes transfer from construction in progress during the period.

<b>Company</b>	<b>December 31, 2014</b>	<b>Additions net of transfers <sup>(3)</sup></b>	<b>Disposals</b>	<b>Depreciation</b>	<b>December 31, 2015</b>
Buildings	2,745,594	384,010	(8,635)	(115,482)	<b>3,005,487</b>
Land	1,148,691	117,816	-	-	<b>1,266,507</b>
Machinery and equipment	3,529,824	691,510	(4,425)	(361,262)	<b>3,855,647</b>
Facilities	1,088,839	264,053	(356)	(85,981)	<b>1,266,555</b>
Computer equipment	84,340	13,543	(101)	(23,288)	<b>74,494</b>
Vehicles	452,938	70,538	(53,426)	(66,804)	<b>403,246</b>
Construction in progress	1,347,217	416,654	-	-	<b>1,763,871</b>
Other	192,987	(128,128)	(1,155)	(6,473)	<b>57,231</b>
	<b>10,590,430</b>	<b>1,829,996</b>	<b>(68,098)</b>	<b>(659,290)</b>	<b>11,693,038</b>

<b>Consolidated</b>	<b>December 31, 2014</b>	<b>Acquired in business combination <sup>(2)</sup></b>	<b>Additions net of transfers <sup>(3)</sup></b>	<b>Disposals</b>	<b>Depreciation</b>	<b>Exchange rate variation</b>	<b>December 31, 2015</b>
Buildings	7,858,691	2,078,411	964,334	(176,405)	(482,397)	1,508,761	<b>11,751,395</b>
Land	2,924,334	374,937	184,367	(41,512)	-	332,125	<b>3,774,251</b>
Machinery and equipment	8,051,993	1,967,504	1,996,114	(39,658)	(1,579,501)	1,213,151	<b>11,609,603</b>
Facilities	1,461,506	60,731	350,201	(2,961)	(128,034)	858	<b>1,742,301</b>
Computer equipment	198,991	52,691	106,862	(311)	(94,192)	17,073	<b>281,114</b>
Vehicles	526,763	62,368	127,238	(77,489)	(100,485)	16,071	<b>554,466</b>
Construction in progress	2,457,998	172,156	1,738,201	-	-	312,647	<b>4,681,002</b>
Other	708,651	67,233	170,577	(145,800)	(110,831)	297,148	<b>986,978</b>
	<b>24,188,927</b>	<b>4,836,031</b>	<b>5,637,894</b>	<b>(484,136)</b>	<b>(2,495,440)</b>	<b>3,697,834</b>	<b>35,381,110</b>

<sup>(2)</sup> - Refers to acquisitions from business combinations presented on note 3.

<sup>(3)</sup> - Additions for each category includes transfer from construction in progress during the period.

For the years ended December 31, 2016 and 2015, the amount of capitalized interest added to construction in progress and included in additions was R\$56,207 and R\$52,446 in the Company, respectively, and in the Consolidated was R\$93,614 and R\$87,437, respectively.

On December 31, 2016 and 2015, the Company tested the recoverability of its assets that were identified as having an indicator of impairment using the concept of value in use through discounted cash flow models. As a result, impairment expense was recognized under the caption "Other expenses" in the Company's indirect subsidiary, JBS USA Holding Lux, in the amount of R\$2,792 e R\$19,656 (US\$0.8 million and US\$5.9 million) as of December 31, 2016 and 2015, respectively.

## 12 Intangible assets

Intangible assets are carried at acquisition cost, net of accumulated amortization and impairment, if applicable. Intangible assets are recognized when it is expected that the assets will derive future economic benefits, taking into consideration the intangible assets' economic and technological viability. Intangible assets are primarily comprised of trademarks, customer relationships, water and mineral rights, software and others.

Intangible assets with finite useful lives are amortized over the period of effective use using the straight-line method or based on a method that reflects the consumption of its economic benefits. Intangible assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

The carrying value of indefinite-lived intangible assets, which relate to trademarks, are reviewed at least annually for impairment or more frequently if events or changes in circumstances indicate that the assets may be impaired. If impairment exists, a loss would be recorded to write down the indefinite-lived assets to their recoverable amount.

Management deemed that certain trademarks are indefinite lived intangible assets due to verifiable history and expected use of the asset by the Company. The trademarks acquired have no legal, regulatory or contractual limits linked, and do not depend on the useful life of any asset or group of assets as they existed independently for a substantial time prior to the acquisitions, and they are not related to sectors subject to technological obsolescence or other forms of deterioration in value.

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Intangible assets acquired in a business combination are recognized at fair value based on valuation methodologies and techniques and often involve the use of third party valuation firm's expertise in the calculation of discounted estimates of cash flows. Intangible assets at December 31, 2016 and 2015 were composed as follows:

	Company			Consolidated		
	Useful life	Net amount		Useful life	Net amount	
		December 31, 2016	December 31, 2015		December 31, 2016	December 31, 2015
Trademarks	Indefinite	23,000	452,578	Indefinite	2,809,178	3,961,742
Trademarks	-	-	-	2 to 20 years	55,937	46,591
Software	Up to 5 years	23,494	14,962	2 to 15 years	83,915	87,733
Water rights	-	-	-	Indefinite	108,530	130,132
Customer relationships <sup>(1)</sup>	-	-	-	4 to 20 years	1,947,753	2,657,261
Other	-	-	-	2 to 15 years	6,782	9,075
		<u>46,494</u>	<u>467,540</u>		<u>5,012,095</u>	<u>6,892,534</u>

<sup>(1)</sup> For the period ended on December 31, 2016 the Company has fully amortized the customer relationship with useful life of 4 years, the remaining assets on this category have their useful life estimated to be 12 to 20 years.

**Changes in intangible assets:**

Company	December 31, 2015	Additions	Impairment <sup>(2)</sup>	Amortization	December 31, 2016
<b>Amortizing:</b>					
Software	14,962	14,805	-	(6,273)	23,494
<b>Non-amortizing:</b>					
Trademarks	452,578	23,000	(452,578)	-	23,000
	<u>467,540</u>	<u>37,805</u>	<u>(452,578)</u>	<u>(6,273)</u>	<u>46,494</u>

Consolidated	December 31, 2015	Acquired in business combination	Additions	Business combination adjustment	Impairment <sup>(2)</sup>	Disposal	Amortization	Exchange rate variation and others	December 31, 2016
<b>Amortizing:</b>									
Trademark	46,591	29,874	-	-	-	-	(7,228)	(13,300)	55,937
Software	87,733	-	32,901	-	-	(914)	(25,091)	(10,714)	83,915
Customer relationships	2,657,261	-	-	-	-	-	(323,036)	(386,472)	1,947,753
Others	9,075	-	70	-	-	(2,808)	(1,987)	2,432	6,782
<b>Non-amortizing:</b>									
Trademarks	3,961,742	-	109,384	(120,288)	(452,578)	-	-	(689,082)	2,809,178
Water and mineral rights	130,132	-	-	-	-	-	-	(21,602)	108,530
	<u>6,892,534</u>	<u>29,874</u>	<u>142,355</u>	<u>(120,288)</u>	<u>(452,578)</u>	<u>(3,722)</u>	<u>(357,342)</u>	<u>(1,118,738)</u>	<u>5,012,095</u>

Company	December 31, 2014	Additions	Disposal	Amortization	December 31, 2015
<b>Amortizing:</b>					
Software	11,716	7,828	(144)	(4,438)	14,962
<b>Non-amortizing:</b>					
Trademarks	452,578	-	-	-	452,578
	<u>464,294</u>	<u>7,828</u>	<u>(144)</u>	<u>(4,438)</u>	<u>467,540</u>

Consolidated	December 31, 2014	Acquired in business combination	Additions	Disposal	Amortization	Exchange rate variation and others	December 31, 2015
<b>Amortizing:</b>							
Trademark	21,631	22,617	-	-	(9,592)	11,935	46,591
Software	52,780	495	59,838	(3,152)	(23,706)	1,478	87,733
Trademarks	1,107,952	1,444,745	-	-	(194,623)	299,187	2,657,261
Others	6,779	2,716	6,007	(2,395)	(1,890)	(2,142)	9,075
<b>Non-amortizing:</b>							
Trademarks	1,126,104	2,619,736	-	-	-	215,902	3,961,742
Water rights	89,241	-	-	-	-	40,891	130,132
	<u>2,404,487</u>	<u>4,090,309</u>	<u>65,845</u>	<u>(5,547)</u>	<u>(229,811)</u>	<u>567,251</u>	<u>6,892,534</u>

**<sup>(2)</sup> Impairment test:**

For the year ended December 31, 2016 the Company decided to discontinue certain brands, therefore the concept of value in use became no longer applicable to these assets resulting in an impairment expense in the amount of R\$452,578 for the year ended December 31, 2016, that has been included in general and administrative expense on the consolidated statement of income.

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**13 Goodwill**

Goodwill represents the positive difference between consideration paid to purchase a business and the net fair value of assets and liabilities of the acquired entity. Goodwill is recognized as an asset and included in "Goodwill" in the accompanying consolidated statement of financial position. Goodwill is related to an expectation of future earnings of the acquired subsidiary and synergies after assets and liabilities are consolidated with the Company and cost savings resulting from synergies expected to be achieved upon the integration of the acquired business.

Goodwill is an indefinite lived asset and required to be tested for impairment annually or whenever there is evidence of a decline in fair value. Assets and liabilities are grouped into CGU's for purposes of impairment testing. Any impairment loss is recognized immediately in the consolidated statement of income (loss) and cannot be reversed.

Upon sale of a business, the goodwill or corresponding portion of goodwill is included in the calculation of profit or loss on disposal.

	Useful life	December 31, 2016	December 31, 2015
Goodwill	Indefinite	21,916,694	24,411,441

**Changes in goodwill:**

	Beginning of year	Acquired in business combination <sup>(1)</sup>	Business combination adjustments	Exchange rate variation and others	End of year
2016	24,411,441	105,294	(111,837)	(2,488,204)	21,916,694
2015	13,213,701	10,104,457		1,093,283	24,411,441

<sup>(1)</sup> - Refers to balances arising from the Scott Technology acquisition. In 2016, see note 3 for 2015 acquisitions.

**Impairment test of goodwill**

At December 31, 2016, the Company tested the recovery of the goodwill of each within its CGU groups containing goodwill using the concept of value in use through discounted cash flow models. The determination of the value in use involves using assumptions about cash flows, such as rates of revenue growth, costs and expenses, capital expenditures, working capital requirements and discount rates.

Management projects cash flows for a maximum period of 5 years. The terminal value was assigned based on an expected growth rate into perpetuity for the CGU groups. The weighted average rate of the cost of capital (WACC), used as the discount rate was estimated on a post-tax basis based on the historical industry performance relative to each CGU group and external sources of information regarding market risks.

For the purposes of impairment testing CGUs have been aggregated into the following groups representing the lowest level within the Company at which the goodwill is monitored for internal management purposes and that have significant goodwill:

CGU Groups	December 31, 2016	December 31, 2015
Brazil Beef	9,069,926	9,069,926
Australia Smallgoods	1,136,008	1,376,159
Moy Park	2,565,653	3,679,084
USA Pork	2,217,831	2,692,774
Seara	3,541,676	3,523,507
Others CGUs without significant goodwill	3,385,600	4,069,991
<b>Total</b>	<b>21,916,694</b>	<b>24,411,441</b>

For the years ended December 31, 2016 and 2015 there were no indications that goodwill within any CGU group was impaired.

**Brazil Beef**

The key assumptions used in the estimation of the value in-use are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from external and internal sources.

In percent	2016	2015
Discount rate	11.3	9.8
Terminal value growth rate	5.5	3.5
Estimated EBITDA growth rate (average for the next 5 years)	18.0	12.0

Estimated EBITDA was projected taking into account past experiences and forecasts as follows:

- Revenue of this CGU group includes sales from beef operations in Brazil. Revenues growth was projected taking into account the availability of livestock, total slaughtering capacity and related utilization of facilities, and price increases/decreases based on estimates of inflation for the domestic market and exchange rate variation for exports.
- Operating costs and expenses were projected taking into account the historical performance of the CGU group and trends in the prices of the primary raw materials, especially cattle. In addition, we considered efficiency improvements related to the integration of acquisitions.
- Capital expenditures were estimated assuming the maintenance of existing infrastructure in order to continue to be operated for an indefinite period.

For the years ended December 31, 2016 and 2015, estimated value in-use exceeded the carrying amount of the CGU group.

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**Australia Smallgoods**

The key assumptions used in the estimation of the value in-use are set out below.

In percent	2016	2015
Discount rate	10.7	11.5
Terminal value growth rate	2.5	2.5
Estimated EBITDA growth rate (average for the next 4 years)	24.3	14.5

Estimated EBITDA was projected taking into account past experiences and forecasts as follows:

- Revenue of this CGU group includes sales from the Smallgoods operations in Australia, consisting of the operations of Primo which was acquired in 2015. Revenue growth was projected taking into account the availability of livestock, total slaughtering capacity, the related utilization of facilities and price increases/decreases based on estimated inflation.
- Operating costs and expenses were projected taking into account the historical performance of the CGU group and trends in the prices of the primary raw materials, primarily hogs. In addition, we considered efficiency improvements related to the integration of the acquisition.
- Capital expenditures were estimated assuming the maintenance of existing infrastructure in order to continue operating for an indefinite period.

For the years ended December 31, 2016 and 2015, estimated value in-use exceeded the carrying amount of the CGU group.

**USA Pork**

The key assumptions used in the estimation of the value in-use are set out below.

In percent	2016	2015
Discount rate	12.0	12.0
Terminal value growth rate	0.5	2.0
Estimated EBITDA growth rate (average for the next 5 years)	(2.7)	7.3

Estimated EBITDA was projected taking into account past experiences and forecasts as follows:

- Revenue of this CGU group includes sales from pork operations in the U.S., including the operations of Cargill acquired in 2015. Revenue growth was projected taking into account the availability of livestock, total slaughtering capacity and related utilization of facilities and price increases/decreases based on estimated inflation.
- Operating costs and expenses were projected taking into account the historical performance of the CGU group and trends in the prices of primary raw materials, especially hogs and grains. In addition, we considered efficiency improvements related to the integration of acquisitions.
- Capital expenditures were estimated assuming the maintenance of existing infrastructure in order to continue to be operated for an indefinite period.

For the years ended December 31, 2016 and 2015, estimated value in-use exceeded the carrying amount of the CGU group.

**Seara**

The key assumptions used in the estimation of the value in-use are set out below.

In percent	2016	2015
Discount rate	12.3	12.7
Terminal value growth rate	3.7	4.5
Estimated EBITDA growth rate (average for the next 5 years)	16.2	9.5

Estimated EBITDA was projected taking into account past experiences and forecasts as follows:

- Revenue includes sales from pork, chicken and other products in Brazil. Revenue growth was projected taking into account the availability of livestock, total slaughtering capacity the related utilization of facilities and price increases/decreases based on estimated inflation for the domestic market and exchange rate variation for exports.
- Operating costs and expenses were projected taking into account the historical performance of the CGU group and trend in the price of primary raw materials, especially grains. In addition, we considered efficiency improvements related to the integration of acquisitions.
- Capital expenditures were estimated assuming the maintenance of existing infrastructure in order to continue to be operated for an indefinite period.

For the years ended December 31, 2016 and 2015, estimated value in use exceeded the carrying amount of the CGU group.

For this CGU group, management has identified that a reasonably possible change in discount rate could cause the carrying amount to exceed the value in-use amount. An increase in the discount rate of 0,25% and a decrease in the terminal growth rate of 0,25% would cause the recoverable amount of the CGU to be 0,7% below its carrying value.

**Moy Park**

The key assumptions used in the estimation of the value in-use are set out below.

In percent	2016	2015
Discount rate	8.7	7.2
Terminal value growth rate	3.0	3.0
Estimated EBITDA growth rate (average for the next 5 years)	8.5	5.8

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Estimated EBITDA was projected taking into account past experiences and forecasts as follows:

- Revenue of this CGU group includes sales from chicken operations in the United Kingdom, which consists of the operations of Moy Park which was acquired in 2015. Revenue growth was projected taking into account the availability of livestock, total slaughtering capacity the related utilization of facilities and price increases/decreases based on estimated inflation for the domestic market and exchange rate variation for exports.
- Operating costs and expenses were projected taking into account the historical performance of the CGU group and trend in the price of primary raw materials, especially grains. In addition, we considered efficiency improvements related to the integration of acquisitions.
- Capital expenditures were estimated assuming the maintenance of existing infrastructure in order to continue to be operated for an indefinite period.

For the years ended December 31, 2016 and 2015, estimated value in-use exceeded the carrying amount of the CGU group.

**14 Trade accounts payable**

Trade accounts payable correspond to the amounts owed to suppliers in the ordinary course of business. If the payment period is equivalent to one year or less, the amount is classified as current liabilities, otherwise the corresponding amount is classified as non-current liabilities. Accounts payable are recognized initially at their fair value and are subsequently measured at amortized cost using the effective interest method. Accounts payable by major type of supplier is as follows at December 31, 2016 and 2015:

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Commodities	1,047,937	865,266	3,999,387	4,437,468
Materials and services	513,502	406,334	6,419,832	7,508,795
Finished products	504,315	1,200,174	340,220	523,789
Present value adjustment	(15,489)	(23,412)	(42,452)	(49,034)
	<b>2,050,265</b>	<b>2,448,362</b>	<b>10,716,987</b>	<b>12,421,018</b>

**15 Loans and financing**

Loans and financing are initially recognized at fair value upon receipt of the proceeds, net of transaction costs, when applicable. Subsequent to the initial recording of loans and financing, charges, interest and monetary and exchange rate variation incurred that become contractually due are included in the balance, until the end of each period. Below is a chart showing the Company's loans and financing instruments by foreign and local currency. Local currency indicates loans denominated in the functional currency of the borrower. All borrowings denominated in currencies other than our presentation currency of the Brazilian Reais are remeasured each period. Current amounts include accrued but unpaid interest at period-end. Premiums, discounts and transaction costs are amortized to finance expense using the effective interest method.

Type	Average annual interest rate	Currency	Index on variable rate loans	Maturities-non-current debt	Company			
					Current		Non-current	
					Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
<b>Foreign currency</b>								
Prepayment	4.35%	USD	Libor	2018 - 23	3,967,161	2,319,206	4,484,527	2,883,897
144-A	7.14%	USD		2020 - 24	150,699	1,304,101	8,201,753	9,826,060
FINIMP	2.95%	EUR	Euribor	2018	526	13	516	1,275
Working capital - Euros	2.82%	EUR	Euribor	2023	859	1,162	78,898	98,604
ACC - Advances on exchange contracts	4.42%	USD		*	6,826,491	9,117,554	-	-
Credit note - export					-	81,413	-	-
					<b>10,945,736</b>	<b>12,823,449</b>	<b>12,765,694</b>	<b>12,809,836</b>
<b>Local currency</b>								
FINAME	7.35%	BRL	TJLP	2018 - 25	77,374	78,109	146,981	209,943
FINEP	6.66%	BRL		2018 - 21	21,855	7,563	75,146	68,285
Working capital - Brazilian Reais	16.04%	BRL	CDI and TJLP	2018 - 20	432,869	841,708	14,637	327,882
Credit note - export	16.09%	BRL	CDI	2018 - 20	798,823	1,038,976	1,006,938	1,533,382
CDC - Direct credit to consumers	18.93%	BRL		2018 - 21	4,371	2,114	11,988	2,195
					<b>1,335,292</b>	<b>1,968,470</b>	<b>1,255,690</b>	<b>2,141,687</b>
					<b>12,281,028</b>	<b>14,791,919</b>	<b>14,021,384</b>	<b>14,951,523</b>

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Type	Average annual interest rate	Currency	Indexer	Payment terms / non-current debt	Consolidated			
					Current		Non-current	
					Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
<b>Foreign currency</b>								
ACC - Advances on exchange contracts	4.32%	USD	.	*	7,753,838	10,022,326	-	-
Prepayment	4.94%	USD	Libor	2018 - 23	5,803,330	4,628,813	4,992,782	4,161,312
144-A	7.14%	USD	.	2020 - 24	150,699	1,304,101	8,201,753	9,826,060
Credit note – import	4.00%	USD	Libor	*	98,314	196,007	-	-
Credit note – export	.	.	.	.	-	81,413	-	-
FINIMP	4.59%	USD and EUR	Libor and Euribor	2018 - 19	10,684	151	19,031	14,278
Working capital - Euros	2.82%	EUR	Euribor	2023	859	1,162	78,898	98,604
					<b>13,817,724</b>	<b>16,233,973</b>	<b>13,292,464</b>	<b>14,100,254</b>
<b>Local currency</b>								
FINAME	7.26%	BRL	TJLP	2018 - 25	80,103	90,056	153,610	217,962
FINEP	6.36%	BRL	.	2018 - 21	25,828	11,542	83,706	80,796
JBS Mortgage	5.80%	USD	.	2020	583	660	6,649	8,665
Senior Secured Credit Facility JBS Lux	4.00%	USD	Libor	2019	375	2,038	-	-
Term loan JBS Lux 2018	3.80%	USD	ABR and Libor	2018	3,891	10,152	1,321,490	1,573,908
Term loan JBS Lux 2020	3.80%	USD	ABR and Libor	2020	18,437	34,073	1,551,996	1,874,995
Term loan JBS Lux 2022	4.00%	USD	ABR and Libor	2022	55,929	40,872	3,790,428	4,579,561
Term loan Five Rivers 2019	2.70%	USD	Libor	2019	16,954	20,313	275,984	349,749
Notes 6,25% Moy Park 2021	6.25%	GBP	.	2021	7,278	10,436	1,191,331	1,701,973
Notes 8,25% JBS Lux 2020	8.25%	USD	.	2020	75,807	92,079	2,256,901	2,694,562
Notes 7,25% JBS Lux 2021	7.25%	USD	.	2021	18,870	24,417	3,703,058	4,424,697
Notes 5,875% JBS Lux 2024	5.88%	USD	.	2024	64,224	77,905	2,427,814	2,906,151
Notes 5,75% JBS Lux 2025	5.75%	USD	.	2025	5,153	7,298	2,909,617	3,482,758
Notes 5,75% PPC 2025	5.75%	USD	.	2025	26,288	32,121	1,616,308	1,934,614
PPC Term loan	2.00%	USD	Libor	2020	636	1,050	1,604,572	1,912,138
Plainwell Bond	.	.	.	.	-	8,391	-	24,042
Marshalltown	2.34%	USD	.	2018	52	66	31,633	37,709
Working capital - Brazilian Reais	15.95%	BRL	CDI, TJLP and TR	2018 - 21	435,540	848,404	16,384	330,900
Working capital - US Dollars	4.63%	USD	Libor and Euribor	2018 - 24	362,725	417,684	132,808	131,787
Working capital - Euros	1.98%	EUR	Euribor	2019 - 23	176,187	233,887	14,563	8,431
Working capital - Argentine pesos	7.26%	ARS	.	*	74,521	2,837	-	-
Credit note – export	16.30%	BRL	CDI	2018 - 20	1,368,804	1,597,890	1,317,098	2,299,818
Credit note – import	3.65%	USD and EUR	Libor and Euribor	*	315,495	351,746	-	-
FCO - Middle West Fund	10.14%	BRL	.	2018	1,865	1,879	1,708	3,548
CDC - Direct credit to consumers	18.93%	BRL	.	2018 - 21	4,371	2,114	11,988	2,195
CCB - BNDES	3.67%	BRL	UM BNDES	2018 - 19	10,781	22,679	6,092	18,912
ACC - Advances on exchange contracts	3.54%	USD	Libor	*	922	1,308	-	-
Rural - Credit note	10.62%	BRL	.	*	1,137,628	509,288	-	-
Canadian credit facility & revolving credit facility	4.80%	CAD and USD	CDOR, RBC and Libor	2018	-	472	244,902	230,426
Canadian credit facility - term loan	3.65%	CAD	.	2018	2,415	2,745	30,678	38,810
Canadian bank facility	3.50%	CAD	.	.	8,076	13,058	-	-
Andrews Meat secured facility	-	AUD	BBSY	*	-	34,073	-	-
Mexico credit facility	7.10%	MEX\$	TIEE	2019	46	112,447	75,950	-
Other	0.92%	GBP, EUR e AUD	Euribor e Libor	2018 - 19	31,310	56,660	41,864	6,752
					<b>4,331,094</b>	<b>4,672,640</b>	<b>24,819,132</b>	<b>30,875,859</b>
					<b>18,148,818</b>	<b>20,906,613</b>	<b>38,111,596</b>	<b>44,976,113</b>

\* Balances classified as current which have their maturities between November 1, 2016 and December 31, 2017.

**Average annual interest rate:** Refers to the weighted average nominal cost of interest at the reporting date. The loans and financings are fixed by a fixed rate or indexed to rates: CDI, TJLP, UMBNDES, LIBOR and EURIBOR, among others.

As of December 31, 2016, the availability under our revolving credit facilities was R\$6 billion (US\$1.7 billion).

The Company was in compliance with all of its debt covenant restrictions at December 31, 2016.

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The non-current portion of the principal payment schedule of loans and financing is as follows:

Maturity	Company	Consolidated
	December 31, 2016	December 31, 2016
2018	1,816,203	4,351,016
2019	439,247	952,816
2020	4,255,869	9,722,261
2021	834,201	5,774,698
Maturities thereafter	6,675,864	17,310,805
	<b>14,021,384</b>	<b>38,111,596</b>

**Subsequent event:** In February, 2017, the Company's indirect subsidiary, JBS USA Lux S.A., has entered into an agreement to raise R\$9 billion (US\$2.8 billion) through a Senior Secured Term Loan B Facility ("Term Loan"), due on October 30, 2022. This term loan will be used to pay shorter term debts with higher interest rates.

**15.1 Guarantees and contractual restrictions ("covenants")**

Type	Issuer and guarantors	Covenants / Guarantees	Events of default	December 31, 2016
144 - A: JBS S.A. Notes 2020	- JBS S.A.	<p>Customary negative covenants that may limit the Company's ability and the ability of certain subsidiaries to, among other things:</p> <ul style="list-style-type: none"> <li>- incur additional indebtedness unless the net debt/EBITDA ratio is lower than 4.75/1.0.</li> <li>- create liens;</li> <li>- sell or dispose of assets;</li> <li>- enter into certain transactions with affiliates;</li> <li>- dissolve, consolidate, merge or acquire the business or assets of other entities;</li> <li>- enter into sale/leaseback transactions;</li> <li>- undergo changes of control without making an offer to purchase the Notes; and</li> <li>- 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 at least US\$1.00 of debt under the terms of the net debt/EBITDA ratio test established in the indenture of the Notes; and iii) the total value to be paid does not exceed US\$30 million or a. 50% of the amount of the net income accrued on a cumulative basis during a certain period, taken as one accounting period, (as defined in the indenture), 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 from the issue or sale of its equity interests or other capital contributions subsequent to the issue date of the Notes, plus c. 100% of the fair market value of property other than cash received from the issue or sale of its equity interests or other capital contributions subsequent to the issue date of the Notes.</li> </ul>	<p>The indentures of Notes contain customary events of default <sup>(1)</sup>. In case any event of default occurs, the trustee or the holders of at least 25% of the notes principal amount at the time may state to pay immediately the principal and accrued interest on the notes. The notes are unsecured debts.</p>	3,296,300
144 - A: JBS S.A. Notes 2023				2,573,966
144 - A: JBS S.A. Notes 2024				2,482,185
Senior Secured Credit Facility JBS Lux	<ul style="list-style-type: none"> <li>- JBS S.A.;</li> <li>- JBS USA Holding Lux;</li> <li>- All US subsidiaries of JBS Lux except JBS Five Rivers and certain other immaterial subsidiaries;</li> <li>- All material subsidiaries of JBS Australia guarantee JBS Australia borrowings.</li> </ul>	<ul style="list-style-type: none"> <li>- The borrowings are collateralized by a first priority perfected lien and interest in accounts receivable, finished goods and supply inventories.</li> <li>- The 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 and US\$70 millions.</li> </ul> <p>The facility also contains negative covenants that may limit JBS Lux ability and certain of our subsidiaries ability to, among other things:</p> <ul style="list-style-type: none"> <li>- incur certain additional indebtedness;</li> <li>- create certain liens on property, revenue or assets;</li> <li>- make certain loans or investments;</li> <li>- sell or dispose of certain assets;</li> <li>- pay certain dividends and other restricted payments;</li> <li>- prepay or cancel certain indebtedness;</li> <li>- dissolve, consolidate, merge or acquire the business or assets of other entities;</li> <li>- enter into joint ventures other than certain permitted joint ventures or create certain other subsidiaries;</li> <li>- enter into new lines of business;</li> <li>- enter into certain transactions with affiliates;</li> <li>- agree to restrictions on the ability of the subsidiaries to make dividends;</li> <li>- agree to enter into negative pledges in favor of any other creditor; and</li> <li>- enter into certain sale/leaseback transactions.</li> </ul>	<p>The facility also contains customary events of default <sup>(1)</sup> and it includes failure of any collateral document to create or maintain a priority lien matters. If an event of default happens, the borrowers may, within other options, cease the agreement, state the entire balance to be paid, with accrued interest.</p>	375 (availability up to R\$3 billion (US\$900 million))

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<b>Term loan JBS Lux 2018</b>		- Secured by a perfected first priority security interest in all of JBS Lux and certain of its subsidiaries' fixed assets.		<b>1,325,381</b>
<b>Term loan JBS Lux 2020</b>	- JBS S.A.; - JBS USA Holding Lux; - JBS Global Lux; - Burcher PTY Limited; - Certain subsidiaries that guarantee the Senior Secured Credit Facility JBS Lux (with certain exceptions).	The facility also contains negative covenants that may limit JBS Lux ability and certain of our 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; - 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; - 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.	The facility also contains customary events of default <sup>(1)</sup> , listed under the Amended and Restated Revolving Facility.	<b>1,570,433</b>
<b>Term loan JBS Lux 2022</b>		- enter into certain transactions with affiliates; - 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.		<b>3,846,357</b>
<b>Notes 8,25% JBS Lux 2020</b>		The Notes contain negative covenants that may limit JBS Lux ability and certain of our subsidiaries ability to, among other things: - incur certain additional indebtedness; - create certain liens;	The indenture also contains customary events of default <sup>(1)</sup> . In case any event of default occurs, the trustee or the holders of at least 25% of the notes principal amount at the time may state to pay immediately the principal and accrued interest on the notes.	<b>2,232,707</b>
<b>Notes 7,25% JBS Lux 2021</b>	- JBS S.A.; - JBS USA Holding Lux; - JBS Global Lux; - Burcher Pty. Ltd; - Each of the subsidiaries that guarantee the Amended and Restated Revolving Facility (subject to certain exceptions).	- sell or dispose of certain assets; - pay certain dividends and other restricted payments; - permit restrictions on dividends and other restricted payments to restricted subsidiaries - prepay or cancel certain indebtedness; - enter into certain transactions with affiliates; - enter into certain sale/leaseback transactions; and - undergo changes of control without making an offer to purchase the Notes.	The notes are unsecured debts.	<b>3,721,928</b>
<b>Notes 5,875% JBS Lux 2024</b>		- enter into certain sale/leaseback transactions; and - undergo changes of control without making an offer to purchase the Notes.		<b>2,492,038</b>
<b>Notes 5,75% JBS Lux 2025</b>		The indenture governing the Notes also restricts JBS S.A. from incurring any debt (subject to certain permitted exceptions), unless on the date of such incurrence and the application of the proceeds therefrom, its net debt to EBITDA ratio is less than 4.75 to 1.00. In addition, the indenture restricts JBS S.A.'s ability to make restricted payments and other distributions.		<b>2,914,770</b>
<b>Notes 5,75% PPC 2025</b>	- PPC; - One of PPC's subsidiaries.	The Notes contain negative covenants that may limit PPC's ability and certain of its subsidiaries ability to, among other things: - incur certain additional indebtedness; - create certain liens; - pay certain dividends and other restricted payments; - sell or dispose of certain assets; - enter into certain transactions with affiliates; - consolidate, merge or dissolve substantially all the assets of PPC.	The facility also contains customary events of default <sup>(1)</sup> . In case any event of default occurs, the trustee or the holders of at least 25% of the notes principal amount at the time may state to pay immediately the principal and accrued interest on the notes. The notes are unsecured debts.	<b>1,642,596</b>
<b>PPC Credit Facility - Term Loan and Revolving Facilities</b>	- PPC; - Certain of PPC's subsidiaries.	- Secured by a first priority lien on i) the accounts receivable and inventories of PPC and its non-Mexico subsidiaries, ii) 100% of the equity interests in PPC's domestic subsidiaries, To-Ricos, Ltd. and To-Ricos Distribution Ltd., and 65% of the equity interests in PPC's direct foreign subsidiaries, iii) substantially all of the personal property and intangibles of the borrowers and guarantors under the U.S. Credit Facility and iv) substantially all of the real estate and fixed assets of PPC and the guarantors.  The facility also contains negative covenants that may limit PPC's ability and certain of its subsidiaries ability to, among other things: - incur certain additional indebtedness; - create certain liens; - pay certain dividends and other restricted payments; - sell or dispose of certain assets; - enter into certain transactions with affiliates; and - consolidate, merge or dissolve substantially all the assets of PPC.  Covenants in the facility also require 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 facility. The PPC Credit Facility also provides that PPC may not incur capital expenditures in excess of US\$500 million in any fiscal year.	The facility also contains customary events of default <sup>(1)</sup> .	<b>1,605,208</b>

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<b>Term loan Five Rivers 2019</b>	<ul style="list-style-type: none"> <li>- JBS Five Rivers;</li> <li>- J&amp;F Oklahoma.</li> </ul>	<ul style="list-style-type: none"> <li>- Secured by certain fixed assets, accounts receivable and inventories of JBS Five Rivers and accounts receivables and inventories of J&amp;F Oklahoma;</li> <li>- The facility contains customary negative covenants that may limit JBS Five Rivers and its restricted subsidiaries' ability to, among other things, incur certain additional indebtedness, enter into certain acquisitions or sell or dispose of certain assets.</li> </ul>	<p>The facility also contains customary events of default <sup>(1)</sup> and it includes failure of any collateral document to create or maintain a priority lien.</p>	<b>292,938</b>
<b>Canadian credit facility &amp; revolving credit facility</b>	<ul style="list-style-type: none"> <li>- JBS USA Holding Lux;</li> <li>- JBS S.A.</li> </ul>	<ul style="list-style-type: none"> <li>- Collateralized by a first priority lien on JBS Canada's accounts receivable, finished goods, feed, live inventory and supply inventories, machinery equipment and real estate.</li> <li>- The facility contains 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 and CAD\$10.0 million for 5 consecutive business day.</li> <li>The Canadian Credit Facility also contains negative covenants that may limit the ability of JBS Canada to, among other things:               <ul style="list-style-type: none"> <li>- incur certain additional indebtedness;</li> <li>- create certain liens on property, revenue or assets;</li> <li>- make certain loans or investments</li> <li>- sell or dispose of certain assets;</li> <li>- pay certain dividends and other restricted payments;</li> <li>- prepay or cancel certain indebtedness;</li> <li>- dissolve, consolidate, merge or acquire the business or assets of other entities;</li> <li>- enter into joint ventures other than certain permitted joint ventures or create certain other subsidiaries;</li> <li>- enter into new lines of business;</li> <li>- enter into certain transactions with affiliates;</li> <li>- agree to restrictions on the ability of the subsidiaries to make dividends;</li> <li>- agree to enter into negative pledges in favor of any other creditor; and</li> <li>- enter into certain sale/leaseback transactions.</li> </ul> </li> </ul>	<p>The facility also contains customary events of default <sup>(1)</sup>. If an event of default happens, the borrowers may, within other options, cease the agreement, state the entire balance to be paid, with accrued interest.</p>	<b>277,995</b> <b>(availability up to R\$267 milhões (CAD110 million))</b>
<b>Notes 6.25% Moy Park 2021</b>	<ul style="list-style-type: none"> <li>- Moy Park Holdings (Europe) Limited;</li> <li>- Moy Park (Newco) Limited;</li> <li>- Moy Park Limited;</li> <li>- O'Kane Poultry Limited;</li> <li>- Any significant subsidiary (as defined in the indenture).</li> </ul>	<p>Customary negative covenants that may limit Moy Park's ability and the ability of certain subsidiaries to, among other things:</p> <ul style="list-style-type: none"> <li>- incur additional indebtedness unless the net debt/EBITDA ratio is lower than 3.5/1.0 and the net senior debt/EBITDA is lower than 3.0/1.0.</li> <li>- create liens;</li> <li>- sell or dispose of assets;</li> <li>- enter into certain transactions with affiliates;</li> <li>- dissolve, consolidate, merge or acquire the business or assets of other entities;</li> <li>- enter into sale/leaseback transactions;</li> <li>- make certain investments;</li> <li>- undergo changes of control without making an offer to purchase the Notes; and</li> <li>- declare or pay any dividends or make any distributions related to securities issued by Moy Park.</li> </ul>	<p>The Notes indentures contain customary events of default <sup>(1)</sup>. In case any event of default occurs, the trustee or the holders of at least 25% of the notes principal amount at the time may state to pay immediately the principal and accrued interest on the notes.</p> <p>The notes are unsecured debts.</p>	<b>1,198,609</b>

<sup>(1)</sup> - Customary events of default includes failure to perform or observe terms, covenants or other agreements in the facility, defaults on other indebtedness if the effect is to permit acceleration, failure to make a payment on other indebtedness unless 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.

The Company was in compliance with all of its debt covenant restrictions at December 31, 2016.

**16 Operating and Finance leases**

Leases in which the Company assumes substantially all of the risks and benefits of ownership are classified as finance leases. Finance leases are considered a financed purchase. Under a finance lease, fixed assets are recognized at the lease inception along with a financial liability. If there is no significant transfer of the risks and inherent benefits of the property under a lease agreement, the lease is classified as an operating lease and the total minimum lease payments are recognized on a straight-line basis over the lease term.

**a. Operating Leases:**
**In the Company**

The Company has operating leases agreements for industrial complexes, tanneries and distribution centers based in the states of Bahia, Goiás, Maranhão, Mato Grosso, Mato Grosso do Sul, Pará, Rio de Janeiro e São Paulo.

**In the Consolidated**

JBS USA certain of its subsidiaries have entered into operating lease agreements for warehouses, sales offices and a vehicle maintenance facility in the United States, as well as marketing liaison offices in Asia, distribution centers and warehouses in Australia and two office spaces in Mexico. Additionally, JBS USA leases equipment, over-the-road transportation vehicles and other assets.

Seara Alimentos, through its subsidiary JBS Aves, has operating lease agreements for productive areas in a few states in Brazil.

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The future minimum payments of non-cancellable operational leases of with terms exceeding one year are as follows:

	Company	Consolidated
	December 31, 2016	December 31, 2016
<b>For the years ending:</b>		
2017	18,729	391,272
2018	14,048	319,271
2019	14,016	252,640
2020	14,016	177,701
2021	14,016	148,594
Maturities thereafter	27,559	288,947
<b>Total</b>	<b>102,384</b>	<b>1,578,425</b>

**b. Finance Leases:**
**In the consolidated**

Moy Park has lease agreements for its commercial vehicles and machinery and equipment, for which the book value recognized on property, plant and equipment is detailed below:

	Useful life	Cost	Accumulated Depreciation	December 31, 2016	December 31, 2015
Vehicles/Machinery and equipment	10 years	104,163	(34,709)	69,454	130,168
<b>Total</b>		<b>104,163</b>	<b>(34,709)</b>	<b>69,454</b>	<b>130,168</b>

The future minimum payments of non-cancellable finance leases with terms exceeding one year are as follows:

	Consolidated		
	Carrying Value	Future finance charges	Future minimum lease payments
<b>For the years ending:</b>			
2017	19,903	-	19,903
2018	14,947	876	15,823
2019	7,488	747	8,235
2020	2,297	327	2,624
Maturities thereafter	-	-	-
<b>Total</b>	<b>44,635</b>	<b>1,950</b>	<b>46,585</b>

**17 Accrued income taxes and other taxes**

Accrued income and other taxes are comprised of the following:

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Accrued income taxes	-	-	74,958	477,601
Withholding income taxes	-	40	19,536	20,180
ICMS / VAT / GST tax payable	22,003	13,559	72,409	49,928
PIS / COFINS tax payable	71,172	22,258	80,566	27,063
Taxes payable in installments	113,643	159,213	190,095	233,206
Others	30,053	25,508	292,118	333,079
	<b>236,871</b>	<b>220,578</b>	<b>729,682</b>	<b>1,141,057</b>
<b>Breakdown:</b>				
Current liabilities	165,030	102,665	500,930	843,919
Non-current liabilities	71,841	117,913	228,752	297,138
	<b>236,871</b>	<b>220,578</b>	<b>729,682</b>	<b>1,141,057</b>

**Decree 8,426/2015 - PIS/COFINS over financial income:** In July 2015, the Company and its subsidiaries filed an injunction to suspend the enforceability of PIS and COFINS debts over financial income. The Decree 8,426/2015 reestablished the levy of PIS and COFINS on financial revenues obtained by companies subject to the PIS and COFINS non-cumulative regime, at the rates of 4.65%. The Company has recorded under Income taxes, payroll, social charges and tax obligation the amount of R\$69,165 in the Company and R\$74,599 on the consolidated regarding to PIS/COFINS over financial income.

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**18 Accrued payroll and social charges**

Accrued payroll and social charges are comprised of the following:

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Salaries and related social charges	231,813	210,880	962,353	1,130,720
Bonus and vacation along with related social charges	177,402	165,738	1,935,581	2,198,232
Taxes payable in installments	618	-	27,472	33,887
Others	2,463	10,808	107,193	126,813
	<b>412,296</b>	<b>387,426</b>	<b>3,032,599</b>	<b>3,489,652</b>
<b>Breakdown:</b>				
Current liabilities	412,296	387,426	2,595,381	2,891,953
Non-current liabilities	-	-	437,218	597,699
	<b>412,296</b>	<b>387,426</b>	<b>3,032,599</b>	<b>3,489,652</b>

**19 Dividends payable**

The Company's bylaws require the payment of dividends equal to at least 25% of the annual net income attributable to company shareholders; and as such the Company records a liability at year-end for the minimum unpaid yearly dividend amount. Dividends payable are recognized as a liability at December 31 of each year.

	December 31, 2016	December 31, 2015
Declared dividends on 2012 - Residual	-	230
Declared dividends on 2013 - Residual	251	251
Declared dividends on 2014 - Residual	532	800
Declared dividends on 2015 - Residual	368	1,102,027
Declared dividends on 2016	89,352	-
	<b>90,503</b>	<b>1,103,308</b>

The residual amount of dividends corresponds to the unpaid dividends due to a lack of updated payment information. This pending information related to some minority shareholders precludes the Company from fully paying the dividends declared. The Company has sent notification to such shareholders to update their payment information so the amount can be paid.

A liability for unpaid dividends will be maintained during the statutory period and classified as short term, since once the shareholder's information is updated, the payment will be made. During 2016 the statutory period expired as it relates to dividends declared in 2012 and therefore R\$230 was reversed.

The Company has accrued dividends in December 31, 2016 of R\$89,352 (R\$1,102,027 in December 31, 2015) according to the calculation presented below:

	31.12.16	31.12.15
<b>Net income attributable to company shareholders for the year</b>	<b>375,973</b>	<b>4,640,114</b>
Legal reserve - (5%)	(18,800)	(232,006)
Reversal of dividends -2012	230	-
<b>Adjusted base for dividends calculation</b>	<b>357,403</b>	<b>4,408,108</b>
Mandatory dividends (25%)	89,352	1,102,027
<b>Declared dividends</b>	<b>89,352</b>	<b>1,102,027</b>

PPC paid dividends to its stockholders of R\$5 billion (US\$1.5 billion) and R\$2.4 billion (US\$700 million) on February 17, 2015 and May 18, 2016, respectively, of which were paid to non-controlling interest approximately R\$1.2 billion (US\$371 million) and R\$570 million (US\$162 million).

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**20 Other financial liabilities**

Other financial liabilities includes contingent consideration related to seller-financed payables on the purchase of assets.

Company	Description of the acquisitions	Current		Non-current	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
JBS	- Properties and other industrial complexes.	7,659	15,164	31,427	37,950
	- Company Moy Park.	-	430,000	-	-
Seara	- Property and other industrial complexes Ana Rech.	48,583	49,041	4,000	52,000
	- Assets from Seara.	41,689	37,185	28,897	74,164
	- Slaughtering pigs and processed products plant in Carambei-PR.	-	87,384	-	-
	- Company Agrovêneto.	-	-	11,614	29,342
	- Company Frinal.	13,883	-	-	12,178
	- Company Avebom.	-	-	-	11,453
	- Company Sul Valle.	655	4,000	-	-
	- Company Novagro.	8,351	7,807	2,386	10,036
	- Company Seara Alimentos Norte Ltda.	-	27,250	-	6,732
	- Properties from the company Céu Azul.	84	85	-	-
	- Properties from the company Agrodanieli.	-	59,500	-	-
	- Properties from the company Rigor.	19,148	180,000	-	-
	- Properties from the company Gallus.	-	4,500	-	-
	- Properties from the company Tramonto.	3,323	-	3,878	-
	- Acquisition of Jundiá plant.	16,016	-	19,943	-
	- Acquisition of Mato Castiliano plant.	1,723	-	-	-
<b>Total</b>		<b>161,114</b>	<b>901,916</b>	<b>102,145</b>	<b>233,855</b>

The non-current portion of the principal payment schedule of other financial liabilities is as follows:

For the years ending:	Company	Consolidated
	31.12.16	31.12.16
2018	6,600	70,451
2019	6,600	13,467
2020	6,600	6,600
2021	6,600	6,600
Maturities thereafter	5,027	5,027
<b>Total</b>	<b>31,427</b>	<b>102,145</b>

**21 Income taxes**

The Company and the subsidiaries located in Brazil are taxed based on their taxable income. The subsidiaries located outside of Brazil use methods established by the respective local jurisdictions. Income taxes have been calculated and recorded considering the applicable statutory tax rates enacted at the balance sheet date.

**Current taxes**

Current tax comprises of the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

The current income tax charge is calculated on the basis of enacted or substantively enacted tax laws at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Brazilian controlled foreign corporation (CFC) rules tax the foreign subsidiaries' pre-tax book income, except for the foreign exchange, at the end of the fiscal year at the statutory rate of 34%. Income tax paid abroad by a foreign subsidiary can be deducted up to the amount of tax payable in Brazil in relation to the foreign income. To the extent provided by law, any excess prepayment of income taxes in foreign jurisdictions over the tax due in Brazil is classified as recoverable withholding income taxes.

**Deferred taxes**

Deferred income tax is recognized in full, using the asset and liability method, for temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be utilized. Such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are presented net in the statement of financial position when there is a legally enforceable right to offset current tax assets against liabilities, and when they are related to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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**a. Reconciliation of income tax and social contribution expense:**

	Company		Consolidated	
	2016	2015	2016	2015
<b>Profit (loss) before income taxes (PBT)</b>	<b>(476,098)</b>	<b>5,336,762</b>	<b>436,380</b>	<b>7,878,681</b>
<b>Nominal rate</b>	<b>(34)%</b>	<b>(34)%</b>	<b>(34)%</b>	<b>(34)%</b>
Expected tax expense	161,873	(1,814,499)	(148,369)	(2,678,752)
<b>Adjustments to reconcile taxable income:</b>				
Earnings and losses due to equity method	702,341	1,189,333	5,951	20,038
Prior year losses carryforwards	-	-	-	400,326
Domestic production activities deduction	-	-	94,976	77,213
Difference on tax rates for foreign subsidiaries	-	-	173,222	8,350
Transfer price adjustment	(6,948)	(4,179)	(6,948)	(4,179)
Unrecognized tax benefit	-	-	(136,779)	(286,096)
Dividends paid abroad	-	-	(131,310)	(281,407)
Withholding income tax - Foreign subsidiaries	-	-	(87,995)	(83,288)
Stock option plan	(41,716)	(11,197)	(41,716)	(11,197)
Non-taxable interest - Foreign subsidiaries	-	-	556,786	-
Other permanent differences	36,521	(56,106)	(6,700)	88,958
<b>Current and deferred income tax (expense) benefit</b>	<b>852,071</b>	<b>(696,648)</b>	<b>271,118</b>	<b>(2,750,034)</b>
Current income tax	943,794	(55,992)	(286,818)	(2,979,735)
Deferred income tax	(91,723)	(640,656)	557,936	229,701
	<b>852,071</b>	<b>(696,648)</b>	<b>271,118</b>	<b>(2,750,034)</b>
<b>% IT/PBT</b>	<b>178.97 %</b>	<b>(13.05)%</b>	<b>62.13 %</b>	<b>(34.90)%</b>

	Company		Consolidated	
	2016	2015	2016	2015
<b>Adjustments to reconcile taxable income <sup>(1)</sup></b>				
Goodwill amortization - deferred	-	643,321	17,306	732,552
Prior years loss carryforwards - deferred	-	-	-	(400,326)
Unrecognized tax losses	-	-	136,779	286,096
Dividends paid abroad - current	-	-	131,310	281,407
Withholding income tax - Luxembourg restructure	-	-	87,995	83,288
Income tax on realization of other reserves	(2,656)	(3,035)	(61,757)	(3,035)
<b>Current and deferred income tax (expense) benefit - ADJUSTED</b>	<b>849,415</b>	<b>(56,362)</b>	<b>582,751</b>	<b>(1,770,052)</b>
<b>Effective income tax rate</b>	<b>178.41%</b>	<b>(1.06)%</b>	<b>133.54%</b>	<b>(22.47)%</b>

<sup>(1)</sup> - The Company believes that due to the origin and non-recurrence of specific events certain items should be excluded from the effective tax rate disclosure such as: i) Deferred tax expense arising from goodwill amortization; ii) Income tax on realization of the other reserves (since it is not relate to the net operating income); iii) Deferred tax assets on arising from prior years losses carryforwards (recognized only now that entities reach necessary criteria not observed in the past since on prior periods where such losses were generated, there were no expectation of profitable future profits); iv) current tax over dividends paid abroad (once such expense is unrelated to the Company's business), v) withholding income tax, arising from the corporate restructure in JBS USA; and vi) unrecognized tax losses without expectation of realization from the foreign subsidiaries.

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

	Company			
	December 31, 2016	Income statement	Incorporations	December 31, 2015
Tax losses and negative basis of social contribution	136,935	(114,688)	-	251,623
Allowance for doubtful accounts	36,804	2,447	-	34,357
Provision for contingencies	75,618	8,604	-	67,014
Present value adjustment - Clients	1,727	1,727	-	-
Other temporary differences assets	11,083	(11,228)	-	22,311
Goodwill amortization	(1,916,521)	-	-	(1,916,521)
Present value adjustment - Suppliers	(5,266)	(5,266)	-	-
Realization of other reserves / deemed cost	(275,873)	2,655	-	(278,528)
Other temporary differences liabilities	-	24,026	50,092	(74,118)
<b>Deferred taxes, net</b>	<b>(1,935,493)</b>	<b>(91,723)</b>	<b>50,092</b>	<b>(1,893,862)</b>

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	Consolidated				December 31, 2015
	December 31, 2016	Income statement	Exchange variation	Other adjustments/ Incorporations	
Tax losses and negative basis of social contribution	1,357,959	422,458	(56,696)	-	992,197
Allowance for doubtful accounts	47,937	3,937	(332)	-	44,332
Provision for contingencies	179,108	(68,377)	-	-	247,485
Present value adjustment - Clients	5,053	5,053	-	-	-
Inventory valuation - Foreign subsidiaries	179,682	17,870	(33,476)	-	195,288
Tax credits - Foreign subsidiaries	93,743	61,658	(11,246)	-	43,331
Biological assets - Foreign subsidiaries	73,459	24,573	(11,634)	-	60,520
Insurance accruals - Foreign subsidiaries	65,257	2,784	(12,598)	-	75,071
Labor accidents accruals - Foreign subsidiaries	122,877	(21,476)	(26,896)	-	171,249
Employee benefit plan - Foreign subsidiaries	128,548	8,954	(24,404)	-	143,998
Accounts payable accruals - Foreign subsidiaries	351,818	36,728	(65,339)	-	380,429
Other temporary differences assets	279,095	(14,272)	(33,825)	(693)	327,885
Goodwill amortization	(2,022,347)	(12,785)	-	-	(2,009,562)
Present value adjustment - Suppliers	(14,433)	(14,433)	-	-	-
Business combination	(2,888,659)	(206,810)	525,637	6,807	(3,214,293)
Insurance claims accruals - Foreign subsidiaries	(137,487)	(8,326)	26,251	-	(155,412)
Inventory valuation - Foreign subsidiaries	(335,716)	18,098	68,662	-	(422,476)
Realization of other reserves / deemed cost	(751,719)	48,365	-	-	(800,084)
Other temporary differences liabilities	(108,138)	253,937	(21,712)	50,090	(390,453)
<b>Deferred taxes, net</b>	<b>(3,373,963)</b>	<b>557,936</b>	<b>322,392</b>	<b>56,204</b>	<b>(4,310,495)</b>

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Deferred income taxes assets	-	-	454,117	-
Deferred income taxes liabilities	(1,935,493)	(1,893,862)	(3,828,080)	(4,310,495)
	<b>(1,935,493)</b>	<b>(1,893,862)</b>	<b>(3,373,963)</b>	<b>(4,310,495)</b>

**Unrecognized tax benefit**

The Company's unrecognized tax benefits as of December 31, 2016 and 2015 was R\$1,957,636 and R\$1,731,363, respectively. These net operating losses were generated primarily in Brazil and do not expire under Brazilian tax regulations. Deferred tax assets will be recorded in relation to the net operating losses in periods when the availability of future taxable profits are probable to realize the deferred tax asset. Provisions for probable losses related to income tax exposures are described in note 22.

**Taxation on Foreign Profits:**

The Company has provisions regarding the Corporate Income Tax of foreign subsidiaries on an accrual basis. The impact of Brazilian CFC rules had a minor impact on our effective rate as the tax otherwise payable in Brazil was offset by credits for taxes paid by foreign subsidiaries. We recognized recoverable withholding taxes of R\$ 989,976 in 2016 related to the excess prepayment of income taxes in foreign jurisdictions.

**22 Provisions**

The Company and its subsidiaries are party to several lawsuits arising in the ordinary course of business for which provisions are recognized based on estimated costs determined by management as follows:

	Company				Consolidated			
	31.12.16		31.12.15		31.12.16		31.12.15	
	Quantity	R\$	Quantity	R\$	Quantity	R\$	Quantity	R\$
Labor	16,345	92,484	14,749	74,000	33,966	346,545	32,203	408,963
Civil	820	9,946	775	9,916	3,340	275,946	2,920	280,383
Tax and Social Security	1,285	119,977	1,300	113,184	1,854	622,748	1,810	843,754
<b>Total</b>	<b>18,450</b>	<b>222,407</b>	<b>16,824</b>	<b>197,100</b>	<b>39,160</b>	<b>1,245,239</b>	<b>36,933</b>	<b>1,533,100</b>

	Company			
	31.12.15	Additions	Payments	31.12.16
Labor	74,000	176,981	(158,497)	92,484
Civil	9,916	5,887	(5,857)	9,946
Tax and Social Security	113,184	54,913	(48,120)	119,977
<b>Total</b>	<b>197,100</b>	<b>237,781</b>	<b>(212,474)</b>	<b>222,407</b>

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	Company			
	31.12.14	Additions	Payments	31.12.15
Labor	63,845	10,155	-	74,000
Civil	11,103	-	(1,187)	9,916
Tax and Social Security	103,478	9,706	-	113,184
<b>Total</b>	<b>178,426</b>	<b>19,861</b>	<b>(1,187)</b>	<b>197,100</b>

	Consolidated				
	31.12.15	Additions	Payments	Exchange rate variation	31.12.16
Labor	408,963	181,933	(241,744)	(2,607)	346,545
Civil	280,383	14,034	(17,352)	(1,119)	275,946
Tax and Social Security	843,754	54,948	(273,932)	(2,022)	622,748
<b>Total</b>	<b>1,533,100</b>	<b>250,915</b>	<b>(533,028)</b>	<b>(5,748)</b>	<b>1,245,239</b>

	Consolidated					
	31.12.14	Acquisitions	Additions	Payments	Exchange rate variation	31.12.15
Labor	241,104	133,124	38,719	(5,434)	1,450	408,963
Civil	78,261	259,615	5,581	(65,373)	2,299	280,383
Tax and Social Security	386,479	485,239	10,076	(38,878)	838	843,754
<b>Total</b>	<b>705,844</b>	<b>877,978</b>	<b>54,376</b>	<b>(109,685)</b>	<b>4,587</b>	<b>1,533,100</b>

**In the Company:**
**Tax and Social Security 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 231 administrative proceedings against JBS, 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. JBS estimates that the claims under these administrative proceedings amount to R\$1,902,778 on December 31, 2016. 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, considering as a remote loss.

**b. Social contributions — Rural Workers' Assistance Fund (FUNRURAL):** Social Contributions – On January 2001, JBS filed an injunction to suspend the collectability retention and transfer the Rural Workers' Assistance Fund - NOVO FUNRURAL). This sentence was reformulated 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 21 infringement notices, in the amount of R\$1,356,488. JBS 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 JBS's activity in the trials of Extraordinary Appeals number 363.852/MG and 596.177/RS. Currently, JBS does not make any rebate or payment. If a discount is made for commercial reasons, JBS will deposit it in court and, fulfill a court order. Based on the opinion of legal advisers 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:** JBS is part in additional 1,033 tax and social security proceedings, which individually are not material. We highlight that the ones with probable loss risk have a provision of an aggregate amount of R\$119,977 on December 31, 2016.

**Labor Proceedings**

As of December 31, 2016 JBS was party to 16,345 labor proceedings, involving total claims of R\$1,043,270. Based on the opinion of the Company's legal counsel, JBS has provisioned an aggregate amount of R\$92,484 for losses arising from these proceedings, which includes payroll taxes. Most of these lawsuits were filed by former employees of JBS seeking overtime payments and payments relating to their exposure to health hazards, commuting time, alleged work accidents and recovery time. Among other labor proceedings, there are ongoing proceedings filed by the Labor Ministry (Ministério do Trabalho) related to labor issues.

**Civil Proceedings**

On December 31, 2016, JBS was party to 820 civil proceedings. In the opinion of the Management and its legal advisors, the expected loss of R\$9,946, has been accrued.

**Other proceedings**

On December 31, 2016, JBS had other ongoing tax proceedings, of the approximate amount of R\$537,872, whose loss potential, according to the evaluation of its legal advisors, is possible, but not probable, for which the Company's management has not set an accrual for possible loss.

The Company had other tax, labor and civil proceedings with a possible outcome, which have no accrual recorded in the amount of R\$1,458,614 and in the Consolidated, the amount of R\$2,962,809 as of December 31, 2016.

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**In subsidiary Seara Alimentos:**
**Labor Proceedings**

As of December 31, 2016, Seara Alimentos subsidiaries were party to 17,575 labor proceedings, involving the total amount of R\$1,595,319. Based on the opinion of the Company's legal counsel, an accrual has been made in the amount of R\$247,950 for losses arising from such proceedings, already including payable social charges by the employee and Seara Alimentos. Most of these lawsuits were filed by former employees of Seara Alimentos seeking overtime payments and payments relating to their exposure to health hazards, commuting time, alleged work accidents and recovery time. Among other labor proceedings, there are ongoing proceedings filed by the Labor Ministry (Ministério do Trabalho) related to labor issues.

**Civil proceedings**

As of December 31, 2016, Seara Alimentos subsidiaries were party to 2,517 civil and administrative proceedings, involving the total amount of R\$622,825. Based on the opinion of the Company's legal counsel, an accrual has been made in the amount of R\$265,664 for losses arising from such proceedings. Most of these lawsuits are related to indemnity for collective moral damage, moral damage for improper protest, repairing damages for poultry partnership or pigs integration, cancellation of industry or trade mark complaints and consumer contracts - product quality.

**Tax Proceedings**

Seara Alimentos and its subsidiaries are party to 518 tax and social security proceedings, in which the individual amount of the contingencies are not relevant. Proceedings with a probable loss risk have contingencies, in the amount of R\$497,098 on December 31, 2016.

**In indirect subsidiary Pilgrim's Pride:**

Between September 2, 2016 and October 13, 2016, ten purported class action lawsuits were filed against Pilgrim's Pride Corporation (PPC) and 13 other producers by and on behalf of direct and indirect purchasers of broiler chickens claiming that there is a conspiracy among industry peers to reduce output and fix, increase, maintain, and stabilize the prices of broiler chickens in violation of the U.S. antitrust laws from the period of January 2008 to the present. At a status hearing in October 2016, the court held that responses to the complaints would be deferred until consolidated pleadings were filed. PPC believes it has substantial defenses to the claims made and intends to vigorously defend these cases. We cannot predict the outcome of these actions nor when they will be resolved. If the plaintiffs were to prevail, the liability could be material and could adversely affect our financial condition or results of operations.

**23 Equity**

**a. Share capital:** Share capital on December 31, 2016 is R\$23,576,206, represented by 2,856,857,505 common shares, having no nominal value. The share capital amount is net of R\$54,865 capitalized transaction costs related to expenses incurred in 2010 consisting of R\$37,477 related to the transaction costs for the Company's Initial Public Offering, and expenses in the amount of R\$17,388 regarding the issuance of debentures during 2011. The Company is authorized to increase its capital by an additional 1,375,853,183 common shares. According to 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 the services under its control. The following is the common share activity for the years ended December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
	Quantity	R\$	Quantity	R\$
<b>Opening balance</b>	<b>2,856,857,505</b>	<b>23,576,206</b>	<b>2,943,644,008</b>	<b>21,506,247</b>
Capitalization of reserve	-	-	-	2,069,959
Issuance of shares (share-based compensation)	-	-	781,552	-
Cancellation of shares	-	-	(87,568,055)	-
<b>Closing balance</b>	<b>2,856,857,505</b>	<b>23,576,206</b>	<b>2,856,857,505</b>	<b>23,576,206</b>

**b. Capital reserves:**

**b1. Premium on issue of shares:** refers to the difference between the subscription price that the stockholders pay for the shares and their fair value;

**b2. Negotiation Premiums with trading options of "JBSS3":**

The Company trades put options on "JBSS3" stocks, following Board of Director's approval, according among other guidelines that i. the maturity of the options must not exceed six months from the transaction date, and ii. Funds arising from trading transactions will be used as collateral margin in BM&F Bovespa stock exchange. The Company is also authorized to trade its stocks or options on its stocks, exclusively to protect outstanding options position or to unwind them. The Company recognizes the premium received (from selling put options) as a liability, under the caption other current liabilities. In the options maturity date, one of the circumstances below may occur:

i. when the options are exercised ("JBSS3" stock price is less than the strike price), the premium received comprises the cost of acquisition of shares at its maturity date and the shares acquired are recognized in treasury;

ii. when the options are not exercised ("JBSS3" stock price is higher than the strike price), the premium received is recognized under Capital reserves at its maturity date.

Below is the summary of the operations with maturity for the year ended December 31, 2016:

Date	Number of option	Class and type of shares	Maturity of options	Premiums received	Mark-to-Market
11/25/15	1,000,000	JBSSN43	02/15/16	550	550
11/25/15	500,000	JBSSN43	02/15/16	300	300
11/25/15	500,000	JBSSN43	02/15/16	305	305
11/26/15	1,000,000	JBSSN43	02/15/16	720	720
11/30/15	400,000	JBSSN43	02/15/16	284	284
11/30/15	1,600,000	JBSSN43	02/15/16	1,152	1,152
<b>Total kept in capital reserve:</b>					<b>3,311</b>



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Notes to the financial statements for the years ended December 31, 2016 and 2015  
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**b3. Share-based compensation:**

The Company has a stock option plan settled in shares. The Company grants stock options to employees as an incentive intended to create a sense of ownership and personal involvement with the development and financial success of JBS. Executive officers, directors and general managers are eligible to receive stock options under the plan. The Company's Chairman establishes the criteria of granting the options and selecting the employees. The number of grantable shares authorized to be granted under the plan is limited to 2% of the Company's share capital, and also limited to 0.4% of the increase in the Company's share capital per year.

The fair value of employees' services received in exchange for the stock option grants is recognized as an expense with an offset to capital reserves. The total amount of expense is recognized during the period in which the right to exercise the stock option is acquired, which generally occurs when the option vests, and is equal to the grant date fair value of the underlying options granted. The number of stock options that each employee is entitled was calculated based on the average of the Company's stock price for the three months prior to the grant date. The stock option may only be exercised upon satisfaction of the service condition, and have the maximum term of ten years varying in accordance with each individual agreement. All options must be exercised by physical delivery of the shares of common stock.

At the reporting date, the Company reviews its estimates of the number of options, which will be exercised (not forfeited), and recognizes any impact from the change in estimate in the statement of income, with a corresponding adjustment to capital reserves within stockholders' equity. The fair value of each stock option granted was estimated at the grant date based on the Black-Scholes-Merton pricing model. The primary assumptions considered in the model were:

Program	Grants				Fair value assumptions			
	Quantity of options	Fair value of the option	Exercise price in R\$	Expected exercise term	Risk free interest rate	Volatility	Share price on the grant date	Dividend Yield
May-14	2,196,051	R\$ 7.58 to R\$ 7.74	0.00001	1 to 3 years	10.98% to 12.16%	42.16%	7.80	1.05%
Sep-14	200,000	R\$ 9.59 to R\$ 9.99	0.00001	1 to 5 years	11.05% to 11.25%	42.16%	10.1	1.05%
May-15	1,916,859	R\$ 15.36 to R\$ 15.58	0.00001	1 to 3 years	13.25% to 13.68%	55.69%	15.66	0.72%
Mar-16	3,350,000	R\$ 11,55	0.00001	Vesting imediato	-	-	12.12	-
April-16	695,088	R\$ 5.46 to R\$ 5.63	7.50000	6 to 9 years	13.81% to 13.90%	60.81%	10.79	4.45%
April-16	2,477,651	R\$ 9.85 to R\$ 10.75	0.00003	1 to 3 years	13.54% to 13.78%	69.19%	11.12	4.45%
Jun-16	3,259,890	R\$ 9.20 to R\$ 10.05	0.000005	1 to 3 years	12.66% to 13.60%	65.98%	11.12	4.45%
Nov-16	3,350,000	R\$ 11,27	0.0000003	Vesting imediato	-	-	11.27	-
Nov-16	195,000	R\$ 9.81 to R\$ 10.49	0.000015	2 to 5 years	11.42% to 11.60%	50.30%	11.27	3.35%
<b>Total</b>	<b>17,640,539</b>							

**December 31, 2016**

Program	Grant	Vesting terms	Options outstanding	Remaining contractual life (years)
May-14	01.05.14	1/3 per year with final maturity in May 1, 2017	584,867	0.33
Sep-14	01.09.14	1/5 per year with final maturity in Sep 1, 2019	120,000	3.00
May-15	01.05.15	1/3 per year with final maturity in May 1, 2018	1,195,854	1.33
April-16	01.04.16	1/3 per year with first maturity in April 1, 2022 and final maturity in April 1, 2024	695,088	7.33
April-16	01.04.16	1/3 per year with final maturity in April 1, 2019	2,309,754	2.33
Jun-16	01.06.16	1/3 per year with final maturity in June 1, 2019	3,255,394	2.33
Nov-16	01.11.16	1/3 per year with first maturity in January 1, 2019 and final maturity in January 1, 2021	195,000	5.00
			<b>8,355,957</b>	

**Risk free interest rate:** The Company uses as a risk free interest rate the projection obtained from Interpolation of fixed x floating interest rate swap (BM&F's index Pre x DI).

**Volatility:** The Company estimated the volatility of its own shares by calculating historical volatility over the expected term.

**Dividends yield:** The dividend yield was estimated based on the payment expectation of dividends per share for the next 12 months divided by the share price.

The outstanding options changes and average exercise price per share are demonstrated, as follows:

	December 31, 2016		December 31, 2015	
	Quantity of options	Average exercise price per share	Quantity of option	Average exercise price per share
<b>Opening balance</b>	<b>3,336,737</b>	<b>R\$ 12.27</b>	-	-
Granted	13,327,629	R\$ 10.48	4,352,645	R\$ 11.07
Exercised	(8,284,498)	R\$ 10.97	(869,279)	R\$ 15.34
Cancelled	(23,911)	R\$ 11.74	(146,629)	R\$ 13.27
<b>Closing balance</b>	<b>8,355,957</b>	<b>R\$ 11.80</b>	<b>3,336,737</b>	<b>R\$ 12.27</b>

During the years ended December 31, 2016 and 2015 the expense with options plan totaled R\$143,298 and R\$39,740, respectively, recorded in the results under the caption "General and administrative expenses", with the respective offset in "Capital Reserves".

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**b4. Treasury shares:**

Treasury share activity during the years ended December 31, 2016 and 2015 was as follows:

	December 31, 2016		December 31, 2015	
	Quantity	R\$ thousand	Quantity	R\$ thousand
<b>Opening balance</b>	<b>63,950,500</b>	<b>903,571</b>	<b>54,829,482</b>	<b>451,700</b>
Purchase of treasury shares	79,555,300	821,139	96,776,800	1,432,670
Change of treasury shares	-	-	(87,727)	(982)
Treasury shares used in stock option plan	(8,244,749)	(99,200)	-	-
Cancellation of treasury shares	-	-	(87,568,055)	(979,817)
<b>Closing balance</b>	<b>135,261,051</b>	<b>1,625,510</b>	<b>63,950,500</b>	<b>903,571</b>

**Subsequent event:** On January, 2017, the Company issued 7,150,958 shares for the Company's share-based compensation plan. On February, 2017, the Board of Directors approved a new share buyback program and the cancellation of 128,110,993 shares held as treasury shares.

**b5. Capital transaction:** see basis of preparation and presentation of financial statements.

**c. Other reserves:** Refers to revaluations of fixed assets prior to CPC/IFRS adoption. Other reserves are transferred to retained earnings in proportion with the realization of revalued assets through depreciation, disposal and retirement.

**d. Profit reserves:**

**Legal reserve:** Credited annually with 5% of the profit of the year.

**Investments statutory:** Consists of the remaining balance of the net income accumulated over time after the computation of the legal reserve and dividend distribution. The purpose of this reserve is to provide funds for the investment in assets.

**e. Other comprehensive income (loss):** Composed by valuation adjustments to equity reflex from the subsidiaries and accumulated translation adjustments referred to exchange rate variation in the translation of the subsidiaries' financial statements.

**f. Non-controlling interest:** Material non-controlling interest at December 31, 2016 and 2015 consisted of the 21.5% and 23.3%, respectively, of PPC common stock not owned by JBS USA. JBS USA's voting rights in PPC are limited to 78.5% of the total. PPC is one of the largest chicken producers in the world, with operations in the United States, Mexico and Puerto Rico. The profit allocated to the PPC non-controlling interest during the years ended December 31, 2016 and 2015 was R\$332 million (US\$95 million) and R\$490 million (US\$147 million), respectively. At December 31, 2016 and 2015, the accumulated non-controlling interest in PPC was R\$1,4 billion (US\$346 million) and R\$1,3 billion (US\$403 million), respectively. Below are the PPC total net sales, net income, cash provided by operations, total assets and total liabilities for the periods indicated

	2016	2015
<b>NET REVENUE</b>	<b>27,680,522</b>	27,252,336
<b>NET INCOME</b>	<b>1,534,704</b>	2,152,048
<b>Net cash provided by operating activities</b>	<b>2,636,722</b>	3,254,341
	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Total assets	<b>9,803,790</b>	12,957,856
Total liabilities	<b>6,881,495</b>	8,030,741

**f1.** In July 2016, the stockholders of Gallina Pesada, S.A.P.I. de C.V. ("GAPESA"), a subsidiary that is controlled, but not wholly-owned, by PPC, contributed additional capital to fund a capacity expansion project in southern Mexico. PPC contributed R\$9 million (US\$2.7 million) of additional capital. This contribution was eliminated upon consolidation. The non-controlling stockholders contributed R\$25,310 million (US\$7.3 million) of additional capital. The respective contributions did not impact either PPC or noncontrolling stockholders' ownership percentages in GAPESA.

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**24 Net revenue**

Revenue is recognized when the risks and inherent benefits are transferred to the customer or when it is probable that the economic benefits to be received by the Company can be measured reliably. Revenue is measured at the fair value of the payment received or receivable for the sale of products and services in the Company's normal course of business. The Company bases its estimate of returns on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognized at the point that the risks and rewards of the inventory have passed to the customer, which is either at the point of dispatch or on delivery of the products. This varies from customer to customer according to the terms of sale. In the statement of income, revenue is presented net of taxes associated with the sales, returns, rebates and discounts.

Revenue by significant category for the years ended December 31, 2016 and 2015 are as follows:

	Company		Consolidated	
	2016	2015	2016	2015
<b>GROSS REVENUE</b>				
<b>Sales of products</b>				
Domestic sales	19,105,400	18,488,605	128,268,827	117,978,215
Export sales	10,992,972	13,341,434	48,625,396	51,416,968
	<u>30,098,372</u>	<u>31,830,039</u>	<u>176,894,223</u>	<u>169,395,183</u>
<b>SALES DEDUCTION</b>				
Returns and discounts	(1,018,549)	(1,312,277)	(3,787,058)	(3,671,087)
Sales taxes	(1,354,042)	(1,627,406)	(2,726,639)	(2,809,570)
	<u>(2,372,591)</u>	<u>(2,939,683)</u>	<u>(6,513,697)</u>	<u>(6,480,657)</u>
<b>NET REVENUE</b>	<u>27,725,781</u>	<u>28,890,356</u>	<u>170,380,526</u>	<u>162,914,526</u>

**25 Finance income (expense)**

Finance income (expense) includes (i) interest payable on borrowings and direct issue costs; (ii) results from the daily settlements of future contracts used to protect assets and liabilities, as well as the fair value adjustments for derivative instruments that are described within note 30, (iii) interest receivable on funds invested which is recognized in profit or loss as it accrues using the effective interest method; and (iv) gains and losses associated with transactions denominated in foreign currencies.

Finance income (expense) consisted of the following for the years ended December 31, 2016 and 2015 are as follows:

	Company		Consolidated	
	2016	2015	2016	2015
Exchange rate variation	3,246,004	(8,238,740)	3,958,769	(9,224,831)
Fair value adjustments on derivatives	(6,169,830)	9,654,446	(6,650,664)	10,603,289
Interest expense	(1,745,409)	(2,050,414)	(3,836,438)	(3,430,708)
Interest income	1,313,607	1,237,109	518,359	970,690
Taxes, contribution, tariff and others	(130,058)	(93,431)	(301,335)	(219,056)
	<u>(3,485,686)</u>	<u>508,970</u>	<u>(6,311,309)</u>	<u>(1,300,616)</u>
Finance income	4,559,611	10,891,555	4,477,128	11,573,979
Finance expense	(8,045,297)	(10,382,585)	(10,788,437)	(12,874,595)
	<u>(3,485,686)</u>	<u>508,970</u>	<u>(6,311,309)</u>	<u>(1,300,616)</u>

**26 Earnings per share**

**Basic:** Earnings (loss) per share is calculated by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period, excluding common shares purchased and held as treasury shares (shares in thousands).

	2016	2015
<b>Net income (loss) attributable to shareholders</b>	<u>375,973</u>	<u>4,640,114</u>
Weighted average common shares outstanding	2,856,858	2,944,348
Weighted average - treasury shares	(134,768)	(49,752)
<b>Weighted average - common shares outstanding (basic)</b>	<u>2,722,090</u>	<u>2,894,596</u>
<b>Basic earnings (loss) per share - (R\$)</b>	0.14	1.60

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**Diluted:** Diluted earnings (loss) per share is calculated by dividing net income (loss) of the period attributable to common shareholders by the weighted average number of common shares outstanding during the period, adjusted for the effects of all potential common shares that are dilutive and adjusted for treasury shares held. From May 2015, the Company had only one category of potential common shares that would cause dilution: outstanding options to purchase shares (shares in thousands).

	2016	2015
<b>Net income (loss) attributable to shareholders</b>	<b>375,973</b>	<b>4,640,114</b>
Weighted average common shares outstanding (basic) - R\$	2,722,090	2,894,594
Dilutive effect of outstanding stock options	11,071	3,735
<b>Weighted average - common shares outstanding (diluted)</b>	<b>2,733,161</b>	<b>2,898,329</b>
<b>Diluted earnings (loss) per shares - (R\$)</b>	<b>0.14</b>	<b>1.60</b>

For the year ended December 31, 2016 and 2015, 8,355,957 and 3,336,737 shares related to outstanding stock options have been excluded from the calculation of diluted weighted average common shares outstanding as the effect would be anti-dilutive, respectively.

## 27 Operating segments and geographic reporting

Management has defined the reportable segments, based on consolidated product reports analyzed by the Chief Operating Decisions Maker (CODM) to make strategic decisions. The CODM is our Chief Executive Officer (CEO). The reportable segments are Beef, Chicken and Pork. Geographically, the Company is organized by the United States of America (which includes Australia, Canada and Mexico), South America (Brazil, Argentina, Paraguay and Uruguay) and others (primarily Europe). Management in each geography analyzes its business primarily using product reports (Beef, Chicken and Pork) and reports its results to Group management based on products.

The Beef segment operates slaughter facilities, cold storage and meat processing operations for the production of beef preservatives, fat, feed and derivate products having locations in Brazil, the United States of America, Canada, Australia, Argentina, Uruguay and Paraguay.

The Chicken segment consists of the production and sale of fresh products, chilled as a whole or in pieces, whose operations are located in the United States, Mexico, the United Kingdom and Brazil, and sold to restaurant chains, food processors, distributors, supermarkets, wholesale and other retail distributors, and also export to countries in Europe, Asia and other international markets

The Pork segment operations consist of slaughter facilities, processing, cold storage of pork meat, deliveries of fresh meat and the manufacturing of products and sub-products derived from pork meat. Production facilities are in Brazil and the United States, with sales to the U.S. domestic market as well as foreign markets. The products also include case-ready fresh meat.

Due to the significant percentage of business being derived from the above-mentioned reportable segments, the remaining segments and activities in which the Company operates are not significant and are presented as "Others". In addition, all intercompany segments business activities are eliminated.

The accounting policies of the reportable segments are the same as described in these consolidated financial statements. The Company evaluates its performance per segment, which according to its accounting policies, are disclosed with the breakdown of net revenue, net operating income and depreciation.

There are no revenues arising out of transactions with any single customer that represents 5% or more of the total revenues. Net revenue presented below is from external customers.

The measure of segment profitability reviewed by our CODM is operating income, which does not include finance income (expense), share of profit or loss of equity accounted investees, or income taxes. The Company manages its loans and financing and income taxes at the corporate level and not by segment. The information by consolidated operational segment, analyzed by the CODM, are as follows:

### Segments presented by product:

	Net revenue		Operating income <sup>(1)</sup>		Depreciation	
	2016	2015	2016	2015	2016	2015
<b>Segments</b>						
Beef	97,465,177	99,715,255	1,344,954	2,711,147	1,219,300	1,128,458
Chicken	42,225,552	40,223,393	2,875,074	5,518,101	2,401,824	1,949,046
Pork	20,055,286	12,829,206	1,935,339	1,013,874	384,685	220,818
Others	10,634,511	10,146,672	630,961	364,468	494,786	394,508
<b>Total</b>	<b>170,380,526</b>	<b>162,914,526</b>	<b>6,786,328</b>	<b>9,607,590</b>	<b>4,500,595</b>	<b>3,692,830</b>

### Total assets by product:

	December 31, 2016	December 31, 2015
<b>Total assets</b>		
Beef	48,364,038	66,132,131
Chicken	29,625,745	30,391,861
Pork	10,584,684	13,647,227
Others	14,241,296	12,331,748
<b>Total</b>	<b>102,815,763</b>	<b>122,502,967</b>

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Below is net revenue, operating income and depreciation and amortization based on geography, presented for supplemental information.

**Geographic reporting**

	Net revenue		Operating income <sup>(1)</sup>		Depreciation	
	2016	2015	2016	2015	2016	2015
United States of America	115,072,788	111,225,119	4,956,866	5,498,811	2,456,300	2,115,940
South America	46,358,905	47,337,328	1,593,028	4,217,353	1,703,515	1,469,548
Others	8,948,833	4,352,079	236,434	(108,574)	340,780	107,342
<b>Total</b>	<b>170,380,526</b>	<b>162,914,526</b>	<b>6,786,328</b>	<b>9,607,590</b>	<b>4,500,595</b>	<b>3,692,830</b>

**Total assets by geographic area:**

	December 31, 2016	December 31, 2015
<b>Total assets</b>		
United States of America	38,581,759	45,812,569
South America	58,102,290	68,234,984
Others	6,131,714	8,455,414
<b>Total</b>	<b>102,815,763</b>	<b>122,502,967</b>

<sup>(1)</sup> - The operating income is reconciled with the consolidated net income, as follows below:

	Operating income	
	2016	2015
Net income (loss)	707,498	5,128,647
Income tax and social contribution - current and deferred	(271,118)	2,750,034
Finance income (expense)	6,311,309	1,300,616
Equity in earnings in subsidiaries, associates and joint ventures	(17,503)	(58,935)
Restructuring, reorganization and other expenses	56,142	487,228
	<b>6,786,328</b>	<b>9,607,590</b>

**28 Expenses by nature**

The Company's policy is to present expenses by function on the consolidated statement of income (loss). Expenses by nature are disclosed below:

Classification by nature	Company		Consolidated	
	2016	2015	2016	2015
Depreciation and amortization	(696,880)	(663,728)	(4,500,595)	(3,692,830)
Personnel expense	(2,365,854)	(2,821,069)	(19,500,411)	(16,719,732)
Raw material use and consumption materials	(23,396,567)	(23,204,425)	(138,398,079)	(131,295,705)
Impairment	(452,578)	-	(452,578)	-

Classification by function	Company		Consolidated	
	2016	2015	2016	2015
Cost of sales	(22,072,243)	(22,903,929)	(149,066,700)	(140,324,213)
Selling expenses	(2,680,590)	(3,093,130)	(9,849,683)	(9,377,895)
General and administrative expenses	(2,034,632)	(1,539,863)	(4,861,262)	(4,025,330)

**29 Insurance coverage**

As of December 31, 2016, JBS S.A. and Seara Alimentos, had as maximum individual limit for coverage was R\$150,000. This coverage includes all types of casualties.

Regarding the subsidiary JBS Argentina, located in the Republic of Argentina, the insurance policy has the same above-mentioned characteristics; however, the maximum indemnification limit for December 31, 2016 was of US\$30 million (equivalent to R\$97,773).

Regarding the subsidiary JBS USA, located in the USA, the insurance policy has the same above-mentioned characteristics; however, the maximum indemnification limit for December 31, 2016 was of US\$500 million (equivalent to R\$1,629,550).

Regarding the subsidiary Moy Park, located in the United Kingdom, the insurance policy has the same above-mentioned characteristics; however, the maximum indemnification limit for December 31, 2016 was of GBP271 million (equivalent to R\$1,093,864).

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

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**30 Risk management and financial instruments**

The Company uses the measurement principles described in note 2 at each statement of financial position date in accordance with the guidelines established under IFRS for each classification type of financial assets and liabilities. The Company has not designated any of its derivatives as hedges.

**Financial instruments:**

Financial instruments are recognized in the consolidated financial statements as follows:

	Notes	Company		Consolidated	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>Assets</b>					
<b>Fair value through profit or loss</b>					
Financial investments and national treasury bill	4	2,688,392	5,013,154	3,746,700	8,067,833
Derivative assets	30	-	84,779	38,250	737,891
<b>Loans and receivables at amortized cost</b>					
Cash at banks	4	2,024,404	6,244,789	5,608,922	10,776,155
Trade accounts receivable	5	2,767,655	3,435,691	9,589,185	12,119,662
Related parties receivables	9	5,377,944	4,999,503	1,315,526	1,968,043
<b>Total</b>		<b>12,858,395</b>	<b>19,777,916</b>	<b>20,298,583</b>	<b>33,669,584</b>
<b>Liabilities</b>					
<b>Liabilities at amortized cost</b>					
Loans and financing	15	(26,302,412)	(29,743,442)	(56,260,414)	(65,882,726)
Trade accounts payable	14	(2,050,265)	(2,448,362)	(10,716,987)	(12,421,018)
Debits with related parties	9	(146,391)	(101,668)	-	-
Other financial liabilities	20	(39,086)	(53,114)	(263,259)	(705,771)
<b>Fair value through profit or loss</b>					
Derivative liabilities	30	-	-	(133,125)	-
Other financial liabilities - contingent consideration	20	-	(430,000)	-	(430,000)
<b>Total</b>		<b>(28,538,154)</b>	<b>(32,776,586)</b>	<b>(67,373,785)</b>	<b>(79,439,515)</b>

During this period there has been no reclassification between categories shown in the table above.

**a. Fair value of assets and liabilities through profit or loss:**

The Company and its subsidiaries determine fair value measurements in accordance with the hierarchical levels that reflect the significance of the inputs used in the 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 through valuation techniques that use data from active markets;

Level 3 - Inputs used for fair value calculations which are not derived from an active market. The Company and its subsidiaries do not have any financial instruments that utilize level 3 inputs.

	Company							
	Current assets				Current liabilities			
	National treasury bill		Financial investments		Derivative assets		Moy Park contingent liability	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Level 1	34,027	3,428,732	-	-	-	-	-	-
Level 2	-	-	2,654,365	1,584,422	-	84,779	-	(430,000)
Level 3	-	-	-	-	-	-	-	-

	Consolidated									
	Current assets					Current liabilities				
	National treasury bill		Financial investments		Derivative assets		Derivatives liabilities		Moy Park contingent liability	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Level 1	34,027	3,782,534	-	-	-	-	-	-	-	-
Level 2	-	-	3,712,673	4,285,299	38,250	737,891	(133,125)	-	-	(430,000)
Level 3	-	-	-	-	-	-	-	-	-	-

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**b. Fair value of assets and liabilities carried at amortized cost:**

The fair value of the Notes under Rule 144-A and Regulation S, are estimated using the closing sale price of these securities informed by a financial newswire on December 31, 2016, considering there is an active market for these financial instruments. The book value of the remaining fixed-rate loans approximates fair value since the interest rate market, the Company's credit quality, and other market factors have not significantly changed since entering into the loans. The book value of variable-rate loans and financings approximates fair value given the interest rates adjust for changes in market conditions and the quality of the Company's credit rating has not substantially changed. For all other financial assets and liabilities, book value approximates fair value due to the short duration of the instruments. The following details the estimated fair value of loans and financings:

Description	Company						Consolidated					
	December 31, 2016			December 31, 2015			December 31, 2016			December 31, 2015		
	Principal	Price (% of the Principal)	Market Value of the Principal	Principal	Price (% of the Principal)	Market Value of the Principal	Principal	Price (% of the Principal)	Market Value of the Principal	Principal	Price (% of the Principal)	Market Value of the Principal
JBS S.A. Notes 2016	-	-	-	513,583	103.00	528,990	-	-	-	513,583	103.00	528,990
Bertin Notes 2016	-	-	-	572,951	104.00	595,869	-	-	-	572,951	104.00	595,869
JBS S.A Notes 2020	<b>3,259,100</b>	<b>106.51</b>	<b>3,471,267</b>	3,904,800	97.00	3,787,656	<b>3,259,100</b>	<b>106.51</b>	<b>3,471,267</b>	3,904,800	97.00	3,787,656
JBS S.A Notes 2023	<b>2,525,803</b>	<b>100.97</b>	<b>2,550,303</b>	3,026,220	88.00	2,663,074	<b>2,525,803</b>	<b>100.97</b>	<b>2,550,303</b>	3,026,220	88.00	2,663,074
JBS S.A Notes 2024	<b>2,444,325</b>	<b>105.40</b>	<b>2,576,319</b>	2,928,600	91.63	2,683,476	<b>2,444,325</b>	<b>105.40</b>	<b>2,576,319</b>	2,928,600	91.63	2,683,476
JBS Lux Notes 2020	-	-	-	-	-	-	<b>2,281,370</b>	<b>106.38</b>	<b>2,426,921</b>	2,733,360	100.00	2,733,360
JBS Lux Notes 2021	-	-	-	-	-	-	<b>3,747,965</b>	<b>104.25</b>	<b>3,907,254</b>	4,490,520	98.35	4,416,426
JBS Lux Notes 2024	-	-	-	-	-	-	<b>2,444,325</b>	<b>102.25</b>	<b>2,499,322</b>	2,928,600	89.50	2,621,097
JBS Lux Notes 2025	-	-	-	-	-	-	<b>2,933,190</b>	<b>101.89</b>	<b>2,988,627</b>	3,514,320	86.50	3,039,887
PPC Notes 2025	-	-	-	-	-	-	<b>1,629,550</b>	<b>100.68</b>	<b>1,640,631</b>	1,952,400	97.75	1,908,471
Moy Park	-	-	-	-	-	-	<b>1,210,920</b>	<b>105.40</b>	<b>1,276,310</b>	1,736,430	102.40	1,778,104
	<b>8,229,228</b>		<b>8,597,889</b>	<b>10,946,154</b>		<b>10,259,065</b>	<b>22,476,548</b>		<b>23,336,954</b>	<b>28,301,784</b>		<b>26,756,410</b>

**c. Finance income (expense) by category of financial instrument:**

	Company		Consolidated	
	2016	2015	2016	2015
Fair value through profit or loss	<b>(6,116,325)</b>	10,309,986	<b>(6,634,423)</b>	10,641,669
Loans and receivables	<b>(319,389)</b>	586,132	<b>(1,522,616)</b>	1,318,996
Liabilities at amortized cost	<b>3,080,086</b>	(10,293,717)	<b>2,009,695</b>	(13,042,225)
Other	<b>(130,058)</b>	(93,431)	<b>(163,965)</b>	(219,056)
<b>Total</b>	<b>(3,485,686)</b>	<b>508,970</b>	<b>(6,311,309)</b>	<b>(1,300,616)</b>

**Risk management:**

The Company and its subsidiaries during the regular course of its operations is exposed to market, credit and liquidity risks. These exposures are managed 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 identifying all the risk factors that may cause adverse financial results for the Company and proposing strategies to mitigate those risks. Their proposals are submitted to the Risk Management Committee for submission to the Board of Directors, who supervises the implementation of new solutions, noting limitations of scope and guidelines of the Financial and Commodities Risk Management Policy.

Below are the risks and operations to which the Company is exposed and a sensitivity analysis for each type of risk, consisting in the presentation of the effects in the finance income (expense), net, when subjected to possible changes, of 25% to 50%, in the relevant variables for each risk. For each probable scenario, the Company utilizes the Value at Risk Methodology (VaR), for the confidence interval (C.I.) of 99% and a horizon of one day.

**a. Market Risk:**

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

It is the function of the Risk Management Department to ensure that other areas are within the risk exposure limits set by Management to protect against volatility in price, centralize the exposures and apply the Financial and Commodities Risk Management policy.

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 (VaR) to measure Company's net exposure as well as the cash flow risk with the BM&FBovespa and the Chicago Mercantile Exchange.

**a.1. Interest rate risk**

Interest rate risk is related to potentially adverse results that Company and its subsidiaries may realize from changes in interest rates, which may be caused by economic crisis, changes in sovereign monetary policy, or market movements. The Company primarily has liabilities exposed to variable 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 Company's 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.

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For informational purposes and in accordance with our Financial and Commodities Risk Management Policy, the notional amounts of assets and liabilities exposed to floating interest rates are presented below:

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>Liabilities and assets exposure to the CDI rate net:</b>				
NCE/ Others	(2,253,267)	(3,741,948)	(3,137,826)	(5,067,298)
Related parties	5,356,343	3,808,548	-	-
Financial investments	2,654,365	1,584,422	2,801,719	1,976,791
National treasury bill	34,027	3,428,732	34,027	3,428,732
<b>Total</b>	<b>5,791,468</b>	<b>5,079,754</b>	<b>(302,080)</b>	<b>338,225</b>
<b>Liabilities exposure to the EURIBOR rate:</b>				
Working Capital - Euro	(79,757)	(99,766)	(282,644)	(99,766)
FINIMP	(1,042)	-	(36,373)	-
<b>Total</b>	<b>(80,799)</b>	<b>(99,766)</b>	<b>(319,017)</b>	<b>(99,766)</b>
<b>Liabilities exposure to the LIBOR rate:</b>				
Working Capital - USD	-	-	(349,666)	(208,817)
Pre-payment	(8,451,688)	(5,203,103)	(11,181,990)	(9,633,688)
Others	-	-	(62,170)	(4,683)
<b>Total</b>	<b>(8,451,688)</b>	<b>(5,203,103)</b>	<b>(11,593,826)</b>	<b>(9,847,188)</b>
<b>Liabilities exposure to TJLP rate:</b>				
FINAME	(224,355)	(288,052)	(232,384)	(306,529)
<b>Total</b>	<b>(224,355)</b>	<b>(288,052)</b>	<b>(232,384)</b>	<b>(306,529)</b>
<b>Liabilities exposure to UMBNDES:</b>				
CCB - BNDES	-	-	(16,873)	(41,591)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(16,873)</b>	<b>(41,591)</b>

Management believes that exposure to interest rate fluctuations does not have a relevant effect on the Company's results and does not use derivative financial instruments to manage this risk, except the specific situations that may arise.

**Sensitivity analysis:**

Contracts exposure	Risk	Current scenario	Scenario (I) VaR 99% I.C. 1 day		Scenario (II) Interest rate variation - 25%			Scenario (III) Interest rate variation - 50%			
			Rate	Effect on income		Rate	Effect on income		Rate	Effect on income	
				Company	Consolidated		Company	Consolidated		Company	Consolidated
CDI	Increase	13.6300%	13.6862%	3,255	(170)	17.0375%	197,344	(10,293)	20.4450%	394,689	(20,587)
Euribor	Increase	(0.0820)%	(0.0820)%	-	-	(0.0615)%	(17)	(65)	(0.0410)%	(33)	(131)
Libor	Increase	1.6857%	1.6861%	(34)	(46)	2.1071%	(35,615)	(48,856)	2.5285%	(71,231)	(97,713)
TJLP	Increase	7.5000%	7.5000%	-	-	9.3750%	(4,207)	(4,357)	11.2500%	(8,413)	(8,714)
UMBNDDES	Increase	0.0636	0.0651	-	(399)	0.0795	-	(4,218)	0.0954	-	(8,437)
				<b>3,221</b>	<b>(615)</b>		<b>157,505</b>	<b>(67,789)</b>		<b>315,012</b>	<b>(135,582)</b>

**a.2. Exchange rate risk:**

Exchange rate risk relates to potentially adverse results that the Company may realize from fluctuations in foreign currency exchange rates from economic crisis, sovereign monetary policy alterations, or market movements. The Company has assets and liabilities exposed to foreign exchange rates, however the Company's Financial and Commodities Risk Management Policy states these exposures should not always be netted, since other issues should be considered such as maturities mismatches.

The Risk Management Department enters into transaction with derivative instruments previously approved by the Board of Directors to protect financial assets and liabilities and future cash flow from commercial activities and net investments in foreign operations. The Board of Directors has approved the use of future contracts, NDFs (non deliverable forwards), DFs (Deliverable forwards), and swaps that may be applied to hedge loans, investments, cash flows from interest payments, export estimate, acquisition of raw material, and other transactions, whenever they are quoted in currencies different than the Company's functional currency. The primary exposures to exchange rate risk are in US Dollars (US\$), Canadian Dollars (C\$), Euro (€), British Pound (£), Australian Dollars (AUD). In the consolidated, the Company disclosures as a combined way its exposure in relation on each indexer based on the functional currency of the country, highlighting the operations of JBS USA's subsidiaries indexed to the US Dollars (US\$), in Australia, which the functional currency is Australian Dollar (AUD).

The carrying amounts of assets and liabilities and other positions exposed to foreign currency risk at December 31, 2016 and 2015 are presented below along with the notional amounts of derivative contracts intended to offset the exposure, in accordance with the Company's Financial and Commodities Risk Management Policy. The exposure is in relation to the Brazilian Reais. During the period between disclosure dates (December 31, 2016 and December 31, 2015) there were considerable changes in the use of foreign currency derivatives previously utilized as economic hedges of financial and commercial operations. The Company did not renew its derivative positions along 2016.

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**a.2.1 EXPOSURE to the US Dollar (amounts in thousands of R\$):**

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>OPERATING</b>				
Cash and cash equivalents	395,439	2,918,919	1,808,879	3,589,259
Trade accounts receivable	2,470,015	1,746,646	3,767,808	3,107,239
Sales orders	1,061,918	882,509	1,941,230	2,650,165
Trade accounts payable	(142,403)	(132,874)	(214,131)	(223,876)
Purchase orders	-	-	(32,733)	(469,607)
<b>Subtotal</b>	<b>3,784,969</b>	<b>5,415,200</b>	<b>7,271,053</b>	<b>8,653,180</b>
<b>FINANCIAL</b>				
Related parties transaction (net)	(42,545)	703,336	(2,050,335)	81,055
Net debt in foreign subsidiaries	(20,493,716)	(23,325,674)	(20,493,716)	(23,325,674)
Loans and financing	(23,631,673)	(25,533,519)	(26,927,290)	(29,668,891)
<b>Subtotal</b>	<b>(44,167,934)</b>	<b>(48,155,857)</b>	<b>(49,471,341)</b>	<b>(52,913,510)</b>
<b>Total exposure</b>	<b>(40,382,965)</b>	<b>(42,740,657)</b>	<b>(42,200,288)</b>	<b>(44,260,330)</b>
<b>DERIVATIVES</b>				
Future contracts	-	22,441,081	-	23,557,854
Non Deliverable Forwards (NDF's)	-	21,777,070	-	22,558,030
Deliverable Forwards (DF's)	-	-	162,248	1,110,201
Foreign Currency Swap (Assets)	-	-	-	1,601,944
Foreign Currency Swap (Liabilities)	-	-	-	(1,180,226)
<b>Total derivatives</b>	<b>-</b>	<b>44,218,151</b>	<b>162,248</b>	<b>47,647,803</b>
<b>NET EXPOSURE IN R\$</b>	<b>(40,382,965)</b>	<b>1,477,494</b>	<b>(42,038,040)</b>	<b>3,387,473</b>

**Sensitivity analysis at December 31, 2016 (exchange rates are Brazilian Reais to US Dollar):**

Exposure of R\$	Risk	Current exchange rate	Scenario (i) VaR 99% I.C. 1 day		Scenario (ii) Interest rate variation - 25%		Scenario (iii) Interest rate variation - 50%				
			Exchange rate	Effect on income		Exchange rate	Effect on income		Exchange rate	Effect on income	
				Company	Consolidated		Company	Consolidated		Company	Consolidated
Operating	Appreciation	3.2591	3.3390	92,792	178,257	4.0739	946,271	1,817,819	4.8887	1,892,543	3,635,638
Financial	Depreciation	3.2591	3.3390	(580,397)	(710,415)	4.0739	(5,918,736)	(7,244,629)	4.8887	(11,837,473)	(14,489,257)
Derivatives	Appreciation	3.2591	3.3390	-	3,978	4.0739	-	40,563	4.8887	-	81,126
				<b>(487,605)</b>	<b>(528,180)</b>		<b>(4,972,465)</b>	<b>(5,386,247)</b>		<b>(9,944,930)</b>	<b>(10,772,493)</b>

Exposure of R\$	Risk	Current exchange rate	Scenario (i) VaR 99% I.C. 1 day		Scenario (ii) Interest rate variation - 25%		Scenario (iii) Interest rate variation - 50%				
			Exchange rate	Effect on equity		Exchange rate	Effect on equity		Exchange rate	Effect on equity	
				Company	Consolidated		Company	Consolidated		Company	Consolidated
Net debt in foreign subsidiaries	Depreciation	3.2591	3.339	(502,423)	(502,423)	4.0739	(5,123,586)	(5,123,586)	4.8887	(10,247,172)	(10,247,172)
				<b>(502,423)</b>	<b>(502,423)</b>		<b>(5,123,586)</b>	<b>(5,123,586)</b>		<b>(10,247,172)</b>	<b>(10,247,172)</b>

The Company includes the net debt of foreign subsidiaries in the disclosure of economic hedging exposure. Although these debts do not generate foreign exchange gains or losses since the debt is denominated in the functional currency of each country, these debt instruments are translated to Brazilian Reais upon consolidation and are therefore affected by Exchange rate variation, which impacts the Company's consolidated leverage ratios.

**Derivatives financial instruments breakdown:**

Instrument	Risk factor	Nature	Company			Consolidated		
			December 31, 2015			December 31, 2015		
			Quantity	Notional	Fair value	Quantity	Notional	Fair value
Future Contracts BM&F	American dollar	Long	35,015	6,836,329	-	40,735	7,953,102	37,540
	DDI	Long	79,926	15,604,752	-	79,926	15,604,752	-
Instrument	Risk factor	Nature	Company			Consolidated		
			December 31, 2015			December 31, 2015		
			Notional (USD)	Notional (R\$)	Fair value	Notional (USD)	Notional (R\$)	Fair value
Non Deliverable Forwards	American dollar	Long	5,577,000	21,777,070	91,169	5,777,000	22,558,030	76,948

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Instrument	Risk factor	Nature	Consolidated					
			December 31, 2016			December 31, 2015		
			Notional (USD)	Notional (R\$)	Fair value	Notional (USD)	Notional (R\$)	Fair value
Deliverable Forwards	American dollar	Long	49,783	162,248	2,933	284,317	1,110,201	(13,764)

Instrument	Initial date	Expiry date	Consolidated									
			December 31, 2016				December 31, 2015					
			Notional (USD)	Notional (R\$)	Fair value (assets) R\$	Fair value (liabilities) R\$	Fair value	Notional (USD)	Notional (R\$)	Fair value (assets) R\$	Fair value (liabilities) R\$	Fair value
Swap <sup>(1)</sup>	05.20.14	10.29.18	-	-	-	-	-	50,000	195,240	204,885	(124,727)	80,158
	11.27.13	10.23.18	-	-	-	-	-	100,000	390,480	306,317	(190,483)	115,834
	04.10.14	10.15.18	-	-	-	-	-	149,800	584,939	560,064	(333,910)	226,154
	09.08.15	09.08.16	-	-	-	-	-	135,000	527,148	530,678	(531,106)	(428)

<sup>(1)</sup> A swap is an agreement whereby the Company makes a payment to or receives a payment from a counterparty for a net amount that is calculated as the difference between two components: (i) an amount in Brazilian Reals that is calculated as the USD notional amount times a fixed exchange rate set at inception of the agreement, and (ii) an amount in Brazilian Reals that is calculated as the USD notional amount times a variable exchange rate based on a current market rates at the time of the payment.

**a.2.2 EXPOSURE to Canadian Dollar (amounts in thousands of R\$):**

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>OPERATING</b>				
Cash and cash equivalents	-	571	-	14,515
Trade accounts receivable	4,423	3,424	9,960	32,124
Sales orders	12,537	-	12,537	-
Trade accounts payable	-	-	(163)	(566)
<b>Total exposure</b>	<b>16,960</b>	<b>3,995</b>	<b>22,334</b>	<b>46,073</b>
<b>DERIVATIVES</b>				
Future contracts	-	(5,071)	-	(5,071)
Deliverable Forwards (DF's)	-	-	57,911	(54,058)
<b>Total derivatives</b>	<b>-</b>	<b>(5,071)</b>	<b>57,911</b>	<b>(59,129)</b>
<b>NET EXPOSURE IN R\$</b>	<b>16,960</b>	<b>(1,076)</b>	<b>80,245</b>	<b>(13,056)</b>

**Sensitivity analysis at December 31, 2016 (exchange rates are Brazilian Reals to Canadian Dollar):**

Exposure of R\$	Risk	Current exchange rate	Scenario (i) VaR 99% I.C. 1 day		Scenario (ii) Interest rate variation - 25%		Scenario (iii) Interest rate variation - 50%				
			Exchange rate	Effect on income		Exchange rate	Effect on income		Exchange rate	Effect on income	
				Company	Consolidated		Company	Consolidated		Company	Consolidated
Operating	Appreciation	2.4258	2.3669	(412)	(542)	1.8194	(4,240)	(5,583)	1.2129	(8,480)	(11,167)
Derivatives	Depreciation	2.4258	2.3669	-	(1,406)	1.8194	-	(14,477)	1.2129	-	(28,956)
				<b>(412)</b>	<b>(1,948)</b>		<b>(4,240)</b>	<b>(20,060)</b>		<b>(8,480)</b>	<b>(40,123)</b>

**Derivatives financial instruments breakdown:**

Instrument	Risk factor	Nature	Company			Consolidated		
			December 31, 2015			December 31, 2015		
			Quantity	Notional	Fair value	Quantity	Notional	Fair value
Future Contracts BM&F	Canadian dollar	Short	30	(5,071)	-	30	(5,071)	-

Instrument	Risk factor	Nature	Consolidated					
			December 31, 2016			December 31, 2015		
			Notional (CAD)	Notional (R\$)	Fair value	Notional (CAD)	Notional (R\$)	Fair value
Deliverable Forwards	Canadian dollar	Long	23,873	57,911	531	(19,189)	(54,057)	1,281

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**a.2.3 EXPOSURE in EURO (amounts in thousands of R\$):**

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>OPERATING</b>				
Cash and cash equivalents	24,716	48,686	38,726	56,509
Trade accounts receivable	235,103	129,828	336,522	412,257
Sales orders	188,615	-	363,405	345,473
Trade accounts payable	(36,694)	(128,288)	(55,700)	(138,741)
Purchase orders	-	-	(21,221)	(20,419)
<b>Subtotal</b>	<b>411,740</b>	<b>50,226</b>	<b>661,732</b>	<b>655,079</b>
<b>FINANCIAL</b>				
Related parties transaction (net)	(82,245)	333,623	(85,664)	333,623
Loans and financings	-	-	(6,675)	-
<b>Subtotal</b>	<b>(82,245)</b>	<b>333,623</b>	<b>(92,339)</b>	<b>333,623</b>
<b>Total exposure</b>	<b>329,495</b>	<b>383,849</b>	<b>569,393</b>	<b>988,702</b>
<b>DERIVATIVES</b>				
Future contracts	-	(61,631)	-	(660,937)
Deliverable Forwards (DF's)	-	-	53,032	50,274
Non Deliverable Forwards (NDF's)	-	-	9,360	-
<b>Total derivatives</b>	<b>-</b>	<b>(61,631)</b>	<b>62,392</b>	<b>(610,663)</b>
<b>NET EXPOSURE IN R\$</b>	<b>329,495</b>	<b>322,218</b>	<b>631,785</b>	<b>378,039</b>

**Sensitivity analysis at December 31, 2016 ( exchange rates are Brazilian Reais to Euro):**

Exposure of R\$	Risk	Current exchange	Scenario (i) VaR 99% I.C. 1 day		Scenario (ii) Interest rate variation - 25%			Scenario (iii) Interest rate variation - 50%			
			Exchange rate	Effect on income		Exchange rate	Effect on income		Exchange rate	Effect on income	
				Company	Consolidated		Company	Consolidated		Company	Consolidated
Operating	Appreciation	3.4384	3.3541	(10,095)	(16,224)	2.5788	(102,935)	(165,433)	1.7192	(205,870)	(330,866)
Financial	Depreciation	3.4384	3.3541	2,016	2,264	2.5788	20,561	23,085	1.7192	41,123	46,170
Derivatives	Appreciation	3.4384	3.3541	-	(1,530)	2.5788	-	(15,598)	1.7192	-	(31,196)
				<b>(8,079)</b>	<b>(15,490)</b>		<b>(82,374)</b>	<b>(157,946)</b>		<b>(164,747)</b>	<b>(315,892)</b>

**Derivatives financial instruments breakdown:**

Instrument	Risk factor	Nature	Company			Consolidated		
			December 31, 2015			December 31, 2015		
			Quantity	Notional	Fair value	Quantity	Notional	Fair value
Future Contracts BM&F	Euro	Short	290	(61,631)	-	3,110	(660,937)	(10,552)

Instrument	Risk factor	Nature	Consolidated					
			December 31, 2016			December 31, 2015		
			Notional (EUR)	Notional (R\$)	Fair value	Notional (EUR)	Notional (R\$)	Fair value
Deliverable Forwards	Euro	Long	15,423	53,032	(2,027)	11,828	50,274	55

Instrument	Risk factor	Nature	Consolidated					
			December 31, 2016			December 31, 2015		
			Notional (EUR)	Notional (R\$)	Fair value	Notional (EUR)	Notional (R\$)	Fair value
Non Deliverable Forwards	Euro	Long	2,698	9,360	1,187	-	-	-

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**a.2.4 EXPOSURE in British Pound (amounts in thousands of R\$):**

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>OPERATING</b>				
Cash and cash equivalents	-	-	99	-
Trade accounts receivable	49,675	51,546	69,733	75,998
Sales orders	50,429	-	55,093	4,821
Trade accounts payable	-	(41)	(15,821)	(41)
<b>Subtotal</b>	<b>100,104</b>	<b>51,505</b>	<b>109,104</b>	<b>80,778</b>
<b>Total exposure</b>	<b>100,104</b>	<b>51,505</b>	<b>109,104</b>	<b>80,778</b>
<b>DERIVATIVES</b>				
Future contracts	-	(38,491)	-	(38,491)
Deliverable Forwards (DF's)	-	-	(46,833)	(50,001)
Non Deliverable Forwards (NDF's)	-	-	(44,477)	-
<b>Total derivatives</b>	<b>-</b>	<b>(38,491)</b>	<b>(91,310)</b>	<b>(88,492)</b>
<b>NET EXPOSURE IN R\$</b>	<b>100,104</b>	<b>13,014</b>	<b>17,794</b>	<b>(7,714)</b>

**Sensitivity analysis at December 31, 2016 (exchange rates are Brazilian Reais to British Pound):**

Exposure of R\$	Risk	Current exchange rate	Scenario (i) VaR 99% I.C. 1 day				Scenario (ii) Interest rate variation - 25%			Scenario (iii) Interest rate variation - 50%		
			Exchange rate	Effect on income		Exchange rate	Effect on income		Exchange rate	Effect on income		
				Company	Consolidated		Company	Consolidated		Company	Consolidated	
Operating	Appreciation	4.0364	3.9159	(2,988)	(3,257)	3.0273	(25,026)	(27,276)	2.0182	(50,052)	(54,552)	
Derivatives	Depreciation	4.0364	3.9159	-	2,726	3.0273	-	22,828	2.0182	-	45,655	
				<b>(2,988)</b>	<b>(531)</b>		<b>(25,026)</b>	<b>(4,448)</b>		<b>(50,052)</b>	<b>(8,897)</b>	

**Derivatives financial instruments breakdown:**

Instrument	Risk factor	Nature	Company			Consolidated		
			December 31, 2015			December 31, 2015		
			Quantity	Notional	Fair value	Quantity	Notional	Fair value
Future Contracts BM&F	British pound	Short	190	(38,491)	-	190	(38,491)	-

Instrument	Risk factor	Nature	Consolidated			Consolidated		
			December 31, 2016			December 31, 2015		
			Notional (GBP)	Notional (R\$)	Fair value	Notional (GBP)	Notional (R\$)	Fair value
Deliverable Forwards	British pound	Short	(11,603)	(46,833)	362	(8,639)	(50,003)	(238)

Instrument	Risk factor	Nature	Consolidated			Consolidated		
			December 31, 2016			December 31, 2015		
			Notional (GBP)	Notional (R\$)	Fair value	Notional (GBP)	Notional (R\$)	Fair value
Non Deliverable Forwards	British pound	Short	(11,019)	(44,477)	-	-	-	-

**a.2.5 EXPOSURE in Australian Dollar (amounts in thousand of R\$):**

	Company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>OPERATING</b>				
Cash and cash equivalents	-	-	5,159	-
Trade accounts receivable	274	-	11,697	-
Sales orders	1,646	-	1,646	-
Trade accounts payable	-	-	(5,055)	-
<b>Subtotal</b>	<b>1,920</b>	<b>-</b>	<b>13,447</b>	<b>-</b>
<b>FINANCIAL</b>				
Loans and financings	-	-	(5,606)	-
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>(5,606)</b>	<b>-</b>
<b>Total exposure</b>	<b>1,920</b>	<b>-</b>	<b>7,841</b>	<b>-</b>
<b>DERIVATIVES</b>				
Deliverable Forwards (DF's)	-	-	25,160	-
<b>Total derivatives</b>	<b>-</b>	<b>-</b>	<b>25,160</b>	<b>-</b>
<b>NET EXPOSURE IN R\$</b>	<b>1,920</b>	<b>-</b>	<b>33,001</b>	<b>-</b>

**Sensitivity analysis at December 31, 2016 (exchange rates are Brazilian Reais to Australian Dollar) :**

Exposure of R\$	Risk	Current exchange rate	Scenario (i) VaR 99% I.C. 1 day			Scenario (ii) Interest rate variation - 25%			Scenario (iii) Interest rate variation - 50%		
			Exchange rate	Effect on income		Exchange rate	Effect on income		Exchange rate	Effect on income	
				Company	Consolidated		Company	Consolidated		Company	Consolidated
Operating	Appreciation	2.3560	2.3008	(45)	(315)	1.7670	(480)	(3,362)	1.1780	(960)	(6,724)
Financial	Depreciation	2.3560	2.3008	-	131	1.7670	-	1,402	1.1780	-	2,803
Derivatives	Depreciation	2.3560	2.3008	-	(589)	1.7670	-	(6,290)	1.1780	-	(12,580)
				<u>(45)</u>	<u>(773)</u>		<u>(480)</u>	<u>(8,250)</u>		<u>(960)</u>	<u>(16,501)</u>

**Derivatives financial instruments breakdown:**

Instrument	Risk factor	Nature	Consolidated					
			December 31, 2016			December 31, 2015		
			Notional (AUD)	Notional (R\$)	Fair value	Notional (AUD)	Notional (R\$)	Fair value
Deliverable Forwards	Australian Dollar	Long	10,679	25,160	7	-	-	-

In the consolidated, there are exposures of less representativeness whose balance of derivatives assets at December 31, 2016 is R\$1,662 and (R\$1,339 at December 31, 2015 of derivatives liabilities).

**b. Commodity price risk**

The Company operates globally across (the entire livestock protein chain and related business) and during the regular course of its operations brings is exposed to price fluctuations 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 including climate, supply levels, transportation costs, agricultural policies and storage costs, among others. The Risk Management Department is responsible for mapping the exposures to commodity prices of the Company and its subsidiaries and proposing strategies to the Risk Management Committee, in order to mitigate such exposures.

Biological assets are a very important raw material used by the Company. In order to maintain future supply of these materials, the Company participates in forward contracts to anticipate purchases with suppliers. To complement these forward purchases, the Company use derivative instruments to mitigate each specific exposure, most notably futures contracts, to mitigate the impact of price fluctuations - on inventories and sales contracts. The Company takes the historical average amount spent on materials as an indication of the operational value to be protected by firm contracts.

**b.1. Position balance in commodities (cattle) contracts**

Given the nature of its operations, the Company is exposed to volatility in cattle prices, where price fluctuations arise from factors beyond the Company's control, such as climate, cattle supply, transportation costs and agricultural policies among others. Forward purchases of cattle can be negotiated at floating (prices marked at the delivery day current price) or fixed prices. The Company may use future contracts traded at the BM&FBovespa to balance these exposures.

The factors that influence the commodity price risk reduction strategy are the timing of term contracts for cattle purchases considering any negotiated values and terms.

The Company's exposure to cattle price fluctuation as of December 31, 2016 and 2015 are presented below in accordance with the Company's Financial and Commodities Risk Management Policy and are representative of the exposure at each period end.

EXPOSURE in Commodities (Cattle)	December 31, 2016	December 31, 2015
Firm Contracts of cattle purchase	1,353	48,068
<b>Subtotal</b>	<b>1,353</b>	<b>48,068</b>
<b>DERIVATIVES</b>		
Future contracts	-	(11,912)
<b>Subtotal</b>	<b>-</b>	<b>(11,912)</b>
<b>NET EXPOSURE</b>	<b>1,353</b>	<b>36,156</b>

**Sensitivity analysis:**

Exposure	Risk	Current price	Scenario (i) VaR 99% I.C. 1 day		Scenario (ii) @ Variation - 25%		Scenario (ii) @ Variation - 50%	
			Price	Effect on income	Price	Effect on income	Price	Effect on income
				Company		Company		Company
Operational	Cattle depreciation	149.46	147.87	(14)	112.10	(338)	74.73	(677)
				<u>(14)</u>		<u>(338)</u>		<u>(677)</u>

**Derivatives financial instruments breakdown:**

Instrument	Risk factor	Nature	December 31, 2016			December 31, 2015		
			Quantity	Notional	Fair value	Quantity	Notional	Fair value
Future Contracts BM&F	Cattle	Short	-	-	-	241	(11,912)	(9)

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**b.2. Position balance in commodities (grain) derivatives financial instruments of Seara Alimentos:**

Seara Alimentos is exposed to price volatility of grain, which changes based on factors beyond the management's control, such as climate, the supply volume, transportation costs, agricultural policies and others.

Seara Alimentos, in accordance with its policy of inventory management, started the strategy of managing the risk of grain's price by actively monitoring the Company's grains needs, including expectations of future consumption, anticipated purchases, combined with future market operations, by hedging with grain futures on BM&F, CME and Over the Counter (OTC), through Non Deliverable Forwards (NDFs), in order reduce price volatility.

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%.

Management's estimate at the exposure risk to grain's price changes at Seara Alimentos at December 31, 2016 and December 31, 2015 are presented below in accordance with the Financial and Commodities Risk Management Policy and are representative of the exposure incurred during the period.

EXPOSURE in Commodities (Grain)	Seara Alimentos	
	December 31, 2016	December 31, 2015
<b>OPERATING</b>		
Purchase orders	-	469,607
<b>Subtotal</b>	-	<b>469,607</b>
<b>DERIVATIVES</b>		
Future contracts	(34,520)	-
<b>Subtotal</b>	<b>(34,520)</b>	-
<b>NET EXPOSURE</b>	<b>(34,520)</b>	<b>469,607</b>

**Sensitivity analysis:**

Exposure	Risk	Scenario (i) VaR 99% I.C. 1 day		Scenario (ii) Price variation - 25%		Scenario (ii) Price variation - 50%	
		Price	Effect on income	Price	Effect on income	Price	Effect on income
			Seara Alimentos		Seara Alimentos		Seara Alimentos
Derivatives	Depreciation of price	2.49%	(859)	25.00%	(8,630)	50.00%	(17,260)
			<u>(859)</u>		<u>(8,630)</u>		<u>(17,260)</u>

**Derivatives financial instruments breakdown:**

Instrument	Risk factor	Nature	December 31, 2016			December 31, 2015		
			Quantity	Notional	Fair value	Quantity	Notional	Fair value
Future Contracts BM&F	Commodities	Short	5,096	(34,520)	(170)	-	-	-

**b.3. Position balance in commodities derivatives financial instruments of JBS USA:**

Management believes that quantitative figures regarding the risk exposure of the commodities price changes of the subsidiary JBS USA at December 31, 2016 and December 31, 2015 are accurately presented below in accordance with the Financial and Commodities Risk Management Policy and are representative of exposure incurred during the period.

EXPOSURE in Commodities	JBS USA	
	December 31, 2016	December 31, 2015
<b>OPERATIONAL</b>		
Forwards - commodities	8,812,593	5,294,296
<b>Subtotal</b>	<b>8,812,593</b>	<b>5,294,296</b>
<b>DERIVATIVES</b>		
Deliverable Forwards	(3,248,775)	9,692,155
<b>Subtotal</b>	<b>(3,248,775)</b>	<b>9,692,155</b>
<b>NET EXPOSURE</b>	<b>5,563,818</b>	<b>14,986,451</b>

**Sensitivity analysis:**

Exposure	Risk	Scenario (i) VaR 99% I.C. 1 day		Scenario (ii) Price variation - 25%		Scenario (ii) Price variation - 50%	
		Price	Effect on income	Price	Effect on income	Price	Effect on income
			JBS USA		JBS USA		JBS USA
Operating	Commodities price depreciation	(0.97)%	(85,482)	(25.00)%	(2,203,148)	(50.00)%	(4,406,297)
Derivatives	Commodities price appreciation	(0.97)%	31,513	(25.00)%	812,194	(50.00)%	1,624,388
			<u>(53,969)</u>		<u>(1,390,954)</u>		<u>(2,781,909)</u>

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(Expressed in thousands of Brazilian reais)

**Derivatives financial instruments breakdown:**

Instrument	Risk factor	Nature	December 31, 2016			December 31, 2015		
			Notional (USD)	Notional (R\$)	Fair value	Notional (USD)	Notional (R\$)	Fair value
Deliverable Forwards	Commodities	Short	(996,832)	(3,248,775)	(99,360)	2,482,113	9,692,155	232,632

**c. Credit risk**

The Company and its subsidiaries are potentially subject to credit risk related to accounts receivable, investments and derivative contracts.

If the counter party of a financial position is a financial institution (investments and derivative contracts), the Company employs exposure limits set by the Risk Management Committee, based on the risk ratings (ratings) of specialized international agencies.

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

Category	% Equity	Maximum horizon
AAA	2%	5 years
AA	1%	3 years
A	0.5%	2 years
BBB	0.25%	1 year

The carrying value of financial assets that represent the most significant exposure to credit risk at the financial statement date were:

	Note	Company		Consolidated	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>Assets</b>					
Cash and cash equivalents	4	4,712,796	11,257,943	9,355,622	18,843,988
Trade accounts receivable	5	2,767,655	3,435,691	9,589,185	12,119,662
Credits with related parties	9	5,377,944	4,999,503	1,315,526	1,968,043
		<u>12,858,395</u>	<u>19,693,137</u>	<u>20,260,333</u>	<u>32,931,693</u>

**d. Liquidity risk**

Liquidity risk arises from the management of the Company's working capital and amortization of financing costs and principal of the debt instruments. It is the risk that the Company is unable to meet its financial obligations as they become due.

The Company manages its capital by focusing on liquidity and leverage metrics that enable a return to shareholders over the medium term, consistent with the risks assumed in the transaction.

The Company manages its liquidity risk mainly through evaluating its quick ratio, which is computed as cash plus financial investments divided by short-term debt. Liquidity is maintained by managing the overall leverage of the Company to monitoring the ratio of net debt to "EBITDA" at levels considered to be manageable for continuity of operations.

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

The index of liquidity and leverage at the consolidated are shown below:

	Consolidated	
	December 31, 2016	December 31, 2015
Cash and cash equivalents	9,355,622	18,843,988
Loans and financings - Current	(18,148,818)	(20,906,613)
Quick ratio	0.52	0.9
<b>Leverage indicator (*)</b>	<b>4,1x</b>	<b>3,1x</b>

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

The table below shows the contractual obligation amounts from financial liabilities of the Company and its subsidiaries according to their maturities:

	Company									
	December 31, 2016					December 31, 2015				
	Less than 1 year	Between 1 and 3 years	Between 4 and 5 years	More than 5 years	Total	Less than 1 year	Between 1 and 3 years	Between 4 and 5 years	More than 5 years	Total
Trade accounts payable	2,050,265	-	-	-	2,050,265	2,448,362	-	-	-	2,448,362
Debits w/ related parties	-	-	-	146,391	146,391	-	-	-	101,668	101,668
Loans and financings	12,281,028	2,255,450	5,090,070	6,675,864	26,302,412	14,791,919	4,455,354	4,414,847	6,081,322	29,743,442
Estimated interest on loans and financing <sup>(1)</sup>	1,324,128	1,690,250	1,033,864	755,681	4,803,923	1,533,056	1,872,156	1,332,692	1,225,589	5,963,493
Derivatives financing liabilities (assets)	-	-	-	-	-	(84,779)	-	-	-	(84,779)
Other financial liabilities	7,659	13,200	13,200	5,027	39,086	445,164	13,200	13,200	11,550	483,114

**JBS S.A.**

Notes to the financial statements for the years ended December 31, 2016 and 2015  
(Expressed in thousands of Brazilian reais)

	Consolidated									
	December 31, 2016					December 31, 2015				
	Less than 1 year	Between 1 and 3 years	Between 4 and 5 years	More than 5 years	Total	Less than 1 year	Between 1 and 3 years	Between 4 and 5 years	More than 5 years	Total
Trade accounts payable	10,716,987	-	-	-	10,716,987	12,421,018	-	-	-	12,421,018
Loans and financings	18,148,818	5,303,832	15,496,959	17,310,805	56,260,414	20,906,613	8,583,793	11,435,325	24,956,995	65,882,726
Estimated interest on loans and financing <sup>(1)</sup>	2,871,135	4,169,362	2,806,562	2,166,602	12,013,661	3,367,387	5,006,448	4,141,151	3,844,912	16,359,898
Derivatives financing liabilities (assets)	133,125	-	-	-	133,125	(315,745)	-	(422,146)	-	(737,891)
Other financial liabilities	161,114	83,918	13,200	5,027	263,259	901,916	206,875	15,430	11,550	1,135,771

<sup>(1)</sup> Includes interest on all loans and financing outstanding. Payments are estimated for variable rate debt based on effective interest rates at December 31, 2016 and December 31, 2015. Payments in foreign currencies are estimated using the December 31, 2016 and December 31, 2015 exchange rates.

The Company has securities pledged as collateral for derivative transactions with the commodities and futures whose balance at December 31, 2016 is R\$33,630 (R\$3,444,021 at December 31, 2015). 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 December 31, 2016 is R\$254,862 (R\$265,917 at December 31, 2015). This guarantee is larger than its collateral.

Other guarantees considered relevant are described in detail in the note for Loans and financings.

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

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**JBS S.A.**

Notes to the financial statements for the years ended December 31, 2016 and 2015  
(Expressed in thousands of Brazilian reais)

**31 Approval of the financial statements****BOARD OF DIRECTORS**

<b>Chairman:</b>	Joesley Mendonça Batista
<b>Vice-Chairman:</b>	Wesley Mendonça Batista
<b>Board Member:</b>	José Batista Sobrinho
<b>Board Member:</b>	Humberto Junqueira de Farias
<b>Board Member:</b>	Claudia Silva Araujo de Azeredo Santos
<b>Board Member:</b>	Tarek Mohamed Noshy Nasr Mohamed Farah
<b>Board Member:</b>	Maurício Luís Lucheti
<b>Independent Board Member:</b>	Sérgio Roberto Waldrich
<b>Independent Board Member:</b>	Norberto Fatio

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**FISCAL COUNCIL REPORT**

The Fiscal Council, in compliance with the legal and statutory requirements, reviewed the Annual Management Report and the consolidated financial statements of the Company for the year ended December 31, 2016 and approved by the Board of Directors of the Company in March 13th, 2017.

Based on our review, information and clarification received during the year and Independent Auditors Review issued without unqualified opinion by BDO RCS Auditores Independentes SS, dated on March 13th, 2017, the Fiscal Council expresses the opinion that the documents are in conditions to be appreciate by the Ordinary and Extraordinary Shareholders Meeting.

**FISCAL COUNCIL**

<b>Chairman:</b>	Florisvaldo Caetano de Oliveira
<b>Council Member:</b>	José Paulo da Silva Filho
<b>Council Member:</b>	Demetrius Nichele Macei
<b>Council Member:</b>	Eraldo Soares Peçanha

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**AUDIT COMMITTEE**

<b>Chairman:</b>	Humberto Junqueira de Farias
<b>Committee Member:</b>	Silvio Roberto Reis de Menezes Júnior
<b>Committee Member:</b>	Paulo Sérgio Dortas

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**STATEMENT OF OFFICERS ON THE 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 consolidated financial statements for the year ended December 31, 2016, and
- (ii) They reviewed, discussed and agreed with the consolidated financial statements for the year ended December 31, 2016.

**EXECUTIVE BOARD**

<b>Chief Executive Officer:</b>	Wesley Mendonça Batista
<b>Administrative and Control Officer:</b>	Eliseo Santiago Perez Fernandez
<b>Investor Relations Officer:</b>	Jeremiah Alphonsus O'Callaghan
<b>Institutional Relations Executive Officer:</b>	Francisco de Assis e Silva

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

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