Management Discussion and Analysis 2012

Customers and Shareholders, the Directors of JBS S.A. submits to your appreciation the Management Discussion and Analysis on the Financial Statements of the Company for the year ended December 31, 2012, including the opinion of the Independent Auditors.

Message from Management

2012 was a period of significant improvements at JBS. We transformed the 2011 loss of R$75.7 million into an adjusted profit of R$1.26 billion last year. Despite the weaker than expected growth of the Brazilian economy, the challenges that Europe is still going through, the ongoing recovery of the economy in the United States and a significant increase in grain prices caused by one of the most severe droughts in US history, we posted an EBITDA of R$4.4 billion in 2012, a result which exceeds by 40% the previous year's performance.

Undoubtedly, 2012 financial results were very positive. However, let us not forget the improved operating performance of our business and the continuation of the consolidation process conducted by our Company after years of expansion. We dedicated last year to making adjustments in our structure, our processes and targets with a view towards improving internal indicators. Virtually all performance indicators improved significantly with respect not only to our own expectations, but also in relation to the market as a whole.

When we look back to 2012, we see that we delivered what we promised. We indicated that we would consolidate our growth and we did just that; we promised to expand our beef business in Brazil and we also delivered on that; we said we would reduce the cost of our debt and improve our leverage and we achieved these goals. Over the past number of years we had the opportunity to grow and skillfully manage a large operation and now we are ready to generate more value for our shareholders.

Let me remind you how our sustainability program progressed. As part of the Company's Institutional Relations Area, we established a department dedicated to this important topic. The newly founded team has been working hard along with stakeholders in order to demonstrate JBS' commitment to social and environmental aspects of our business as well as to the welfare of the community. A major achievement in 2012 was the publication of our first global greenhouse gases (GHG) emissions inventory. We had already been conducting this survey in Brazil since 2009. Last year we took it global. From here on, we will have a more comprehensive analysis of the Company's emissions, which gives us a solid foundation to take the next step toward the establishment of strategies and targets.

Everything we have achieved to date and all that is yet to come can not be assigned to any single person. The Company's growth and leading position in the global protein market was achieved as a result of collective actions performed on a daily basis by our team. This solid team is guided by our Board of Directors, composed by engaged members committed to the Company's success. We also count on committees that provide the necessary support towards the development of our strategies.

We began this year with a solid structure and good positioning to reach consistently better results through all our business. We are optimistic about the recovery in the US and a more consistent growth of the Brazilian economy. In our business, we see relevant growth potential in the Brazilian market and opportunities still ahead. Protein consumption in the world is growing and the outlook remains positive as an increasing number of people can enjoy the benefits of a healthier diet.

Also in 2013, we aim to improve the Company's financial indicators and debt profile as well as to reduce leverage. We want to further increase cash flow generation, pay dividends, continue to professionalize the Company and deliver solid and consistent results to the market.

Wesley Mendonça Batista

CEO of JBS S.A

Corporate Profile

JBS is the world leader in production of animal protein and the largest private Brazilian multinational Company. With net revenue of R$76 billion in 2012, the Company has a global platform for producing and distributing meats, with operations in Brazil, USA, Australia, Canada, Mexico, Paraguay, Uruguay, Argentina and Italy. Its operations also extend to Eastern Europe, Asia and Africa, through sales offices and distribution centers. JBS' 307 production units employ more than 140,000 global citizens across five continents.

In late 2012 the Company's processing capacity reached 81,400 head of cattle, 18,300 lambs, 8.3 million birds and 50,100 hogs a day. The Company is the only player within the industry that operates directly in the world's three main producing countries (Brazil, the USA and Australia), also having a relevant share of global trade for beef, lamb, chicken (being the global leader in the three categories) and pork (ranked third in the US market). JBS is also the world's largest leather processor, with plants in Brazil, the United States, China and Australia, with a daily processing capacity of 86,300 hides.

Privileged geographical distribution allows JBS to reach consumers in over 140 countries on five continents. In addition to the supply of fresh meat, the Company operates in high value added sectors with several brands around the world, such as Friboi, Maturatta, Organic Beef (Brazil), Swift (Brazil, the USA and Argentina), Pilgrim's Pride, Gold Kist Farms (USA), King Island Beef and Tasmanian Premium Beef (Australia). In 2011 the Company invested in the second phase of advertising campaign to strengthen Friboi brand in Brazil.

The Company's main goals are operational excellence and continuous search for the best margins in the various markets in which it operates always in full compliance with the best social and environmental practices. JBS was the first Company in the beef industry to go public in Brazil in 2007 and it is managed in accordance with the corporate governance rules established by the Novo Mercado of BMF&BOVESPA. The Board of Directors, comprising of 11 members, participates actively in the decision making process of JBS.

JBS businesses are divided into four units:

✓ **JBS Mercosul:** the Mercosul unit encompasses operations in the beef, leather and poultry markets of the region. In 2012, the unit posted net revenues of R$18 billion, with EBITDA margin of 13.7%. Considering all 55 facilities in the region, JBS has a total daily processing capacity of 56,300 head of cattle. In 2009, JBS incorporated the operations of Bertin, consolidating its leading position in Mercosul. In the area of New Businesses (JBS Novos Negócios), this department operates in the sectors of casings (beef tripe used in sausage production), transportation, beef tallow (raw material for the cosmetics industry) biodiesel (fuel produced from beef tallow or soy oil), metal packages, collagen, environmental incentives (providing solutions for solid waste management to the beef sector) and by-product trading.

Vigor, the dairy business of JBS, became independent after the Voluntary Public Exchange Offer in the middle of 2012. In this same year, JBS leased chicken operations of Doux Frangosul, changing its name to JBS Frangosul, with 1.1 million birds processed daily.

✓ **JBS USA Beef:** This Unit is responsible for the management of beef and smalls business in the USA, Australia and Canada. JBS USA beef operates 20 processing facilities, 18 feedlots and 20 distribution centers in the three countries. In 2012, JBS USA Beef posted net revenue of US$17.5 billion, with EBITDA Margin of 1.3%. This business unit was created in 2007 through the acquisition of the assets of Swift Foods (in the USA and Australia), Packarland Beef, the beef division of Smithfield, SB Holding (in 2008, both in the USA), Tasman, Rockdale Beef and Tatiara Meat (all in Australia). Australia exports around 80% of its production, mainly to Asia and Europe. In 2012, the operations extended to Canada through the acquisition of XL Foods.

✓ **JBS USA Hogs:** This Business Unit has three hog producing facilities and one industrial processing and distribution center in the USA. The operation was acquired in 2007 from Swift Foods and posted net revenues of US$3.5 billion in 2012, with EBITDA Margin of 5.4%. Exports to China and other Asian countries correspond to 20% of sales in this business.

✓ **JBS USA Chicken:** JBS entered the US chicken market in 2009 through the acquisition of a controlling interest in the US public listed Company, Pilgrim's Pride Corporation (PPC). This business unit comprises 31 chicken processing facilities in the USA, three in Mexico and one in Puerto Rico. With a total daily capacity of 7.3 million birds, JBS USA Chicken posted net revenue of US$8.1 billion in 2012, with EBITDA Margin of 5.0%, presenting strong recovery in relation to 2011.

Economic Environment

The year of 2012 was marked by several political and economic events that have impacted both global growth and trade, with a special emphasis on the slump in the Euro Zone, the modest growth of the American economy and inflation and a low pace of growth of the Brazilian economy.

The United States posted GDP growth of 2.2%, with an expansion of 1.9% in consumption and an increase in inventory investment from 5.2% in 2011 to 9.6% in 2012. Within the private investment category, the residential real estate sector was the best performer and increased 12.1%. The decrease in government spending (-1.7%) helped to moderate the pace of economic expansion, with a substantial reduction in defense spending (-3.1%).

Additionally, the US faced the worst drought in 50 years. This drought devastated agricultural production and turned the expectations of a good harvest into relative scarcity. Prices of corn and soybean, two of the main raw materials for chicken breeders and feedlots soared, increasing production costs in the industry. Nevertheless, the reaction was swift and the industry decreased its production. Consequently the supply was reduced and positive margins were maintained during 2012. For 2013 expectations are for a moderate growth in the United States (ranging from 1.7% to 2.4%), with an acceleration in 2014, up to 2.5%.

According to the Flow of Funds report published in March 2013, the debt balance of American households improved substantially in 2012. Household debt decreased and assets have been rising which favors the growth recovery of the USA economy. In addition, the Federal Reserve (FED) made positive assessments regarding the growth potential of the American economy highlighting the improvement in consumption despite the high level of unemployment.

According to the European Central Bank (ECB), Euro zone GDP recorded a contraction of 0.5% in 2012. The reduction in activity was widespread, with consumption and investment reducing 1.2% and 4.0%, respectively. GDP declined in 2012 in almost all countries of the Euro zone, except in Germany (+0.9%) and Ireland (+0.7%). Greece and Portugal suffered the biggest drops of 6.4% and 3.2%, respectively. According to projections from the ECB, the Euro zone GDP will continue to decline during 2013 (ranging from 0.9% to -0.1%) and shall recover in 2014. In this environment, the unemployment rate reached 11.8% in December of 2012, and increased to 11.9% in January 2013.

In China, imports suffered a downturn of 15% in February 2013, compared to an increase of 40% in the same period last year. Additionally, the annualized quarterly GDP reached an increase of 9.1% in the quarter ended in September, 2012. Signaling that the Chinese economy apparently reached stability in terms of growth rates, y-o-y increases in fixed asset investment (+20.7%), retail sales (+14.9%), and industrial production (+10.1%) were recorded in November, 2012. Full year GDP in 2012 was 7.5%, above the government's target. This growth rate is expected to remain stable at this level in 2013.

Recently, the IBGE (Brazilian Statistics and Geography Institute) reported that Brazil recorded a modest Gross Domestic Product (GDP) growth of 0.9% in 2012. According to the Finance Ministry, the result was influenced by the underperformance of agriculture (-2.3%), which was affected by droughts both in Brazil and in the United States. In addition, the Brazilian economic scenario in 2012 was also marked by the lowest level of unemployment in the last 10 years and the lowest interest rate in history. The registered unemployment rate in December 2012 was 4.6% (IBGE), while Selic (interbank basic interest rate) ended the year at 7.25%. Moreover, some sectors such as poultry and pork benefited from the reduction in payroll taxes and incentives, which was recently expanded to other activities. It is worthwhile mentioning that a low unemployment rate may be a favorable factor for protein consumption as improved income allows Brazilians to invest in a richer diet.

According to the Brazilian Association of Food Industries (ABIA), nominal sales growth of the food industry in 2012, which corresponds to 9% of GDP, was 11.3%. Nominal sales of meat products registered an increase of 9.8%. Exports grew 15% in volume of fresh beef shipped in 2012 compared to 2011, which correspond to nearly 945,000 tons (pw) in 2012. Considering the industrialized beef category, exports totaled 1.24 million tons last year, up 13.3% from 2011. Revenue for total beef sales was US$5.8 billion in the period, representing an increase of 7.3%. Egypt, Hong Kong and Chile were the main markets. Brazilian poultry meat exports reached 3.9 million tons in 2012, 0.6% less than 2011. Revenue was US$7.7 billion, 6.7% below the previous year. Volumes exported to Africa presented the highest growth, 20.1% (representing 100,1 thousand tons) compared to 2011.

In macroeconomic terms, JBS is positive about the recovery of the U.S. economy coupled with stronger growth of Brazil's economy. The Company sees a substantial growth potential in the Brazilian market and good opportunities still ahead for the advancement of its business. Protein consumption is due to increase worldwide and the outlook for this business is positive, with an increasing number of people enjoying the benefits of a richier diet.

Source: JBS, ABIA, BACEN, BEA, CEPEA, ECB, Flow of Funds, HSBC, IBGE, e SECEX.)

Analysis of Consolidated Results

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

		4Q12	3Q12	Δ%	4Q11	Δ%	2012	2011	Δ%
Net Revenue									
JBS USA Beef	US$	4,856.0	4,275.9	13.6%	4,491.6	8.1%	17,477.6	16,459.6	6.2%
JBS USA Pork	US$	955.5	846.1	12.9%	923.1	3.5%	3,501.1	3,472.6	0.8%
JBS USA Chicken	US$	2,189.7	2,068.5	5.9%	1,829.3	19.7%	8,121.4	7,535.7	7.8%
JBS Mercosul	R$	5,270.2	4,597.8	14.6%	3,800.5	38.7%	18,013.1	14,926.6	20.7%
EBITDA									
JBS USA Beef	US$	103.3	175.1	-41.0%	223.6	-53.8%	223.9	739.1	-69.7%
JBS USA Pork	US$	42.7	40.4	5.6%	77.0	-44.5%	188.1	338.2	-44.4%
JBS USA Chicken	US$	67.4	105.6	-36.2%	22.6	198.2%	402.6	-147.0	-
JBS Mercosul	R$	664.8	665.6	-0.1%	407.7	63.1%	2,469.2	1,597.6	54.6%
EBITDA Margin									
JBS USA Beef	%	2.1%	4.1%	-	5.0%	-	1.3%	4.5%	-
JBS USA Pork	%	4.5%	4.8%	-	8.3%	-	5.4%	9.7%	-
JBS USA Chicken	%	3.1%	5.1%	-	1.2%	-	5.0%	-2.0%	-
JBS Mercosul	%	12.6%	14.5%	-	10.7%	-	13.7%	10.7%	-

Performance by Business Unit

Analysis of Consolidated Results

Consolidated analysis of the principal operational indicators of JBS

R$ million	4Q12	3Q12	Δ%	4Q11	Δ%	2012	2011	Δ%
Net Revenue	**21,850.7**	19,366.6	**12.8%**	16,934.5	**29.0%**	75,696.7	61,796.8	**22.5%**
Cost of Goods Sold	(19,409.5)	(16,889.4)	14.9%	(15,040.0)	29.1%	(67,006.9)	(55,100.2)	21.6%
Gross Income	**2,441.3**	**2,477.2**	**-1.5%**	**1,894.5**	**28.9%**	**8,689.8**	**6,696.6**	**29.8%**
Gross Margin	11.2%	12.8%	-12.7%	11.2%	-0.1%	11.5%	10.8%	-
Selling Expenses	(1,129.0)	(999.9)	12.9%	(839.3)	34.5%	(3,877.7)	(3,144.1)	23.3%
General and Adm. Expenses	(594.6)	(516.1)	15.2%	(491.4)	21.0%	(2,057.4)	(1,739.2)	18.3%
Net Financial Income (expense)	(374.4)	(418.7)	-10.6%	(549.2)	-31.8%	(1,338.2)	(2,010.7)	-33.4%
Other Income (expense)	(43.2)	(0.9)	-	(22.4)	92.5%	(34.2)	(32.7)	4.6%
Operating Income	**300.1**	**541.6**	**-44.6%**	**(7.9)**	**-**	**1,382.3**	**(230.1)**	**-**
Income and social contribution taxes	(237.9)	(155.0)	53.5%	(15.3)	1454.9%	(619.4)	(92.8)	567.6%
Participation of non-controlling shareholders	4.2	(19.6)	-	48.7	-91.4%	(44.0)	247.2	-
Net Income (Loss)(1)	**66.4**	**367.0**	**-81.9%**	**25.6**	**159.7%**	**718.9**	**(75.7)**	**-**
Adjusted Net Income (Loss)(2)	**310.4**	**495.4**	**-37.3%**	**25.6**	**1112.6%**	**1,259.0**	**(75.7)**	**-**
EBITDA	**1,170.9**	**1,378.8**	**-15.1%**	**940.6**	**24.5%**	**4,410.3**	**3,151.0**	**40.0%**
EBITDA Margin	5.4%	7.1%	-	5.6%	-	5.8%	5.1%	-
Net Income (Loss) per share	**0.02**	**0.13**	**-81.3%**	**0.01**	**123.3%**	**0.25**	**(0.03)**	**-**

¹ Participation of Controlling Shareholders.
² Excluding deferred income tax liabilities due to goodwill at the parent Company.

Number of Heads Processed and Sales Volume

	4Q12	3Q12	Δ%	4Q11	Δ%	2012	2011	Δ%
Heads slaughtered (thousand)								
Cattle	4,397.1	4,057.1	8.4%	3,625.7	21.3%	16,359.3	15,088.9	8.4%
Hogs	3,926.3	3,302.5	18.9%	3,651.9	7.5%	13,683.2	13,132.2	4.2%
Smalls*	1,230.7	978.9	25.7%	894.7	37.6%	4,041.9	3,198.3	26.4%
Volume Sold (thousand tons)**								
Domestic Market	**1,883.0**	**1,663.6**	**13.2%**	**1,679.5**	**12.1%**	**6,976.5**	**6,642.5**	**5.0%**
Fresh and Chilled Beef	1,666.5	1,446.5	15.2%	1,423.2	17.1%	6,009.9	5,587.9	7.6%
Processed Beef	51.0	53.5	-4.7%	35.9	42.0%	175.0	139.2	25.7%
Others	165.6	163.6	1.2%	220.4	-24.9%	791.6	915.4	-13.5%
Exports	**625.2**	**556.8**	**12.3%**	**502.9**	**24.3%**	**2,147.5**	**2,055.4**	**4.5%**
Fresh and Chilled Beef	587.6	518.9	13.3%	472.4	24.4%	2,004.5	1,865.5	7.5%
Processed Beef	19.2	19.5	-1.6%	14.4	33.4%	69.2	70.7	-2.1%
Others	18.3	18.4	-0.3%	16.1	14.0%	73.7	119.2	-38.1%
TOTAL	**2,508.2**	**2,220.4**	**13.0%**	**2,182.4**	**14.9%**	**9,124.0**	**8,697.9**	**4.9%**

*Not including poultry.
**Not including PPC.

Consolidated Results

Net Revenue

JBS posted consolidated net revenue of R$75,696.7 million, an increase of R$13,899.9 million compared to 2011, or 22.5%. This expansion was caused primarily by increase of beef volume sold and the initiation of the poultry business, both in Brazil, besides the price increase of beef and poultry products in the US.

In 2012, approximately 75% of global sales were generated domestically in the markets that the Company is present and 25% came from exports.

In 4Q12 JBS posted revenue of R$21,850.7 million, 29.0% and 12.8% above the same period in 2011 and 3Q12, respectively.

Adjusted EBITDA

2012 full year EBITDA was R$4,410.3 million, 40.0% above the previous year. This performance was due to improved results from Pilgrim's Pride (JBS USA Chicken) and from Mercosul operations.

In the last quarter of 2012, EBITDA came in at R$1,170.9 billion, down 15.1% compared to 3Q12 and up 24.5% on a year-over-year analysis. 4Q12 EBITDA margin was 5.4%.

EBITDA (in thousands of Reais)	Company		Consolidated	
	2012	2011	2012	2011
Net income before taxes	**1,256,588**	(160,407)	**1,382,286**	(230,108)
Financial income (expense), net	**1,082,690**	1,468,238	**1,338,243**	2,010,728
Depreciation and amortization	**435,920**	436,501	**1,613,710**	1,291,411
Equity in subsidiaries	**(385,040)**	(113,264)	**(836)**	-
Restructuring, reorganization and donation	**-**	-	**66,033**	68,592
Indemnity	**-**	-	**10,895**	10,382
AMOUNT EBTDA	**2,390,158**	**1,631,068**	**4,410,331**	**3,151,005**

Net Income

JBS posted adjusted net income for the year of R$1,259.0 million, excluding deferred income tax liabilities due to goodwill at the parent Company. The reported net income in 2012 was R$718.9 million, R$0.25 per share.

4Q12 adjusted net income was R$310.4 million. The reported net income for the quarter was R$66.4 million.

Dividend

The Company has declared dividends of R$170.7 million to be submitted to the General Meeting of Shareholders for approval.

Cash Generation

JBS generated R$1,472.3 million of net cash from operating activities in 2012.

4Q12 net cash from operating activities came in at R$795.9 million, and free cash flow after capex was R$305.4 million.

Capital Expenditure

In 2012, total capital expenditure (CAPEX) of JBS in property, plant, and equipment was R$1,619.4 million. 4Q12 capex amounted to R$473.8 million. The main focus of investments were improvements in productivity, expansion of activities in Mercosul and increase in storage capacity and distribution over all regions.

Indebtedness

JBS' leverage (net debt / EBITDA) decreased to 3.4x at the end of 2012, from 4.3x at 2T12 and 3.7x at 3T12. This reduction is a result of the free cash flow of R$305.4 million in the quarter and of the improved EBITDA LTM.

Indebtedness (cont')

The improvement in leverage reflects the commitment of the Administration to manage working capital, reduce the cost of debt and increase operational efficiencies.

R$ million	12/31/12	9/30/12	Var.%
Gross debt	**20,488.9**	**20,284.5**	**1.0%**
(+) Short Term Debt	6,098.9	5,512.4	10.6%
(+) Long Term Debt	14,390.0	14,772.1	-2.6%
(-) Cash and Equivalents	5,383.1	5,040.7	6.8%
Net debt ( )	**15,105.9**	**15,243.9**	**-0.9%**
Net debt/EBITDA [1]	**3.43x**	**3.68x**	

(1) EBITDA LTM. U.S. dollar exchange rate of the last day of the period.

Cash Position

The Company ended the quarter with R$5,383.1 million in cash or cash equivalent, corresponding to 90% of short-term debt. In addition to the Company's cash position, JBS USA has available committed lines of U$1.2 billion, all of which demonstrates a comfortable liquidity.

The percentage of short-term debt (ST) relative to total debt rose from 27% in 3Q12 to 30% in 4Q12. In January 2013, the Company completed the issuance of U$500.0 million (approximately R$1,0 billion) in bonds maturing in 2023, with an yield of 6.5% per annum which will reduce the cost of consolidated debt and improve debt amortization schedule.

Investments in Subsidiaries

In May 2012, JBS entered the poultry industry in Brazil through the rental of chicken facilities which belonged to Doux Frangosul, with a capacity to process 1.1 million birds per day. Under the terms of the agreement, JBS has taken on no pending matters, liabilities, leans or any other impediments of any other nature. JBS rehired all employees of Frangosul and maintained all agreements with integrated growers and outsourced service providers.

Through the Brazilian chicken operation, JBS increased its production capacity globally by more than 15%, which is now approximately 9 million birds per day. The operations in Brazil are distributed in major grain and chicken producing states and are being aggregated to existing chicken producing units in 12 states in the US, Mexico and Puerto Rico where JBS already has one of the largest manufacturing facilities in the world in this segment.

In June 2012, JBS conducted a Voluntary Public Offering of Common Shares issued by JBS, to be exchanged by shares issued by its wholly owned subsidiary Vigor Alimentos SA ("Vigor"), the sole shareholder of Fábrica de Alimentos Vigor ("Vigor Subsidiary"), pursuant to CVM Instruction 361, dated March 5, 2002 ("CVM Instruction 361").

The offer was voluntary and structured to ensure that all shareholders of JBS were entitled to obtain proportionally in Vigor, as a new public Company, the same percentage share they held in JBS or to preserve the number of shares owned by them at JBS.

Vigor is now concentrating its activities in the consumer sector and its shares are now traded on the Novo Mercado, segment of the highest corporate governance standards of the BMF&BOVESPA - Securities, Commodities and Futures Exchange ("BM&FBOVESPA"), under the ticker VIGR3.

JBS management considered that since Vigor was its wholly owned subsidiary, the market could not establish its real value within the scope of JBS assets. Furthermore, the companies in the value added dairy industry usually have higher multiples than the beef industry. For these reasons, JBS understood that the Voluntary Offer would bring value to shareholders.

In October 2012, JBS USA signed an agreement to manage and operate the assets of XL Foods in Canada. This agreement also provided an exclusive purchase option of these assets as well as assets that XL Foods has in the United States.

The purchase option of the XL Foods assets in Canada was exercised on January 14, 2013. JBS is awaiting regulatory approval in the United States, where the US operations are still run by XL Foods, until the completion of the option to exercise the purchase.

Canada is one of the 10 largest beef producing nations, being the sixth largest exporter. Through this acquisition, JBS USA will build synergies in SG&A, besides the possibility to expand its exports from North America as well as having a significant increase in its production capacity in the region.

Corporate Events

As mentioned above, JBS conducted a Voluntary Tender Offer to Exchange Shares ("Offer") to purchase common shares issued by the JBS, through the exchange of shares issued by Vigor in the first half of 2012.

Regarding this Tender Offer, the following corporate events occurred: the exchange ratio of the Offer of 1 common share issued by JBS for 1 common share issued by Vigor and the price of each share issued by JBS object of the Offer fixed at R$7.96 was approved at Board Meeting held on April 5, 2012,.

The total value of the shares issued by Vigor for purposes of the Offer was R$1,191,726,194.16, having as a parameter values registered within the Vigor Alimentos' valuation report prepared by Bradesco BBI SA. The total number of shares object of the Offer, issued by JBS, was 149,714,346. Upon completion of the Offer, the capital of JBS was composed of 2,963,924,296 ordinary shares of which 117,800,183 common shares were held in treasury.

As part of the terms of this Offer, the Board of Directors Meeting approved the cancellation of 20,280,288 JBS common shares that were held in treasury on August 14, 2012. Thus, after said cancellation of shares, the share capital of JBS was composed of 2.943.664.008 ordinary shares of which 97,519,895 were held in treasury on December 31, 2012.

In December 2012, JBS incorporated its wholly owned subsidiary Cascavel Couros Ltda. The incorporation which did not result in an increase in the capital stock aimed at simplifying the JBS corporate structure resulting in reduced operating costs and a more efficient administration. Consequently, JBS had significant gains.

Principal Shareholders in 12/31/2012

Shareholders	Number of Shares	%
Controlling Shareholder (FB Participações SA et al)	1,294,186,864	43.97%
Treasury	74,532,564	2.53%
Free Float		
- *BNDES Participações S.A. – BNDESPAR*	*584,417,512*	*19.85%*
- *Caixa Econômica Federal*	*296,392,500*	*10.07%*
- *Minority Stockholders*	*694,114,568*	*23.58%*
Total Free Float	1,551,937,249	53.50%
TOTAL	**2,943,644,008**	**100.0%**

Looking after the citizen of the future

JBS has a diverse, global workforce and bases its employment decisions on meritocracy, respecting the diversity among its employees and making no distinction between age, race, religion or gender orientation.

The Company offers an initiation program to its employees which takes into account the Company's values, mission and principles. The training program covers areas such as Corporate Governance, Human Resources, Quality Control, Sustainability, the Environment and Ethics.

Currently, JBS has over 140,000 employees spread in its more than 300 facilities worldwide. In 2012, more than R$7.8 billion reais were distributed among employees – a value that corresponds to 57.7% of the Total Value Added Distributed which demonstrates the Company's priority towards looking after the citizen of the future.

Corporate Governance

JBS bases its decisions on the highest principles of ethics and transparency and strictly follows the corporate governance model provided by the BM&F's Novo Mercado on which it has been trading since 2007. Because it operates on a global scale and in highly dynamic markets which require fast decision making, JBS seeks to keep its governance structure as dynamic as possible and always very close to the situation experienced locally. As a result, the Company believes that it can meet the demands of its shareholders and from different levels of government and society without taking the risk of jeopardizing the business.

JBS' main strategic decisions are made at the General Shareholders Meeting, where each share is equal to one vote – once again following the model recommended by the Novo Mercado. The corporate governance structure is headed by the Board of Directors comprised of eleven members who are responsible for determining long-term strategies and overseeing the Company's performance. Regularly board meetings are held quarterly but the board members are constantly monitoring the business and are often called upon to participate in decision making.

The Company's Board of Directors is responsible for, among other things, determining policies and guidelines. The Board also oversees the directors and monitors the implementation of policies and guidelines established periodically by the Board.

Sustainability

JBS invests resources to develop actions to reduce environmental impacts related to its activities and to make operations more efficient regarding energy and water consumption, waste reduction, wastewater and CO2 emissions.

In Brazil, JBS made public agreements to ensure that the origination of livestock is not associated with properties that: deforest native forests, occupy indigenous lands or environmental conservation units, or are associated with labor conditions similar to slavery or child labor. Through being in compliance with these agreements, the Company reaffirms its commitment to sustainability.

To meet these commitments and to ensure the responsible sourcing of livestock, the Company has been investing continuously since 2010 in high-tech tools such as satellite imagery, geospatial mapping of rural properties aligned with information from official bodies for the analysis of more than 22,000 cattle suppliers located in the region of the Amazon Biome in Brazil.

This monitoring of livestock suppliers promotes sustainability throughout JBS supply chain and thus, the Company collaborates in the dissemination of good practices to all producers with whom it interacts.

As a commitment to the issue of Climate Change, JBS participates in the Carbon Disclosure Project (CDP) since 2009 and was recognized in the categories “Performance” and “Transparency” in 2012, endorsing its commitment to the environment.

JBS is also listed in the portfolio of the Carbon Efficient Index (ICO2) of BM&FBovespa within a group of Brazilian companies concerned with the measurement, monitoring and disclosing their greenhouse gases emissions (GHG).

Social Responsability

Besides generating thousands of jobs worldwide, JBS has a strong social commitment in the regions where it operates, promoting training of its employees through specific programs that aim to develop skills and knowledge to meet the demand of the various stages of processing livestock, preparing qualified professionals and promoting performance improvement, thus enhancing the quality of life of its collaborative citizens.

Germinare Institute

JBS’ activities in the social area are performed by the Germinare Institute since 2009. This institute shares the same principles as JBS, permanently seeking innovation and entrepreneurship in compliance with strict ethical and quality standards with a view towards building a fairer society. Inaugurated in February 2010, the Germinare School is the main highlight of this Institute.

Built adjacent JBS’ headquarters in São Paulo (SP), the goal of Germinare is to offer free primary and secondary education of excellence to better prepare citizens in terms of academic and human repertoire with broad cultural and ethical values as well as positive attitudes towards life and society.

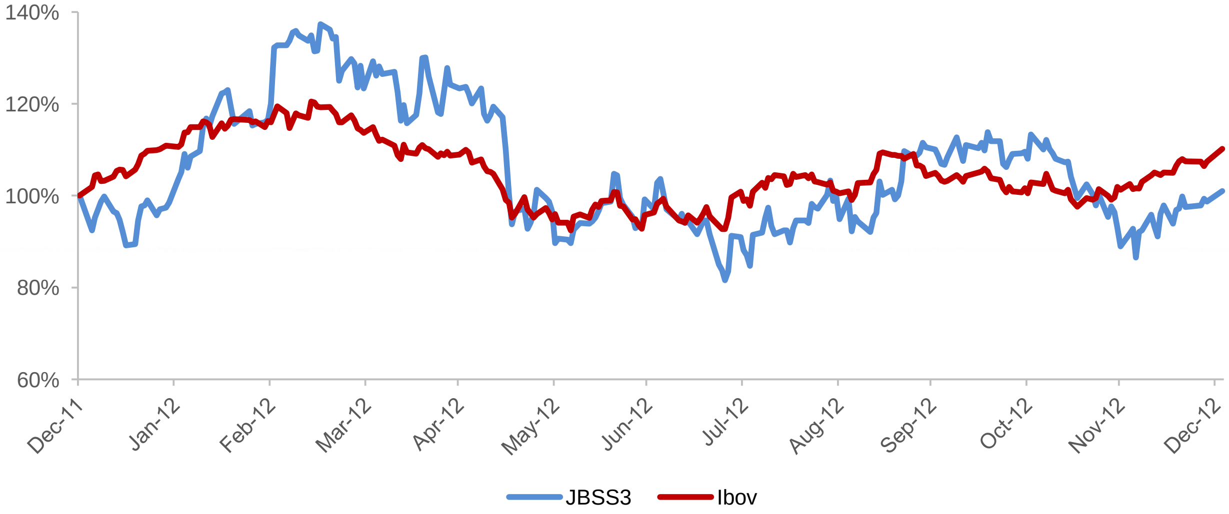
Through the inauguration of the Germinare School, education became the center of social responsibility policies at JBS. The school provides free education for youths from 6th grade of elementary school to 3rd grade of high school.

About 1,200 students applied for the selection process in 2011, 90 of whom were approved. Currently, Germinare has 360 students enrolled, all of whom receive free school supplies, food and uniforms. The school began its third school year in 2012, with 6th, 7th, 8th and 9th grade classes, completing the Elementary School phase.

From 2013, there will be classes in high school (up to 3rd year). Students have full-time activities with access to a computerized library, fully equipped laboratories, a fitness complex and swimming pool. In this environment, young people have the opportunity to complete their learning activities that involve developing physical and competitive skills. These activities also develop team spirit, teamwork and respect for rules and sense of achievement.

Capital Markets

JBS shares ended 2012 valued at R$6.00 in BM&FBovespa and its market capitalization totaled R$17.8 billion.



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.

JBS distributed dividends and interest on shareholders' equity to its shareholders in the amount of R$0.8 million for 2002, R$21.8 million for 2004, R$31.7 million for 2005, R$11.2 million related to 2006, R$17.5 million for 2007, R$12.3 million for 2008 and R$61.5 million for 2009. There were no dividend payment for 2010 and 2011. For 2012, JBS declared dividends of R$170.7 million to be submitted to the General Shareholders Meeting.

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.

Final Considerations

KPMG Associados was hired by JBS SA for the provision of external audit services related to audits of financial statements of JBS SA, individual and consolidated. The Company informs that during the year 2012, the auditors did not provide any other services unrelated to the audit of the financial statements.