

**JBS S.A.**

**Third-party audit report to meet undertaking to adopt “Public Commitment of Livestock” as indicated in the “minimum criteria for industrial-scale operations with cattle and beef products in the Amazon Biome”**

## **THIRD-PARTY AUDIT REPORT TO MEET UNDERTAKING TO ADOPT “PUBLIC COMMITMENT OF LIVESTOCK” AS INDICATED IN THE “MINIMUM CRITERIA FOR INDUSTRIAL-SCALE OPERATIONS WITH CATTLE AND BEEF PRODUCTS IN THE AMAZON BIOME”**

To  
**JBS S.A.** (‘JBS’ or ‘Company’)  
São Paulo - SP  
Att.: Mr. Márcio Nappo (Director of Sustainability - JBS Brazil)

### **I) Introduction**

Greenpeace has been studying the behavior of the production chain for cattle-raising in the Amazon region since 2007. In 2009, after a long investigation, the organization published its report “Slaughtering the Amazon”, which highlighted the relationship between the processing companies and their cattle suppliers involved with forest clearance and slave labor, and the latest products offered for sale in the international market. Subsequently, the processing companies JBS, Marfrig and Minerva have made a public commitment to remove from their lists of suppliers the ranches responsible for deforestation inside the Amazon Biome region after October 2009, as well as those that use labor analogous to slavery or that are located in indigenous lands or environmental conservation areas. The public agreement that establishes criteria for cattle purchases from properties located in the Amazon Biome region is entitled “**Public Commitment of Livestock**” and is defined in the document “**MINIMUM CRITERIA FOR INDUSTRIAL-SCALE OPERATIONS WITH CATTLE AND BEEF PRODUCTS IN THE AMAZON BIOME**”.

### **II) Purpose**

BDO RCS Auditores Independentes (‘BDO’) has been engaged, in terms of Proposal No. 1391/16, to carry out predetermined procedures, which appear in italics in this report, for an independent assessment, by means of an audit, of JBS data and procedures, of whether the Company has met the criteria assumed in the above-mentioned public agreement, for the period from January 1 to December 31, 2015. The audit procedures agreed between the parties are described in the TdR (“Third-Party Audit Reference Term 2016 (base year 2015)”), which has been submitted to BDO.

BDO RCS Auditores Independentes(‘BDO’) is an audit partnership organized according to Brazilian law, member of BDO International Limited, a UK Company limited by guarantee, and part of the international BDO network of independent member firms. It is well-known in national and international markets and has offices in major Brazilian cities and global support in more than 150 countries.

### III) Audit period

The audit was performed in the period between May 16 and June 24, 2016.

### IV) Description of the Company and of the cattle purchasing process in respect to the “Public Commitment of Livestock”.

*“Describe in detail the scope of the audit, giving the number of units of the company that receive animals from the Amazon Biome region”.*  
(Extract from TdR)

Incorporated in 1953, JBS is today the largest producer of animal proteins and the second largest food company in the world, processing meat from cattle, pigs, sheep and chickens and producing convenience food and added value. It also sells leather, hygiene and cleaning products, collagen, metal packaging, biodiesel and other products.

Within the Company universe, this audit covers only the purchases of cattle made between January 1 and December 31, 2015, by the slaughterhouse units that were supplied with raw materials sourced from the Amazon Biome region.

Currently, JBS has forty (40) active slaughterhouse units, of which twenty-eight (28), which are included in our analysis, purchased cattle from properties located in the following municipalities in the Amazon Biome region. These units are:

- State of Acre (AC):
  - ✓ Rio Branco II;
- State of Goiás (GO):
  - ✓ Goiânia
  - ✓ Mozarlândia; and
  - ✓ Senador Canedo.
- State of Maranhão (MA):
  - ✓ Açailândia;
- State of Mato Grosso (MT):
  - ✓ Alta Floresta;
  - ✓ Água Boa;
  - ✓ Araputanga;
  - ✓ Barra do Garças;
  - ✓ Confresa;
  - ✓ Colíder;
  - ✓ Diamantino;
  - ✓ Juara;
  - ✓ Juína;

- ✓ Pedra Preta; and
- ✓ Pontes e Lacerda;
  
- State of Pará (PA):
  - ✓ Marabá;
  - ✓ Redenção;
  - ✓ Santana do Araguaia; and
  - ✓ Tucumã;
  
- State of Rondônia (RO):
  - ✓ Pimenta Bueno;
  - ✓ Porto Velho;
  - ✓ São Miguel do Guaporé; and
  - ✓ Vilhena;
  
- State of São Paulo (SP):
  - ✓ Lins;
  - ✓ Andradina; and
  - ✓ Santa Fé do Sul;
  
- State of Tocantins (TO):
  - ✓ Araguaína.

Due to the suspension of operations in Amargosa (state of Bahia - BA), Ariquemes (state of Rondônia - RO), Cuiabá (state of Mato Grosso - MT), Iguatemi (state of Mato Grosso do Sul - MS), Matupá (state of Mato Grosso - MT), Rolim de Moura (state of Rondônia - RO) and São José dos Quatro Marcos (state of Mato Grosso - MT) units, which acquired cattle from properties located in the Amazon Biome region in 2015, the Company opted not to include them in the sample or in the analysis because of the difficulty of checking the necessary documentation for the tests performed. Greenpeace was notified of the procedures adopted.

For the auditing procedures, according to the TdR, the assessment was made on the analysis of 10% of cattle purchases made by JBS in 2015 from properties located in the Amazon Biome region. This sample, details of which will be given later in this Report, under the heading “Step 1 - Selection of the sample”, included every month in 2015 and proportionately all the twenty-eight (28) slaughterhouse units supplied with raw materials from the Amazon Biome region.

Before presenting the tests performed and their results, it is important to demonstrate the meaning of the following acronyms, which will be used throughout the report:

- APA: Environmental Protection Area;
- APF: Provisional Operating License;
- CAR: Rural Environmental Registry;

- CCIR: Certificate of Registration of Rural Property;
- CNAE: National Classification of Business Activities;
- DETER: Real-time Detection of Deforestation;
- FUNAI: National Foundation for Indigenous People;
- GTA: Animal Transit Form;
- IBAMA: Brazilian Environment and Natural Resources Institute;
- INCRA: National Institute for Settlement and Agrarian Reform;
- InPACTO: Institute National Pact for the Eradication of Slave Labor
- INPE: National Institute for Space Research;
- LAR: Rural Environmental License;
- LAU: Single Environmental License;
- MPF: Federal Public Prosecution Office;
- MMA: Ministry of the Environment;
- MTE: Ministry of Labor and Employment;
- PRODES: Brazilian Amazon Deforestation Monitoring Project;
- SEMA: State Department of Environment;
- TdR: Reference Term;
- TI: Indigenous Land;
- UC: Environmental Conservation Area;
- UF: Unit of the Federation (state); and
- UPFs: Production and Supply Unit.

*“Describe in detail the company systems for cattle purchases, its procedures and records used to fulfill the “Public Commitment of Livestock”, based on the public lists (IBAMA and MTE) and the GEO list, and the traceability system of the origin of the cattle”.*

*“Describe the cattle purchase blocking system used by the company, how it is updated in accordance with the public lists (IBAMA and MTE) and the GEO list”.*

(Extracts from TdR)

For purchases made from properties within the perimeter of the Brazilian Legal Amazon, i.e. from an area larger than the Amazon Biome, as determined in the agreement “MINIMUM CRITERIA FOR INDUSTRIAL-SCALE OPERATIONS WITH CATTLE AND BEEF PRODUCTS IN THE AMAZON BIOME” or “Public Commitment of Livestock”, JBS has established mechanisms for cattle purchasing intended to ensure that the Company does not acquire cattle from properties (direct suppliers) that:

- Have cleared native forest after October 2009;
- Are in the list of areas embargoed by IBAMA;
- Are located within Indigenous Lands or Environmental Conservation Areas;
- Use labor analogous to slavery or degrading labor, according to the “MTE list” published on December 26, 2014, and subsequently obtained from the MTE under the Law of Access to Information (Law No. 12.527/2012), provided by InPACTO on September 3, 2015, due to the suspension of publication, whichever is more recent; or
- That are in illegally occupied areas, or on land acquired by means of violence.

However, JBS has informed us that it has not implemented systematic verification of indirect suppliers.

All these mechanisms and procedures make up the “Company’s System for Social and Environmental Monitoring of Cattle Suppliers”. The system is being developed and improved by the Company since 2010 and is run from two process of analysis that work in an integrated way:

- Analysis from lists provided by public bodies such as IBAMA and MTE; and
- Geographical assessment of the ranches undertaken from a georeferenced map of the properties by a geomonitoring company hired by JBS named AgroTools.

In addition to these analytical processes, there is a supplementary procedure of analysis of the documentation and geographic information run by JBS’ corporate Sustainability team.

The first of the analytical processes listed above involves the download of the public lists issued by MTE and by IBAMA from their official websites to compare the information from these lists with the Company’s registered cattle suppliers’ data (Individual and Corporate Taxpayers’ Registration Numbers - CPF/CNPJ). The procedure is carried out daily (Monday to Friday) at about 8 a.m., and suppliers whose CPF/CNPJ are in the public list of IBAMA or MTE are automatically blocked from providing raw material to JBS in the Company’s Enterprise Resource Planning (ERP) system.

In the case of registered suppliers whose CPF/CNPJ is in the list of areas embargoed by IBAMA (referred to in this Report as the “IBAMA List”), and that own more than one property bound to this CPF/CNPJ, i.e. if the embargoed property is in a different municipality and/or the name of the property in the “Property Location” field is different from that shown in the Company’s suppliers register, the JBS corporate sustainability team analyzes the case individually, and if it is found that the property is not the same as the property embargoed, it is manually released for purchases. There are also cases where the cattle supplier is asked for additional documentation of the property for the team to clear up any queries and to analyze the embargo. If the explanation is plausible, the release of the farm is authorized by the area’s corporate management.

For cases in which the CPF/CNPJ of the cattle supplier is in the “MTE List”, the manual release of properties is not made, i.e. no exceptions can be made, since all its properties remain blocked in the JBS computer purchasing system.

In addition, the “MTE list” of employers convicted for the exploitation of workers (the employers’ register) was removed from the official website in the last days of 2014, after an injunction granted under Direct Action of Unconstitutionality No.5.209 of the Federal District, by the Chief Justice of the Supreme Federal Court, Ricardo Lewandowski. The injunction was filed by the Brazilian Association of Real Estate Developers (ABRAINC). Accordingly, the list is no longer published, as it previously had been every six months, limiting use to the latest list dated July 1, 2014, which was updated on December 26, 2014.

In view of the above, InPACTO, an organization of which JBS is a member, applied under the “Law of Access to Information” (Law No. 12.527/2012) for the MTE to supply details of employers accused of keeping workers in a condition analogous to slavery for which a final administrative decision had been rendered, between May 2013 and May 2015. As a result, a document entitled “Transparency List on Slave Labor” was received on September 3, 2015, and can be consulted, and downloaded in PDF or Excel format, on the InPACTO website (<http://www.inpacto.org.br>). We would mention that both the employers’ register and the “Transparency List” are referred to in this Report as “MTE List”.

The second analysis process consists of the geospatial monitoring, which performs the digital overlay of geographical coordinates and georeferenced maps of the cattle supplier properties with the criteria on deforestation and invasion of protected areas (Indigenous Lands and Environmental Conservation Areas) within the Amazon Biome. The geospatial monitoring is undertaken by AgroTools, a geomonitoring firm hired by JBS, using official maps of deforestation released by INPE (PRODES and DETER), official maps of FUNAI (Indigenous Lands) and the MMA (Environmental Conservation Areas) - which are systematically consulted by AgroTools for updating. The geographic coordinates or georeferenced maps of JBS supplier farms are crosschecked against INPE, FUNAI and MMA digital maps to ensure that they comply with the Company’s criteria for sustainability.

When AgroTools receives the JBS’ supplier farms data and digital maps, the geometry is validated and they are classified according to their level of geographical accuracy:

Level of geographical accuracy	Details
N0	When the pair of geographic coordinates of the property is not validated. In this case, the centroid (center of a geometric shape) of the city where the supplier farm is located is used until the correct geographic coordinates are sent;
N1	When the location of the property is defined by a pair of geographic coordinates, previously validated, and the farm area is determined from a “buffer zone” of 10 km radius corresponding to 31,400 hectares (or 77,591 acres);
N3	When the location of the property is determined by a previously validated pair of geographic coordinates, and the total size of the property is known, the farm area is determined from a “buffer zone” calculated according to the informed area, be it larger or smaller than 10 km radius; and
N5	When the location of the property and all its limits are known, through the georeferenced map of the farm.

*(Classification by AgroTools)*

Daily, AgroTools prepares and sends to the Company a worksheet (called “Geomonitoring Report”), at around 4 p.m., with the details of the analysis of each of the monitored suppliers located in the Brazilian Legal Amazon, classifying them as “blocked”, “released” or “alert”, and indicating the reason for blocking: invasion of an Environmental Conservation Area (UC), invasion of Indigenous Land (TI), deforestation according to data from DETER and/or PRODES (for the years 2009 to 2015).

We would also mention that the data in the DETER system, used for raising an alert for deforestation to help IBAMA to monitor and control illegal deforestation and degradation of the forest, is updated every three months. Similarly, data from the PRODES system indicates areas of total clearance in the Legal Amazon region, and is used to produce the annual deforestation rates. The PRODES system produces consolidated deforestation data in November and December each year, with an estimate of the rate of deforestation. The data is consolidated and published during the first half of the following year.

The analysis undertaken by AgroTools is based on JBS’ social and environmental criteria, and classifies the status of Company’s supplier farms as follows:

- “Blocked”: when the level of geographical accuracy is N5 and at least one of the social and environmental criteria has been violated;
- “Alert”: when the level of geographical accuracy is N1 or N3; and
- “Released”: when the level of geographical accuracy is N5 and there is no violation of social and environmental criteria.

When properties are classified as “released”, some technical parameters are considered for their geospatial monitoring, such as a tolerance level of 10% in the partial overlap of supplier farms with Environmental Conservation Area or Indigenous Land. This parameter is applied due to possible differences of geographical scale between the official maps of Environmental Conservation Units and Indigenous Lands, and the georeferenced maps of supplier farms, and it is provided for in the Third-Party Audit Reference Term 2016 (base year 2015) of the “Public Commitment of Livestock”

In addition, supplier farms wholly or partially located in protected areas classified as of sustainable use and which allow livestock production are considered “released”, provided that they are listed in the geomonitoring protocol previously defined by JBS.

For its analysis of deforestation, AgroTools considers “released” the properties where overlap with DETER polygon is less than 25 hectares and more than 50% of the deforestation polygon is outside the supplier farm area. For PRODES detection, the rule is that the deforestation polygon is less than 6.25 hectares and more than 50% of it is outside the supplier property area, according to INPE geomonitoring assurance parameters.

Under the procedures established by JBS, AgroTools has up to fifteen (15) business days to update its monitoring data base from the date of publication of the DETER/PRODES official data by INPE.

Still regarding the INPE DETER/PRODES data, in the case of “false positives of deforestation” (satellites images identified as forest clearance, but which can be, for example, areas of pasture clearing, natural or accidental fires, rocky outcrops or intermittent rivers), JBS corporate sustainability team asks the supplier for supplementary documents in order to reassess the property. These documents are checked by the Sustainability team, and if in fact this is not a case of deforestation, they are validated and forwarded to AgroTools for the classification of the status of the supplier property to be amended. The Company’s procedure, in cases of such “false-positives” for deforestation, even after the supplier farm has been “released”, is to ask for an “in-depth analysis” to be undertaken by AgroTools.

This consists of a multi-temporal analysis (covering different periods) of satellite images to verify whether or not deforestation has occurred. If the analysis gives a favorable result, i.e. it is a case of “false-positive” for deforestation, the supplier farm remains “released”. If the result is unfavorable, and deforestation is in fact detected, the status of the property is changed to “blocked”. AgroTools has five (5) business days to carry out the in-depth analysis, which the Company may request once a week.

In some cases properties classified as “blocked” by AgroTools may be changed to “released” by JBS, if it considers certain documents to be valid in its analysis protocol. They are: Declaration by the cattle raiser of a “false-positive” for deforestation”, authenticated by a notary; Authorization for felling issued by SEMA - MT; Authorization for pasture clearing; Authorization for deforestation issued by SEMA - PA; Authorization for forest exploitation issued by SEMA - PA; Provisional Operating License (APF) for the state of MT; Police reports; Declaration of the State Environment Department (SEMA); Technical report on dynamics of ground use issued by professionals holding a CREA certificate and with an Annotation of Technical Responsibility (ART) paid; LAR / LAU; Degraded Areas Recovery Projects (PRAD); Protocol for environmental license and a document formalizing the supplier’s undertaking to pursue the licensing process and fulfill any preconditions required by the environmental authority; and a Conduct Adjustment Agreement (TAC).

There are extraordinary situations in the case of blocked properties, where the farm owner has submitted certain types of valid documentation, other than those mentioned in the previous paragraph. The JBS corporate sustainability team will review them and, if it can confirm compliance of the property in question with the Company’s environmental criteria, the documentation is sent to AgroTools and requested to be included in the geomonitoring protocol, the company stores the document in its digital database and changes the status of the farm from “blocked” to “released”.

Additionally, JBS meets the requirement of the Ministry of Agriculture, which provides in Decree No. 5.741 of March 30, 2006 the surveillance of animal transit, for acquiring only animals (cattle) with a GTA, that is, for all transit of cattle interstate and intrastate. The Company requires the issuance of GTAs regarding the cattle transit from the supplier farms to the slaughterhouse units, in order to promote cattle traceability and allowing the Brazilian agricultural defense services to track the transit of animals.

## V) Procedures

*“Describe the audit strategy (audit trail) and procedures used to demonstrate that the Minimum Criteria have been met, listing the documents supplied, as established by the Reference Term for each stage of the audit process”.*

(Extract from TdR)

The procedures adopted consisted in the analysis of documents and information referring to purchases of cattle by JBS within the Amazon Biome areas during the period from January 1 to December 31, 2015, in accordance with NBC TSC Standard 4400 - Agreed-upon procedures engagement on accounting information, approved by Federal Association of Accountants (CFC) Resolution No. 1.277/10.

The audit process was carried out based on the TdR, previously agreed between the companies signatories to the “Public Commitment of Livestock” and the NGO Greenpeace and on the related documents submitted by JBS to evidence compliance with the “MINIMUM CRITERIA FOR INDUSTRIAL-SCALE OPERATIONS WITH CATTLE AND BEEF PRODUCTS IN THE AMAZON BIOME”. The main procedures applied in the audit include:

- Inspection of documents;
- Questions posed in interviews with the employees of the Company that operate the System for Social and Environmental Monitoring of Cattle Suppliers and the Information Technology; and
- Simulations of the existing tools.

The following documents were requested to JBS to perform each step of the process:

- Working Plan containing deadlines and targets to be achieved, showing progress in all the points stipulated;
- Records of cattle purchases for the period from January 1 to December 31, 2015;
- Evidence that the Company is a signatory to InPACTO and a member of the Institute National Pact for the Eradication of Slave Labor (InPACTO);
- Tax invoices and GTAs from twenty-five (25) cattle purchases randomly selected from the sample;
- CAR Document from twenty-five (25) purchases randomly selected from the sample;
- LAR Document or protocol from twenty-five (25) purchases randomly selected from the sample; and
- CCIR Document from twenty-three (23) complete purchases randomly selected from the sample, from the JBS suppliers register.

In addition to the documents referred to above, the following documents were requested and received from the geomonitoring company AgroTools:

- A list of blocked and released suppliers (considering the status of the properties on December 31, 2015) generated from the geospatial monitoring from satellite images and the Geographical Information System (“GEO List”) with the name of the property and the owner, the code of the property and owner, CPF/CNPJ, municipality, state, and the date of the last change in the status for the property in question;

- Geomonitoring protocol describing the rules, criteria and parameters for social and environmental monitoring, agreed between AgroTools and JBS;
- Part of the articles of organization and bylaws of AgroTools with definition of its purpose;
- Register Certificate and Register Status with Federal Revenue of Brazil (RFB);
- Technical Responsibility Note - ART; and
- Certificate of technical capacity.

The testing was carried out after selecting a random sample of 10% of cattle purchases made by JBS between January 1 and December 31, 2015, including every month of the year and, proportionately, all JBS processing units purchasing raw material from supplier properties located in the Amazon Biome, excluding seven (7) slaughterhouse units at the request of JBS, as mentioned above, because their operations had been suspended.

In addition, the public lists of embargoed areas (“IBAMA List”) and of employers found using labor analogous to slavery (“MTE List”) were crosschecked against the 10% sample of purchases in 2015.

To analyze the “IBAMA List”, the BDO audit team downloaded it from the official website (<https://servicos.ibama.gov.br/ctf/publico/areasebargadas/ConsultaPublicaAreasEmbargadas.php>), on May 18, 2016.

As for the MTE, the most recent list with the embargoed properties (six-monthly updating carried out on July 1, 2014, with a supplementary update on December 26, 2014) (<http://www.mte.gov.br/fiscalizacao-combate-trabalho-escravo/cadastro-de-empregadores>) arising from the list of employers convicted for exploiting workers was checked against purchases made up to September 3, 2015.

For purchases made as from September 4, 2015, the Transparency List was also checked against the sample of purchases by JBS during the audit period (January 1 to December 31, 2015). Both lists were provided by the JBS corporate sustainability team.

After receipt of these documents, the key people in charge of the Sustainability, Information Technology and Cattle Purchase areas of JBS were interviewed, as well as the AgroTools team. Subsequently the audit was conducted in the following stages:

- A random list was produced of 10% of total cattle purchases by JBS between January 1 and December 31, 2015, from supplier farms located in the Amazon Biome, including every month of the year and, proportionately, all the units supplied with raw material from this region;

- The sample obtained was compared with the “IBAMA List”, “MTE List” and “GEO List”. For the “IBAMA List” and the “MTE List”, the common field used for checking was the CPF/CNPJ of the suppliers to the Company. In the case of the “GEO List”, supplied by AgroTools, the common field checked was the registration code of the supplier farms, which appears both in the “GEO List” and in the suppliers register of JBS ERP system;
- When owners or supplier farms were found in any of the lists, the insertion date was checked to confirm that it was later than the purchase date. In addition, in the “IBAMA List”, the location of the municipality and name of the property embargoed were compared with the name of the supplier property to confirm whether they were the same. The owners and properties appearing in the lists were tested for blocking in the JBS purchase system by means of simulated purchases of cattle from blocked properties. As indicated in the TdR, the sample used for the blocking tests must consist of ten (10) cases for each list (IBAMA, MTE and GEO). However it was not possible to carry out ten (10) tests for the “MTE List”, since only six (6) CPFs/CNPJs, referring to nine (09) purchases, were identified in the cross-referencing. One hundred and ninety-eight (198) irregular properties were found in the “IBAMA List”, and ten (10) were selected at random using statistical software; in the case of the “GEO List”, eighty-seven (87) properties were identified and ten (10) selected for testing. This gave a total of twenty-six (26) tests;
- We also assessed the possibility of unblocking suppliers blocked for one of the criteria (IBAMA, MTE or GEO). As described below, the system allows for unblocking when there is a ban on purchasing cattle from blocked suppliers. This procedure is only performed by the JBS corporate sustainability team, according to criteria described in the following stages of this Report;
- The geomonitoring system was analyzed, by means of interviews with the people in charge of the procedures in the outsourced company (AgroTools), for us to understand their procedures and confirm that no purchases are made from supplier farms, and that therefore the social and environmental criteria are being fulfilled. Also in respect of the geomonitoring procedures carried out by AgroTools, we verified the reliability and efficacy of the service provided by taking a sample of thirty (30) supplier farms and simulating a geomonitoring exercise. The sample included both “released” and “blocked” properties. The BDO audit team defined criteria for testing fifteen (15) supplier farms classified as “released” and fifteen (15) suppliers with a “blocked” status. Five (5) cases were selected for each criterion (deforestation, invasion of Environmental Conservation Units and invasion of Indigenous Lands);

- In addition, in order to evaluate cattle purchases from the sample selected, we took a further random sample of twenty-five (25) purchases and analyzed the tax invoices and GTAs;
- For the LAR document, we used statistical software to randomly select twenty-five (25) sample purchases, to check the documentation submitted by JBS and also the details on the website of the official body;
- For the CAR document, we used statistical software to randomly select twenty-five (25) sample purchases, to check the documentation submitted by JBS and also the details on the website of the official body; and
- Also, to verify the legality of the property titles, we took twenty-three (23) purchases from the 10% sample for verification of the CCIR document on the INCRA website against the JBS documentation. As mentioned above, we checked all the cases in the sample extracted from the Company system.

## **Stage 1 - Sampling process, testing of cattle purchases system and testing of blocking system for non-compliant suppliers.**

### **Step 1 - Selecting the sample**

*“Give a brief description of the procedures used for extracting information on cattle purchases by the companies in the Amazon Biome region during the period audited, and the criteria adopted for sampling”.*

(Extract from TdR)

In order to ensure the accuracy of the information extracted from the JBS database on May 18, 2016, an IT auditor and the team of BDO Sustainability auditors monitored the extraction of a list of cattle purchases from the JBS ERP system. The job of the IT auditor was to validate the search of cattle purchase records in the JBS management system for the period from January 1 to December 31, 2015.

An understanding of the system procedures was reached, and tools identified which contained data for controlling the source-codes and management system functions. The last procedure (inputs in SQL) relating to data searches was also validated, and finally we validated the SQL code used in extracting cattle purchases and the management system data bank (ERP). The above procedures were intended to confirm the integrity of the purchase records and of the programming language to ensure that it has no filters or bias which might influence the operating results or the extracting of purchases.

After receiving the database for cattle purchases made by JBS in 2015, the purchases from Amargosa (state of Bahia), Ariquemes (state of Rondônia), Cuiabá (state of Mato Grosso), Iguatemi (state of Mato Grosso do Sul), Matupá (state of Mato Grosso), Rolim de Moura (state of Rondônia) and São José dos Quatro Marcos (state of Mato Grosso) units were excluded since, as mentioned earlier, these units were no longer operating.

We then selected purchases from properties located in the Amazon Biome region. This selection was made by cross-referencing the location of the farms supplying all the Company's purchases during 2015 with the list of municipalities in the Amazon Biome region, according to Ordinance No. 96/08 of the Ministry of the Environment. From this total of purchases, a random 10% sample was taken, as agreed between the signatories to the "Public Commitment of Livestock" and Greenpeace, resulting in a total of eleven thousand one hundred and sixty-six (11,166) cattle purchase transactions.

The selection method for the sample was determined by BDO, taking each of the twelve (12) months of the sample period and including proportionately all the units supplied by raw material from the Amazon Biome region. The selection was made by statistical software, applying a 10% sample to each JBS processing unit, thus ensuring a representative proportion of purchases from the various slaughterhouses.

## Step 2 - Testing of cattle purchases system

*"Give a brief description of how the public lists (IBAMA and MTE) and the GEO list were compared with the samples of cattle purchases, indicating where they coincided and where they did not".*

*"If a cattle purchase was identified from a property appearing in any of the lists, give an estimate of the volume of irregular purchases as a percentage of the total sample, and how checking was done of any cattle purchases from irregular suppliers".*

(Extract from TdR)

In order to conduct the cattle purchase testing, on May 18, 2016, the audit team of BDO downloaded the public list of IBAMA's embargoed areas (IBAMA List). The JBS corporate sustainability team provided the "MTE List", since these lists are no longer available, as previously mentioned.

Subsequently, on May 24, 2016, AgroTools provided the "GEO List", dated December 31, 2015, of properties with the status "blocked" due to any of the following criteria: deforestation (PRODES and DETER), invasion of Indigenous Lands or of Environmental Conservation Areas.

For our analysis, we crosschecked the “IBAMA List” against the 10% sample of cattle purchases from the Amazon Biome region, through the common identifier field, the CPF/CNPJ of the suppliers. Through this procedure we identified four hundred and ninety (490) cases where there was agreement between the CPFs/CNPJs of the suppliers from the JBS purchase sample and those in the list of IBAMA embargoes.

The four hundred and ninety (490) purchases, representing 4.38% of total purchases in the sample, were related to one hundred and forty-three (143) CPFs/CNPJs that have environmental embargoes in IBAMA. From these one hundred and forty-three (143) CPFs/CNPJs, we found one hundred and eighty-three (183) different properties supplying to JBS, or 3.2% of the total properties in the sample extracted from the Company’s records.

We would mention that one supplier, identified by its CPF/CNPJ, can own one or more properties out of the total from which the Company makes its purchases. Below are the details on these cases and the justifications presented by JBS for the purchases made:

- In two hundred and ninety-two (292) cases we found that they related to different municipalities and/or farms;
- In twenty-six (26) cases we found that the date of the latest purchase made in 2015 was earlier than the date of inclusion of the property in the “IBAMA List”;
- In one hundred and sixty-two (162) cases it was found that the name of the supplier farm is different from the name of the property given in the “Property Location” field in the “IBAMA List”; and
- In seven (7) cases it was found that the name of the farm supplying to JBS was different from that given in the “Property Location” field in the “IBAMA List” and also that the last purchase was made before the date when the property was embargoed by IBAMA.

JBS supplied the following documents as proof of the above cases:

- Embargo certificate issued by IBAMA;
- Reproduction of geographical coordinates of the area embargoed by IBAMA, described in the Notice of Violation or in IBAMA website; and
- Digital map showing the limits of the polygon of the supplier farm, as registered in the Social and Environmental Monitoring System for Cattle Supplier Farms.

In other words, for the four hundred and eighty-seven (487) purchases detailed above, the Company proved that the supplying farms were not embargoed properties, and submitted evidence to support compliance of the purchases.

There were, however, three (3) purchases, from a single supplier, representing 0.03% of the total purchase transactions sampled, which BDO considered not to be in compliance with the public commitment, and which the Company could not justify. This is because they occurred after the supplying farm was placed on the “IBAMA List”, and we found that the purchases were from the same farm and in the same municipality as in the list. This, therefore, among the cases analyzed, represents a one-off failing in the Company’s internal procedures.

The results of our analysis can be found in the Appendix to this Report, in table 2 - Non-conformities found.

The “MTE List” was also checked against the sample of purchases, using the CPF/CNPJ number. In this comparison, nine (9) cattle purchase transactions referring to six (6) CPF/CNPJs included in the list were identified, representing 0.08% of the total purchases sampled.

In all cases analyzed the purchases made by JBS were before the inclusion of the CPF/CNPJ of these suppliers in the “MTE List”. Thus no cattle purchase was found in violation of the commitment to the criterion of slave labor.

Finally, for crosschecking the “GEO List”, the supplier property registry code was used as common field between this list and the sample of purchases. We then identified eighty-seven (87) purchases classified by AgroTools as “blocked” at December 31, 2015, from which JBS made purchases during the course of 2015. These eighty-seven (87) cases represent 0.77% of the total sample of purchases.

Of the total purchases classified as “blocked”, eighty-four (84) were found to have been made before the date when the supplying farm was accorded this status by AgroTools, indicating that the purchases were in order. However, of these eighty-four (84) cases identified as being in order, three (3) additional justifications were requested, and in these cases gaps in procedures were found, as described below:

- In three (3) cases justification was sought because the supplier farms had the same registration code but the names differed. However, as explained by the JBS corporate sustainability team, the data contained in the AgroTools “GEO List” must be the same as that shown in the JBS database of supplier farms. In justification, the Company told us that the JBS and AgroTools systems are not integrated, and this can sometimes lead to mismatches until the systems are updated, as in the cases analyzed. Thus in relation to these three (3) cases, procedural failings occurred, since the information was not passed on by the Company to be updated in the AgroTools database, resulting in a situation of supplier farms having the same code but different names. However, we found that in spite of the error in the name field, the other data in the worksheets matched, and so this does not compromise the geographical analysis made by AgroTools, which takes into account the perimeter and the registration code, but not the name of the property.

For the three (3) remaining cases out of the total of eighty-seven (87), we asked JBS to justify purchases made from blocked properties, as follows:

- In one case, the purchase was made on the same day that the supplier farm was blocked. As evidence, the Company sent the update of the supplier’s status on the JBS system, proving that the animals were slaughtered on the same day, but in the morning, when the supplier farm still had a “released” status. To supplement the documentation, they also sent us the AgroTools Monitoring Report which is received each day at around 4 p.m. for updating the status of suppliers in the ERP system, resulting in the property’s status being changed to “blocked”. Accordingly, the UPF was blocked in the JBS system by the JBS corporate sustainability team, after receipt of this Monitoring Report from AgroTools;
- In one (1) case we found that a property’s status was “blocked” in the “GEO List” supplied by AgroTools, before the date of the last purchase. In justification, the Company submitted a “self-declaration of false-positive” signed by the cattle raiser, with his signature recognized by a notary, indicating that PRODES had incorrectly noted deforestation, when what was done was pasture cleaning and refurbishing on the property during 2015. After the delivery of this declaration, the JBS corporate sustainability team changed the status of the property and released it for purchases on the Company ERP system. In addition to delivering the self-declaration, as a procedure of JBS to ensure fulfillment of the Company’s social and environmental criteria, an in-depth study of the case was requested from AgroTools, which delivered the results of its technical analysis in March 2016, giving a verdict favorable to the supplier; and

- Finally, there was one (1) case where the purchase also occurred later than the blocking date in the “GEO List”. In justification, the Company submitted the environmental regularization document LAR issued by the environmental authority. According to the procedure agreed between JBS and AgroTools, the document presented is considered valid for amending the status of the supplier farm to “released”. In addition, the document was issued by the environmental agency after the date of detection of the area of deforestation by PRODES, supporting the documents submitted by the owner of the property, since it is only issued for properties that are in compliance.

Accordingly, no cattle purchases were identified that failed to comply with the commitment to the criteria of deforestation and invasion of Environmental Conservation Units or Indigenous Lands (“GEO List”).

We can confirm that, as argued by JBS and as described to us on an on-site visit by BDO to AgroTools, although some supplier farms are shown as “blocked”, the property can be “released” by the JBS corporate sustainability team, if there is a supplementary document to support this.

The other documents proving the absence of irregularities are assessed by the JBS corporate sustainability team, and if they are found to be correct and complete, the unblocking is done manually and the documentation sent to AgroTools. In this way the status of a property can be changed. When there is a change in the legislation and new documents are required for releasing supplier farms, these new documents are added to the release in the AgroTools geomonitoring protocol.

### Step 3 - Testing of blocking system for irregular suppliers

*“Give a brief description of how the monitoring system for cattle purchases in the Amazon Biome region was assessed, how purchase blocking is fulfilled (automatic or manual, unblocking mechanism if applicable) for irregular suppliers, and what checks were made to identify any failures to block purchases of cattle from irregular suppliers”.*

*“If unblocking of a supplier is permitted, describe the criteria applied”.*

(Extract from TdR)

In order to evaluate the effectiveness of the Company’s blocking system, the TdR points out that testing should be performed in the computer system of all irregular suppliers identified when crosschecking the samples of purchases against the lists (IBAMA, MTE and GEO).

According to this procedure, agreed between signatories to the “Public Commitment of Livestock” and Greenpeace, ten (10) properties must be selected for each criterion (IBAMA, MTE and GEO), giving a total of thirty (30) properties for testing. For the “IBAMA List” and “GEO List” criteria, statistical software was used to select a random sample of ten (10) properties for each criterion, thus ensuring that the purchases from the various slaughterhouses were fairly represented.

However, for the “MTE List”, not enough irregular cases were found to carry out tests on the number of samples indicated in the TdR. For irregular cases of slavery or degrading labor (MTE), only nine (9) purchases referring to six (06) properties were identified when crosschecking the lists.

After the twenty-six (26) properties were selected, the simulations were performed on June 3, 2016, in the JBS head office in São Paulo (state of São Paulo), by remote access to the computers of the cattle purchase managers and buyers of the units Vilhena (state of Rondônia) and Pedra Preta (state of Mato Grosso) (selected randomly by computer software), using the tool TeamViewer, with remote access by ID and password. The unit of Alta Floresta (state of Mato Grosso) was also randomly selected to participate in the blocking test, but because of difficulties with the unit’s internet connection, remote access was not possible. Thus, the unit was disregarded in the examinations and the tests were performed at the Pedra Preta unit.

As a result of the blocking tests of the farms included in the “IBAMA List”, ten (10) properties were blocked for purchases in the JBS ERP system, so when trying to complete the purchase, the ERP system showed an automatic blocking message, preventing the order from being accepted or the purchase made.

In the blocking system tests for owners included in the “MTE List”, the five (5) cases were also blocked in the ERP system, and it was not possible to record (include) the purchase order. In one (1) case, however, the purchase order was released, and in justification we were sent the current “MTE List” of InPACTO, dated February 5, 2016, showing that the CPF/CNPJ was no longer included.

Finally, in the testing of purchases from properties in the “GEO List”, eight (8) supplier farms were shown as blocked and another two (2) as released. JBS justified these latter cases as follows:

- In one (1) case the supplier was shown as “blocked” for deforestation, on the “GEO List” dated December 31, 2015, but on the day of the test, June 3, 2016, the supplier farm had been released. The Company proved compliance by presenting the LAR document submitted by the cattle raiser, a document for the control, monitoring and proof of environmental compliance for rural properties, to maintain and/or regularize areas of permanent preservation and legal reserves, which is valid up to 2020. We would mention that a LAR can only be applied for after the issue of a CAR, required for all rural properties, for the control, monitoring and fight against deforestation;

- And in one (1) case the supplier was also shown as “blocked” for deforestation, on the “GEO List” dated December 31, 2015, but on the day of the test, June 3, 2016, the supplier farm had been released. Records of changes in the status of the supplier farm in question were presented, and the reason given why, on the date of the blocking test, the property was shown as “released” in the system. In justification, JBS gave BDO a “self-declaration of false-positive for deforestation”, signed by the cattle raiser with the signature authenticated by a notary, arguing that there was an area covered with rocks on the farm, and dated subsequent to the date of the latest blocking. After analysis by the JBS corporate sustainability team, the status of the property was amended to “released”. In addition, under the Company’s internal procedures, an in-depth analysis was requested from AgroTools, and they submitted a technical report in favor of the property, maintaining its “released” status in the “GEO List” and in the JBS computerized purchasing system.

After examination of the justifications, the BDO audit team concluded that the JBS purchase blocking system is effective.

As indicated above, in cases where a supplier is blocked because it appears in the “IBAMA List” or the “GEO List”, it is possible to unblock the property manually, if there is no embargo or there are supplementary documents to justify its release. In those cases where an owner is blocked for appearing in the “MTE List”, which is currently provided by InPACTO, the blocking is linked to the owner’s CPF/CNPJ, and all the owner’s properties are blocked. In this case manual unblocking in the system is not possible.

## **Stage 2 - Outsourced geomonitring company (AgroTools)**

### **Step 1 - Verification of procedures**

*“Describe briefly how the outsourced geomonitring company’s procedures for inputs into the slaughterhouses’ purchase systems were assessed and what documents were examined to ensure the integrity of the outsourced company’s processes”.*

(Extract from TdR)

To execute this step of the work, the TdR requires that the audit firm review the procedures adopted by the outsourced geomonitring company, ensuring the integrity and transparency of the process of preparing and updating geographical information feeding the systems of supplier records and blocking. At this stage it was necessary to assess the Company’s geomonitring criteria, so as to understand the procedures performed.

To better describe and understand the process, the BDO audit team visited AgroTools on May 31, 2016, accompanied by two (2) members of the JBS corporate sustainability team, to discuss the methodology used, agreed between AgroTools and JBS, and for an explanation of the criteria applied in analyzing the geomonitoring at every level of geographic accuracy, the stages of the process and the documents accepted.

Therefore, it was requested for the audit to verify whether the geomonitoring company is duly qualified to carry out the activities, considering its Corporate Purpose, CNAE (Brazilian Classification of Economic Activities), Technical Responsibility at CREA (Regional Council of Engineering, Architecture and Agronomy), and checking the experience of the professionals involved.

To this end, the following documents indicating the integrity and professional competence of AgroTools were delivered:

- Extract from the bylaws of AgroTools with definition of its business purpose;
- Geomonitoring Protocol with the classification criteria (“released”, “blocked” or “alert”) agreed between AgroTools and JBS;
- Proof of Enrollment and Registration Status on RFB issued on March 23, 2016; and
- Technical Responsibility Note (ART) of one (1) AgroTools professional issued by CREA-SP).

## Step 2 - Simulation of monitoring

*“Describe briefly the methods used to select samples and the procedures for simulating monitoring for each criterion, how cases were simulated and the results obtained”.*

(Extract from TdR)

For a simulation of the geomonitoring system, the TdR asks for simulations of supplier farms to be made, selecting thirty (30) properties, including both “blocked” and “released” suppliers, to check the functioning of the outsourced geomonitoring company’s system according to the three criteria (deforestation, invasion of Environmental Conservation Units and invasion of Indigenous Lands) which are shown in the “GEO List”.

For this step, the AgroTools provided the BDO audit team with two (2) lists, one of them showing farms classified as “blocked” and the other those classified as “released”. The TdR does not explain what criteria to use for selecting this sample, and so the BDO audit team used statistical software to select names from these lists, taking fifteen (15) cases of supplier farms with “approved” status and fifteen (15) with “blocked” status, to ensure a fair sample.

Fifteen (15) “approved” cases were selected at random for the geomonitoring simulation. In the cases of blocked supplier farms, five (5) cases were selected for each item, to give a fair sampling: five (5) farms blocked for deforestation (DETER/PRODES), five (5) for invasion of Environmental Conservation Unit, and five (5) for invasion of Indigenous Lands.

The BDO audit team then visited the AgroTools commercial office in the city of São Paulo (state of São Paulo), for a meeting with the team that handles the JBS requirements.

As mentioned earlier, this visit took place on May 31, 2016, and included two members of the JBS corporate sustainability team. AgroTools team made a presentation to the BDO auditors, detailing and explaining each step of the monitoring process, which are described in this Report, as well as the simulation of cases of suppliers classified as “blocked” and “released” which BDO had selected.

To formalize and confirm the simulation of monitoring of the thirty (30) cases selected, screen prints of the visit were sent, and these were considered to be in order, thus ensuring that correct procedures were used for the social and environmental criteria for purchases made in 2015.

The thirty (30) cases were tested individually, and the AgroTools team explained the analysis performed to classify each supplier farm. In every case tested, it was found that the status of the supplier farms was correct. Accordingly, for the cases tested, it can be concluded that the AgroTools geomonitoring procedures are effective.

### **Step 3 - Assessment of documents for property title and environmental compliance**

*“Describe briefly the methodology for selection of the sample, and how the documents were analyzed, indicating discrepancies and agreements”.*

(Extract from TdR)

In order to ensure compliance with the Minimum Criteria, tests were performed as already mentioned in the previous items and additional analyses were performed. These were: an analysis of the environmental legal compliance documents CAR and LAR or LAU (and/or protocols), and an analysis of property title deeds (CCIR). In addition, at the request of JBS we included an analysis of invoices and GTAs, which will be discussed in this section.

Considering the environmental and title documents, below is the percentage of suppliers within the 10% sample of purchases from the Amazon Biome region considered in this analysis, for which JBS records have information on CAR, LAR/LAU and Protocols and CCIR:

- CAR: 57%;
- LAR/LAU and LAR/LAU Protocol: 2%; and

- CCIR: 0.23%;

In order to check the environmental and property title documents (CAR, LAR/LAU and CCIR), the official websites of the corresponding SEMAs and INCRA were consulted, to confirm the legality of the documents. As described in the TdR, a sample of twenty-five (25) cases (cattle purchases) was randomly selected, by statistical software, for each document (CAR, LAR/LAU/protocol) from the 10% of purchases from supplier farms located in the Amazon Biome region. This was to reduce the risk of sampling at an acceptable confidence level, as required by NBC TA-530, sampling in an audit. For the CCIR, twenty-three (23) cases were analyzed, due to the number of documents in the JBS supplier register for the sampling selected.

JBS supplied twenty-one (21) of the twenty-five (25) CAR documents requested. In respect of the other four (4) cases not submitted, we were told that the JBS unit did not have the documents on file. The JBS corporate sustainability team asked the corresponding units to update the supplier's records, taking the CAR document details from the system, and to obtain new documentation from the suppliers.

Comparing the SEMA website with the suppliers' records in the JBS ERP system and the documents sent by the Company, we obtained the following results:

- In three (3) queries of the SEMA website, using the CAR and CPF/CNPJ numbers, we did not find the documents for the farms in the sample. However, JBS supplied updated documentation for one (1) of these cases, and for the other two (2) we were told that the unit had no documentation, generating a request for the update of the Company's system;
- Comparing four (4) samples on the SEMA website with the documents received from JBS, we found that the suppliers' records on the Company system were out of date, since the CAR numbers for these farms were different from those on the JBS system;
- In three (3) cases where the CAR was consulted, we found documents with details differing between the farms according to CAR and those in the JBS system. The Company informed us that in two (2) of these cases JBS had not submitted supplementary documentation, and that it would ask the corresponding units to update the supplier's records. In the last case, the name of the farm was different in the documentation submitted from the name in the Company's own records;
- In four (4) cases we found that the name of owners of supplier farms in the CAR documents were different from the names shown in the JBS system. However when we checked the documents supplied by the Company, we found lease agreements, property title deeds and searches of partners that justified these differences;

- In one (1) case queried on the SEMA website, we found that the municipality shown in the CAR document was not the same as the one shown in the JBS supplier's records. However the name of the municipality was given correctly in the documents submitted by the slaughterhouse units, according to the records in the Company system; and
- When we compared the SEMA website with the documents submitted by JBS, we found ten (10) cases where all the information was correct.

JBS supplied us with the twenty-five (25) LAR/LAU documents (and/or Protocols) requested by the audit team, and on examining them we found that:

- In eight (8) searches on the website, the LAR documents were found and were in agreement with the suppliers' records in the JBS ERP system. In only one (1) of these eight (8) cases the number of the LAR had not been updated in the JBS system;
- In one (1) of the cases, the LAR number did not correspond either to the farm or to the owner shown in the suppliers' records in the JBS ERP system. However the Company gave the BDO audit team supporting documentation for the farm and the owner, showing that the information is in agreement;
- Another five (5) cases of numbering of LAR/ LAU documents were checked on the website, which indicated that the information was "Under analysis". However the documents supplied by JBS showed the suppliers' records in agreement with the LAR/LAU consulted;
- In eleven (11) cases we did not find any LAR/LAU document on the SEMA website relating to the farms or the owners shown in the JBS system. In respect of the documents submitted and cited by JBS:
  - ✓ In four (4) cases the document had expired;
  - ✓ In three (3) cases, the documents submitted by JBS included a CNPJ number for which it was impossible to prove the link between the supplier's name in the JBS suppliers' records and the documents submitted;
  - ✓ In two (2) cases JBS could not find the documents registered in its system, and we were told that the units had been asked to update the suppliers' records;
  - ✓ In one (1) case, the CNPJ number on the LAR document was different from the number in the JBS system; and
  - ✓ Finally, one (1) of the documents submitted agreed with the information in the JBS system.

As for the analysis of the CCIR, within the 10% sample of purchases from the Amazon Biome region, only twenty-three (23) purchases from suppliers had their CCIRs registered in the system. The documents were therefore requested from and supplied by JBS.

On querying the INCRA website, we found that:

- In seventeen (17) cases the CCIR documents were in agreement with the JBS system. However, when we received the documents from the Company, we found that eight (8) of them were out of date, while the other six (6) were complete as shown in our search on the website.

Subsequently, in respect of these same cases, we found three (3) where the CCIR showed different property names. On receipt of the lease agreements from the Company, we found that the CCIR number shown in the JBS system was different from the number sent as proof by JBS, and that the CNPJ shown in the lease agreement was also different from that shown in the CCIR documents. In justification, the Company explained that the CCIR showed the CNPJ of the head office of the supplier company, whereas the CNPJ of a subsidiary was shown in the lease agreement.

In five (5) other cases queried on the website, the following message appeared: *“Data given is different from the records. Please contact the nearest INCRA office”*. However, JBS submitted four (4) documents in agreement with the system. In one (1) case the documents submitted showed a different name for the owner, indicating that the JBS supplier records were out of date.

Finally, in one (1) case the following message appeared on the website: *“The CCIR cannot be issued. CCIR is not allowed to be issued for this property”* and documentation submitted by JBS was no longer valid.

In respect of the tax invoices and GTA documentation, before giving the results of our examination of the tax invoices, we should mention that local legislation adopted in the state of Mato Grosso, as agreed between the State of Mato Grosso Slaughterhouse Industries Union (SINDIFRIGO) and the Government of the state of Mato Grosso, provides that only the tax invoice issued by the rural producer should be taken into account, so as to reduce tax. Accordingly, we did not only examine the information contained in the tax invoices, but also that contained in the JBS system and the animal transit form submitted.

JBS submitted the twenty-five (25) cases selected for tax invoices and GTAs. Of this randomly selected sample, twenty-two (22) were from Mato Grosso, and all the 25 were in order.

Of the remainder, in two (2) cases, one from the state of Pará and one from Mato Grosso, the number of animals in the GTA was different from the number recorded in the tax invoice and also from that shown in the JBS ERP system. Finally, in one (1) case, from the state of Mato Grosso, the tax invoice did not show the same property name as the Company system, but the GTA was in order.

The results presented above represent the analyses of the documents sent by JBS and received by the BDO audit team within the period agreed to by both parties.

## VI) Results of the audit process

*“Based on the procedures applied, indicate whether any purchase transaction was identified which did not fulfill all the points of the public commitment, and give the root cause of failure to comply with the Minimum Criteria”*

*“For the “Traceability system for indirect suppliers” criterion, give brief details of the procedures applied to verify this item. If the company does not show that there is control of the entire production chain (indirect suppliers - cattle raising and breeding), the criterion should be marked as non-compliant”*

(Extract from TdR)

Based on all the audit procedures applied, in respect of the criteria for deforestation after October 2009, the invasion of Environmental Conservation Units and Indigenous Lands (“GEO List”), and for suppliers included in the “MTE List”, no purchase transactions were identified which did not comply with the criteria detailed in the “Public Commitment of Livestock”. However, as mentioned earlier, three (3) purchases were identified as non-compliant with the “IBAMA List” criterion, representing 0.03% of the total sample of eleven thousand one hundred and sixty-six (11,166) purchases verified.

In respect of indirect suppliers, JBS informed us that no systematic verification is yet in place.

Another requirement of the “MINIMUM CRITERIA FOR INDUSTRIAL-SCALE OPERATIONS WITH CATTLE AND BEEF PRODUCTS IN THE AMAZON BIOME” is for the National Pact for the Eradication of Slave Labor to be signed. The association of JBS with InPACTO (Institute National Pact for the Eradication of Slave Labor) can be confirmed on the official website (<http://www.inpacto.org.br/associados/>), which contains all the signatories of the National Pact and the companies’ terms of association with InPACTO and Commitment to the National Pact for the Eradication of Slave Labor, which were submitted by JBS to the audit team.

Regarding the criteria for rejection of land grabbing and violence in the countryside, there is no public information allowing the identification of irregular suppliers to implement the blocking of supplier farms in the Company’s purchase system. In addition, JBS said it has received no statement/report of prosecutors or by Institutes of Federal or State Land with information about these cases during 2015.

As to the issue of traceability of production, in addition to aspects already described in the section on cattle purchase process in this report and the fact that JBS has at least one pair of geographic coordinates of all the supplier properties with which it traded in 2015, it is important to stress that the Company has made every effort to increase the number of suppliers who possess digital maps of their properties and to regularize them through the CAR. A highlight of these efforts is the Company's recent initiative called the "Legal Supplier Program", through which it notifies all its suppliers and cattle raisers interested in doing business with JBS that as from 2016 it will not purchase cattle from suppliers without the CAR, as the legislation requires. This initiative of JBS also includes a partnership with technical consultants, who are at the disposal of the cattle raisers to help them join the CAR. In addition to this advice, the service is offered at a special price, since it creates a closer relationship with cattle raisers and encourages them to regularize their situation, with the only requirement being that they contact the JBS unit nearest to their property. The "Legal Supplier Program" initiative is publicized in the TV program "Giro do Boi" on the Canal Rural, an important communication vehicle in the cattle raisers' universe; through the cattle purchasers of each slaughterhouse unit; on the Cattle Raisers' website (*Portal do Pecuarista*) and in specialist sector magazines.

In addition to broadcasting this initiative, JBS also makes available all the benefits of joining the CAR, in particular:

- Guarantee of legal security of property;
- Possibility of exemption from fines for environmental damage on joining the Environmental Regularization Program (PRA);
- Better credit limits for costs at lower rates of interest; and
- Release of the forest management plan for the economic exploitation of duly registered areas.

Complementing the efforts to fulfill the "Public Commitment of Livestock", JBS announced its "Working Plan" which was published in 2012 and has since been updated by the Company to monitor its progress. It should be noted that the Working Plan is not part of the scope of the BDO audit, in accordance with the TdR. Therefore, the team did not conduct any analysis or verification of its content.

## 1. Access to information

*"Give a brief description of the conditions of access to information essential for proving the company's compliance with the Minimum Criteria. Complete Table 1, identifying all the documents analyzed and giving references (date or code and version)".*

(Extract from TdR)

JBS made available all the documents and information requested by the BDO team to enable us to check compliance with the "Public Commitment of Livestock".

It was possible to gain access to the computer system of the Company's purchases, records of suppliers and the System for Social and Environmental Monitoring of Cattle Supplier Farms, and to all documents requested relating to the purchases of the selected sample.

Additionally, the people responsible for the information needed to understand the procedures were available to answer BDO audit team's queries.

Table 1 below shows the principal documents used in carrying out our analysis, and their references (date or code and version).

**Table 1 - Checklist of documents analyzed**

Document name	Date of coverage/code and version	Checked (Y/N)
Working Plan	Available at: <a href="http://www.jbs.com.br">www.jbs.com.br</a> - Version of July, 2016	N
Procedures or System Manual	For the period from January 1 to December 31, 2015	Y
Purchase Registers	For the period from January 1 to December 31, 2015	Y
Monitoring System	For the period from January 1 to December 31, 2015	Y
Blocking System	For the period from January 1 to December 31, 2015	Y
List of Suppliers	All suppliers located in the Amazon Biome region, for the period from January 1 to December 31, 2015	Y
Public list of embargoed properties - IBAMA	List downloaded on May 18, 2016 ( <a href="https://servicos.ibama.gov.br/ctf/publico/areasembargadas/ConsultaPublicaAreasEmbargadas.php">https://servicos.ibama.gov.br/ctf/publico/areasembargadas/ConsultaPublicaAreasEmbargadas.php</a> )	Y
Public list of individuals / companies - slave labor - MTE	The list is not available for download from the MTE website. For this reason, we used the biannual public list updated on July 1, 2014, with extraordinary update on December 26, 2014, and the transparency list published by InPACTO on September 3, 2015	Y
List of Blocked Suppliers - GEO	List received by email direct from AgroTools on May 24, 2016	Y

## 2. Exceptions

*"The audit company must show clear evidence of exceptions, describing the problem and taking concrete facts into account, so that the report may serve as a tool for continuing improvement in the company's purchase system".*

(Extract from TdR)

There were no exceptions (non-compliant cases) found in the tests of cattle purchases related to labor analogous to slavery, deforestation later than October 2009, invasions of Environmental Conservation Units or Indigenous Lands, the outsourced company geomonitoring simulation, or of JBS' blocking system. The questions and other points raised by the auditors were justified by JBS.

However, as mentioned earlier, in comparing the sample of cattle purchases with the “IBAMA List”, three (3) purchases that did not comply were identified, from a single property, representing 0.03% of the sample tested. Details of these cases have been given in the body of this Report.

In respect of indirect suppliers, JBS indicated that it does not yet have a verification system in place.

## VII) Audit limitations

*“If the auditor met any difficulties or restrictions, this should be noted in the report”.*  
(Extract from TdR)

The scope of our work was defined to permit us to obtain an adequate degree of assurance, and includes the assessment of compliance regarding the adoption of the “MINIMUM CRITERIA FOR INDUSTRIAL-SCALE OPERATIONS WITH CATTLE AND BEEF PRODUCTS IN THE AMAZON BIOME”, according to the TdR agreed between the Companies that subscribe to the “Public Commitment of Livestock” and the NGO Greenpeace, for the period from January 1 to December 31, 2015.

Our report is intended solely for this purpose, and should not be used for any other ends, nor may it be passed on to third parties who have not assumed responsibility for its sufficiency or agreed with these procedures. This report is related exclusively to the items specified in the “MINIMUM CRITERIA FOR INDUSTRIAL-SCALE OPERATIONS WITH CATTLE AND BEEF PRODUCTS IN THE AMAZON BIOME”, and does not cover the financial statements of JBS.

More details are given in our report on recommendations for Agreed Procedures, in accordance with NBC TSC Standard 4400, approved by CFC Resolution No. 1277/10, which will be delivered to JBS. Only JBS may pass it on to other parties as it deems necessary.

In accordance with NBC TSC Standard 4400, applied in this assurance process, which defines the methodology for Agreed Procedures Reports, the procedures mentioned throughout the report do not constitute an audit or a review carried out in accordance with standards applicable in Brazil, and we are unable to express any assurance on the livestock purchases for the period from January 1 to December 31, 2015 or on the effectiveness of JBS internal controls relating to such processes.

If we had applied additional procedures or carried out an audit or review of the financial statements according to the audit and review standards applicable in Brazil (NBC TAs or NBC TRs), other matters might have come to light for inclusion in our report.

## VII) Conclusions

*“Give your conclusion on the results shown, identifying any evidence found that the undertakings assumed have not been fulfilled. The conclusion should contain an annual assessment of direct cattle purchases, according to the undertaking”.*

(Extract from Third Party Audit Reference Term 2016 (base year 2015))

On the basis of our work, as described in this Report, our analysis indicated that from a sample of eleven thousand one hundred and sixty-six (11,166) cattle purchase transactions made by JBS in the region of the Amazon Biome, for the period from January 1 to December 31, 2015, there were no non-compliances confirmed for cattle purchases related to deforestation later than October 2009, invasions of Environmental Conservation Units or Indigenous Lands (“GEO List”), the outsourced company geomonitoring simulation, suppliers included in the “MTE List”, or in the test of the JBS supplier blocking system. However, in the purchase test related to the “IBAMA List”, three (3) non-compliant cattle purchase transactions were identified, representing 0.03% of the total purchases analyzed in this test. In respect of indirect suppliers, JBS indicated that it does not yet have a verification system in place.

Further information will be available in the Report on Agreed Procedures, held by JBS.

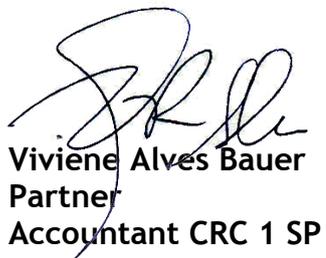
São Paulo, July 18, 2016.



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## APPENDIX

**Table 1 - Total purchases and sampling**

**1 - Total purchases and sampling (base year 2015)**

Total raw materials purchase operations originally from the Amazon Biome region conducted by JBS from January 1 to December 31, 2015.	Total purchase transactions sampled (10%) to perform the analyses shown.
111,605	11,166 <sup>1</sup>

<sup>1</sup> The total number of cattle purchase transactions sampled was higher than 10% of 111,605 due to numerical rounding when calculating the sample from some units.

**Table 2 - Non-conformities found in the audit analysis**

**2 - Non-conformities (base year 2015)**

Raw material purchase transactions originating from:	Total non-compliant purchase transactions	% of non-compliance in relation to total purchase transactions during the year in the Amazon Biome region	% of non-compliance in relation to total purchase transactions sampled
Properties where deforestation was identified after October 2009	-	0%	0%
Properties where invasion of Indigenous Lands was identified	-	0%	0%
Properties where invasion of Environmental Conservation Areas was identified	-	0%	0%
Properties included in the MTE List	-	0%	0%
Properties included in the IBAMA List	3	0.003%	0.03%

**Table 3 - Results of the purchase blocking system test**

**3 - Blocking test**

	Total number of simulated purchase tests per criterion in the Company's purchase system	In accordance	Not in accordance
IBAMA	10	10	0
MTE	6	6	0
GEO (PRODES, DETER, Indigenous Land and Conservation Units)	10	10	0