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Investment Stewardship

Vote Bulletin: JBS, S.A.

Company	**JBS, S.A. (BSP: JBSS3)**
Market and Sector	Brazil/Food Products
Meeting Date	28 April 2021
Key Resolutions[1,2]	**Item 1:** Approve financial statements and statutory reports for fiscal year ended December 31, 2020 **Items 4 and 6:** Individual elections of nine sitting members of the company's Board of Directors and four sitting members of the Fiscal Council
Key Topics	Climate-related risks and opportunities; board quality and effectiveness; company impacts on people
Board Recommendation	The board recommended voting FOR all items proposed by management
BlackRock Vote	BlackRock ABSTAINED from voting on the approval of the company's financial statements; voted AGAINST the election of Wesley Mendonça Batista Jr. to the Board of Directors; and AGAINST three sitting members of the Fiscal Council – Adrian Lima Da Hora, Demetrius Nichele Macei, and José Paulo da Silva Filho

Overview

JBS, S.A. (JBS) is a Brazilian food products company that processes mainly beef, poultry, and pork. The company operates in 15 countries, has more than 400 production plants, and employs more than 250,00 people.[3] JBS also commercializes a diversified portfolio of products though brands such as Friboi, Swift, Seara, and Pilgrim's Pride, among others.[4] JBS is a controlled company with 67% of its shares held by insiders, including the Batista family's nearly 40% ownership. These insiders control the strategic decision-making of the business. BlackRock's clients hold 1.33%.[5]

As a minority shareholder on behalf of our clients, BlackRock Investment Stewardship (BIS) is concerned when a company's board is not focused on serving the interests of all shareholders, which may be the case at controlled companies. BIS engages with these companies, such as JBS, in certain circumstances to encourage governance mechanisms that afford additional protections for minority shareholders.

BIS has had multi-year engagements with JBS to understand its approach to corporate governance and sustainability risks and opportunities, including discussions about the company's risk management processes and commitments to deforestation-free supply chains. As discussed in our commentary on our approach to

[1] JBS, S.A. "Call Notice – Annual and Extraordinary Shareholders' Meeting." March 26, 2021.
[2] JBS, S.A. "Management's Proposal for the Annual and Extraordinary Shareholders' Meeting to be Held on April 28, 2021." March 26, 2021.
[3] JBS, S.A. "Who we are."
[4] See footnote #3.
[5] As of May 31, 2021. Source: Factset.

engagement on natural capital, BIS believes that companies that fail to effectively oversee risks related to the use of natural resources may face negative consequences from regulatory, reputational or operational risks, among others. For the agriculture sector, biodiversity loss and deforestation risks play a key role in future financial stability. As a result, long-term shareholders, and other stakeholders, increasingly expect companies with agribusiness interests such as JBS – either through direct operations or supply chain connectivity – to demonstrate through their actions and disclosures that their business practices are sustainable.

During our most recent engagements with JBS, we sought to understand its handling of governance-related controversies in violation of the UN Global Compact (UNGC) principles, after J&F Investimentos, S.A. (J&F) and members of the Batista family admitted to bribery, corruption, and anti-competitive practices.[6]

Rationale for BlackRock's Vote

Item 1: Approve financial statements and statutory reports for fiscal year ended December 31, 2020

BIS ABSTAINED from voting JBS' financial statements to preserve the legal rights of shareholders, because we remain concerned that the financial position of the company may be meaningfully impaired by the investigation proceedings related to allegations of bribery, corruption, and anti-competitive practices involving J&F and the Batista family, JBS' controlling shareholders. Our concerns are informed in part by fact that, despite the unqualified opinion of an independent external auditor, they could not give assurance that there would be no new information arising from the investigation that might impact the company's financial statements in the future.

Grant Thornton Auditores Independientes, the independent external auditor, issued an unqualified opinion, concluding that JBS' financial statements present fairly the financial position of the company. However, the findings also highlighted that the investigation proceedings – related to allegations of bribery, corruption, and anti-competitive practices by senior executives at J&F, and that led the company and its subsidiaries to enter a Plea Bargain Agreement and a Leniency Agreement with Brazilian and U.S. authorities – represent key audit matters. The auditor concluded that the risks and uncertainties involved in the process may prevent it from obtaining assurance that "no new facts will come into light" that may impact the financial statements to date.[7] Other key audit matters highlighted by the auditor are related to donations to mitigate the impact of COVID-19, impairment of assets, and the overall group and subsidiaries' audited financial statements. As such, BIS abstained from voting the financial statements.

See item 2 for a description of the investigation proceedings involving J&F and the Batista family.

Item 2: Individual elections of nine sitting members of the company's Board of Directors and four sitting members of the Fiscal Council

BIS voted AGAINST the election of director Wesley Mendonça Batista Jr., Chair of the Financial and Risk Management Committee, to the company's Board of Directors because we are concerned with his insufficient oversight in the bribery and corruption proceedings involving J&F and the Batista family, and potential conflicts of interest that may put shareholder value at risk. BIS also voted AGAINST three sitting members of the Fiscal Council - Adrian Lima Da Hora, Demetrius Nichele Macei, and José Paulo da Silva Filho – because we are concerned with their lack of independence and ability to exercise sufficient oversight of JBS' management.

Between 2005 and 2017, J&F, the investment company owned by the Batista family and parent company of JBS, was involved in corruption and bribery, and certain anti-competitive practices. J&F executives – including Joesley Batista, credited for the international expansion of JBS, and his brother Wesley Batista Sr. – were

[6] The UNGC is a voluntary initiative that calls companies to align their strategies and operations with universal principles on human rights, labour, the environment and anti-corruption practices, among others, and to take steps to support UN goals. See: "UNGC – Who We Are."
[7] JBS, S.A. "Management Report 2020." Pages 3-4.

accused of obstruction of justice and insider trading, for which they were charged and arrested in 2017.[8] J&F executives also admitted to bribing politicians in Brazil to advance their business interests and secure low-cost financing from state-run banks.[9] In October 2020, J&F pleaded guilty to violations of the U.S. Foreign Corruption Practices Act.[10] The Batista brothers and their companies, J&F and JBS, agreed to pay nearly U.S. $27 million to resolve charges arising out of the extensive, multi-year bribery scheme.[11]

At JBS' Extraordinary General Meeting held on October 30, 2020, shareholders, including BlackRock, voted to approve the filing of civil liability lawsuits against the Batista brothers for the damages caused to the company in the illicit acts confessed.[12]

The company has, since 2018, made widespread changes to its internal controls. It has also implemented several compliance initiatives, including training more than 115,000 employees on the company's Code of Conduct and Ethics and launching the JBS Ethics Line, available to all company stakeholders to report violations of the company's Code of Conduct and Ethics or the Business Associate Code of Conduct.[13,14] The company has also trained more than 16,000 managers and executives on anticorruption topics and has continued to expand the scope of its compliance program to focus on conflicts of interest, among other relevant topics.[15]

BIS welcomes these changes and recognizes the company's efforts to improve its disclosure of sustainability risks and opportunities. However, given Wesley Batista Sr.'s record, BIS is concerned about Wesley Mendonça Batista Jr.'s potential conflicts of interest that may impede his ability to spearhead the board's risk management oversight duties, and in turn, put shareholder value at risk. As long-term minority shareholders, we would like to see further disclosure as to how the company manages conflicts of interest – including oversight by the Financial and Risk Management Committee – and how this translates into effective processes to prevent future corrupt practices.

Regarding the Fiscal Council, BIS voted against the election of three sitting members - Adrian Lima Da Hora, Demetrius Nichele Macei, and José Paulo da Silva Filho. Given their nomination by the controlling shareholder and their oversight responsibilities that should have translated into better risk management, BIS is concerned about potential governance risks and their lack of independence.

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[8] The brothers were released in 2018. Godoy, J., and Valle, S. "Parent of Brazil's JBS pleads guilty to U.S. foreign bribery charges." Reuters. 14 October 2020.
[9] See footnote #8.
[10] See footnote #8.
[11] U.S. Securities and Exchange Commission (SEC). "SEC Charges Brazilian Meat Producers with FCPA Violations." 14 October 2020.
[12] BIS. "Proxy Voting Results – JBS, S.A." BlackRock, Inc. Global Vote Disclosure. 30 October 2020.
[13] JBS, S.A. "JBS reinforces compliance initiatives."
[14] JBS, S.A. "Compliance – Ethics Line."
[15] JBS, S.A. "JBS reinforces compliance initiatives."

About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. As an essential component of our responsibility to our clients, we engage with companies to advocate for the sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients' assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance — and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business practices, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company's shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our Global Principles, market-level voting guidelines, and engagement priorities, material to a company's sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.