What makes Good Due Diligence

1. **Know** your Suppliers
   - Visit them… regularly!
   - Establish good relationships

2. Understand **Laws & regulations** at Source
   - Local input / consultancy / lawyers / trade associations
   - Overcome Language barriers?
   - Understand where Loopholes exist
   - How systems are by-passed intentionally (i.e. fraud)

3. Use **Local resources**
   - Employ or use 3rd party F.E.’s to do Field Audits
   - 3rd Party Chain of Supply auditors

4. **Record** and **Archive**
   - Always make a record of checks (date & sign).
   - Use “cloud” storage to archive. Make docs easily accessible.

5. Show **Consistency** and **Transparency** in DDS

6. **Understand** what each type of risks means
   - So that you can Mitigate the risk appropriately

7. **Update** DDS frequently
BRAZILIAN DIVISION
### Tradelink’s Export Division

**Raw Material Purchasing Policy**

Summary for better understanding of Chain of custody documents

**DVPF1**: contract between the owner of the Sustainable Forest Management Project (PMFS) and sawmill where the first allows the second to collect certain amount of logs from the Autef area.

**GF1**: Logs transportation permission from the forest to the sawmill.

**GF3**: Rough sawn transp. permission from the sawmill to Tradelink.

**GF3**: Flooring transp. permission from Tradelink to ocean port.

<table>
<thead>
<tr>
<th>Autef #</th>
<th>Botanical Name</th>
<th>Popular Name</th>
<th>DVPF1 Logs (m3)</th>
<th>GF1 Logs (m3)</th>
<th>Equiv. in rough sawn (m3)</th>
<th>Supplier</th>
<th>NF #</th>
<th>NF date</th>
<th>GF3 Logs (m3)</th>
<th>Equiv. in flooring (m3)</th>
<th>Product</th>
<th>NF Export #</th>
<th>GF3 Export #</th>
<th>GF3 Export Flooring (m3)</th>
<th>PO #</th>
<th>Lot Ref Tradelink</th>
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<tbody>
<tr>
<td>1165/2010</td>
<td><em>Hymenaea courbaril</em> L.</td>
<td>Jatobá</td>
<td>87</td>
<td>189,212</td>
<td>2 09/11/11</td>
<td>35,989</td>
<td>22,313</td>
<td>Mad. Vitória</td>
<td>719 14/1/12</td>
<td>672 17,9</td>
<td>Rough sawn</td>
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</table>

**Total exported**: 41,874

**Balance of rough sawn**: 1,351

**Balance of flooring**: 44,957

**Total exported**: 41,874

**NF Export. #:** 02164/2

**NF Export #:** 5861

**GF3 Export #:** 20,937

**GF3 Export Flooring (m3):** 4500051643

**PO #:** CSFX

**Lot Ref Tradelink**: 4500051644

**Hymenaea courbaril L.**: Jatobá
Chain of custody docs verified in the State environmental department (SEMA) web site.

- **Autef: Forest Management authorization**
- **LO: Sawmill’s Licence of operation**
- **GF1s: log transportation from the forest to the sawmill**

http://www.sema.pa.gov.br
Chain of custody docs **verified** in the State environmental department (SEMA) web site (part 2)

GF3s: rough sawn transportation from the sawmill to Tradelink

GF3s: Flooring transportation from Tradelink to the ocean port

http://www.sema.pa.gov.br
Verifications made by Tradelink to Check the legal origin

- Tradelink only buys from industrial companies (sawmills), not from commercial businesses that do not have production processes.
  AVOIDS RISK OF: Buying from “in between” companies with illegal timber that has been taken and produced in one place and afterwards “legalized” with timber exploration permissions of other place.

- Before starting the negotiations, Tradelink requests the following documents for registration purposes:
  - Articles of incorporation
  - Power of attorney of the representative of the sawmill
  - Copy of the ID’s of the partners and representative of the company
  - Contact information: Name of the owner, name of the representative that negotiates with our purchase manager as well as telephone and fax numbers and e-mail address
A certificate of the articles of incorporation is requested from the State Commercial Council (Junta Comercial), in order to see if current copy in our possession is up to date.
Verify on the Government web sites that supplier is up to date with RECEITA FEDERAL (Federal Receiver of Revenue), SEFA (State Tax Authority) and has no irregularity with IBAMA (Federal Environmental Authority)
Verifications made by Tradelink to Check the legal origin

Pictures of the set-up with the sign identifying the location, access route, yard and people and machines working at the sawmill, in order to check that the name and address of the company on the articles of incorporation match the sawmills actual details.
• Only Tradelink’s Management may initiate negotiations purchases from Supplier mills
• All Suppliers’ locations are GEO-tagged with GPS coordinates and logged on Google Earth
• Suppliers are visited several times per year and each visit is recorded via a report
We take the GPS location of the sawmill and analyze of route and distance from the Forest Managements where the logs originate from.
• Make sure routing is possible and *logical*
  • **Distances**
  • **Timing**
“Complicated” routes are **Red flags (HIGH RISK)** and should be mitigated.
Our Environmental Compliance Team checks the following on each AUTEF:

- If IBAMA has any **embargos** against the AUTEF
- If the **owners** have any restrictions against them.
- Who is the Technical person responsible – ie Forest Engineer. Check past History
- If there are any restrictions of AUTEF at **SEMA**
- If the **volume percentage** per specie is reasonable
- If the **Scientific names** of each specie are correct
- The **distance** between the AUTEF and the sawmill
- **Dates** that extraction / harvest were authorised to happen
If required, we send Tradelink’s Forest Engineer to conduct a detailed **FIELD AUDIT** of the AUTEF (Forest Management)
Internal control of GF1 per sawmill and per specie in order to balance volumes of logs and rough sawn and avoid duplication of origin documentation

<table>
<thead>
<tr>
<th>Data</th>
<th>Cod</th>
<th>Especie</th>
<th>Científico</th>
<th>Nr GF1</th>
<th>Nr NF</th>
<th>PMFS e Processo</th>
<th>Cidade da origem</th>
<th>Km</th>
<th>A GF1 (m³)</th>
<th>(C) m³ NF de serrada p/ TE</th>
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</tbody>
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**TOTALS EXPRESSADOS EM VOLUME DE MAD. SERRADA:** 144,242

**SALDO:** 16,453
Checks done on delivery of Product:

When raw material arrives at the intermediary port, our SEMA website that declared information on docs (scientific and popular names of timber species, plate of the truck, volume, etc) matches with cargo specifications and accompanying GF1. If all ok, tally clerk sends us pictures & scanned docs by email.
After confirming that everything is in accordance to the law, we authorize the transportation of the timber to our factory.

Once the timber has arrived at our factory, we take pictures again of the truck or barge and pusher delivering the cargo. This is how we prove to environmental departments that the transportation actually physically occurred. No “Virtual movements”

We proceed with the payment to the bank account of the supplier. Payments to 3rd party accounts are not permitted.