

Minerva S.A.

Independent auditor's limited assurance report on
the procedures established to comply with the
"Minimum Criteria for Conducting Industrial-scale
Cattle Operations in the Amazon Biome" No.
REL-2343/2017

Independent auditor's limited assurance report

To
Minerva S.A.
São Paulo, SP

Introduction

We have been engaged to apply limited assurance review procedures on the processes adopted by Minerva S.A. (“Minerva” or the “Company”) for compliance with the commitment made with Greenpeace with respect to the adoption of “minimum criteria for conducting industrial-scale cattle operations in the Amazon biome”.

Minerva made the public commitment to remove from its suppliers masterfile any farms that have deforested within the Amazon biome after October 2009 and those that use slavery-like labor or are settled in indigenous lands and conservation units.

The signatories to such commitment undertake to adopt the criteria established therein within the due dates and do not cattle originating from:

- a) Farms (direct and indirect suppliers) that have deforested within the Amazon biome after October 2009;
- b) Farms that are included in the list of areas embargoed by IBAMA (the Brazilian Environmental Agency) and/or farms settled in indigenous land and conservation units (protected areas);
- c) Farms caught using slave labor or degrading jobs, as defined in the list of Ministry of Labor and Employment (MTE) and, subsequently, obtained from the Information Access Act (Law No. 12.527/2012), made available by InPACTO due to the suspension of the publication, whichever is the latest;
- d) Farms that are settled in illegally acquired land (“land grabbing”) or that have been acquired using violence (“land conflicts”).

The period analyzed for compliance with the commitment with Greenpeace was from January 01 to December 31, 2016, and the following procedures described in item 3 of such commitment instrument were performed:

- Analyze purchases of cattle and by-products made by the company within the Amazon biome, on a sampling basis, for the period from January to December 2016, and check the supporting documentation for evidence that the public commitment was complied with.

- Verify purchase records for completeness and extraction of purchase reports, with the attendance of an information technology professional, to ensure that the programming language does not have filters or biases that may influence the results of the transactions;
- For the “Monitorable, verifiable and reportable traceability system” criteria, verify if there is an indirect supplier traceability system that covers 100% of the Company’s purchases of cattle and by-products in the Amazon biome, encompassing all preceding links (rearing and fattening) and if all criteria under the commitment are met by the indirect suppliers. Additionally, verify the existence and operation of a direct supplier blocking system that includes compliant direct suppliers having noncompliant indirect suppliers;
- Such verification should be conducted on a sampling basis. If there is not a sufficient number of purchases with the applicable requirement, the largest sample possible should be used. The main documents to be provided are the following:
 - Records of purchases and receipts of animals in the period under audit;
 - List of direct suppliers in the period under audit;
 - Public lists of embargoed properties made available by IBAMA and public lists of individuals/companies that use slavery-like labor (from MTE’s website or Information Access Act) which should be downloaded on the system checking date or the latest version publicly available;
 - Internal list of blocked suppliers generated based on an analysis of satellite images and global positioning system. This latter, called GEO (geo-monitoring) list, should be provided directly by the company responsible for its preparation and should contain the owner’s name, identification document, property’s name, date and reason for blocking.

To select samples and perform an audit of purchases of cattle and blocking system, the following steps should be followed, according to the commitment instrument:

3.1. Stage 1 – Evaluation of the cattle purchasing and suppliers blocking system

Step 1 – Sampling selection

Generate a stratified random sampling of at least 10% of the purchases made by each manufacturing unit, in case the prior year’s noncompliance (NC) rate has not exceeded 5% of the total purchases of cattle originating from the Amazon biome. If it is the first year of a company complying with the commitment, or if the prior year’s NC rate has exceeded 5% of total purchases, sampling should be equal to 15%. Sampling stratification should be distributed among:

- a) all units and supplied with raw material originating from the Amazon biome;
- b) purchases made in the period from January to December of the year under audit (base year), encompassing each of the twelve (12) months of the period under analysis.

Step 2 – Tests of the cattle purchasing system

Trace the sample accounting for 10% of the purchases made in the 2016 period to lists made available by Ibama, MTE and geo-monitoring data.

If the result of this procedure is equal to zero, that is, if cattle purchases from those suppliers appearing in the IBAMA, MTE and GEO lists were not identified, a conclusion is obtained that the sample does not contain cases of noncompliance.

If the result of this procedure is different from zero, for all names appearing in the list, the animal acquisition date should be verified, considering:

- If the date of inclusion of the property in the IBAMA, MTE and GEO lists is later than the purchase transaction date, the noncompliance is not confirmed;
- If the purchase is made on a date later than that of inclusion of the property in the lists, the purchase should be indicated as noncompliant with the commitment. In this case, the meatpacker should establish a correction plan to correct errors in the system. This information is shown in Appendix 2 (Cases of noncompliance identified during the period under audit).

Step 3 – Tests of noncompliant supplier blocking system

Evaluation of the blocking system simulating purchases from suppliers that are noncompliant with the commitment and have been blocked by the company in order to test its effectiveness. For each one of the criteria below, 10 blocked properties were selected to test the purchasing process, totaling 30 properties tested.

- a) Deforestation – IBAMA;
- b) TEM;
- c) GEO – Indigenous Land, Conservation Unit and deforestation.

3.2. Stage 2 – Outside GPS firm

Step 1: Verification of procedures

Verification of the procedures adopted by the outside GPS firm ensuring the integrity and transparency of the process performed to prepare and update the geographical information that feeds the meatpackers' purchasing systems, by conducting the following procedures:

- Verify if the firm is properly qualified to perform the activities described, considering: Corporate purpose, National Economic Activities Classification (CNAE), Technical Responsibility before the Regional Council of Engineering, Architecture and Agronomy (CREA), experienced professionals;
- Registration of the Statement of Technical Responsibility (ART) for the activities performed relating to the year under audit;
- Description of the scope performed by the 'Contracted party' as part of the monitoring process, identifying the 'products' generated;
- Description of the procedure used to receive data from suppliers, processing, checking and return of analysis to the meatpacker;
- Check if there is a procedures manual or documentation in place specifying the geographical analysis criteria that were contracted.

Step 2: Monitoring simulation

Each criterium of the public commitment should be made a simulation to check the functionality

of the outside firm's geo-monitoring system. Tests were performed over 10 properties selected on a random basis from the GEO list, including both blocked and authorized suppliers to evaluate the operation of the geo-monitoring system for each one of the items below, totaling 30 properties simulated (deforestation, invasion of the UCs and invasion of IL). The monitoring simulation should follow different criteria for each of the following situations:

a) Deforestation

It is important to emphasize that the firm contracted to perform the geospatial monitoring has up to fifteen (15) business days to update its database after the official disclosure of the DETER / PRODES data by INPE.

If any of the ten (10) tests identifies the presence of deforestation and the area considered deforested based on DETER data is not confirmed by the PRODES data, the supplier will be considered compliant with the deforestation criteria.

b) Overlapping of land rights in indigenous land and conservation units

In case there is overlapping of land rights relating to areas identified as Indigenous Land or Conservation Units, the date of purchase should be matched to the Conservation Unit's creation date or Indigenous Land's official approval date.

Due to scale differences in the maps of supplying farms and the official maps of Conservation Units and Indigenous Land, a technical overlapping tolerance level of up to 10% of the total property area over the Indigenous Land or Conservation Unit will be accepted.

If the purchase date is prior to the date of inclusion of the name in the list or creation/official approval of the Conservation Unit or Indigenous Land, and within the technical overlapping tolerance level, the purchase will be considered compliant.

3.3. Stage 3 – Supply chain's compliance with land and environmental requirements

Verification of the direct supply chain's compliance with land and environmental requirements by checking the controls performed by the company, analyzing the following documents:

- Supplying properties' environmental compliance, according to prevailing legislation and deadlines, based on CAR or LAR/ LAU/ APF;
- Supplying properties' compliance with land requirements based on any of the effective documents: CCIR, or registry of deeds, or title of ownership, legal land or declaration of ownership (union trade) or detailed descriptions.

Analysis of the items above, performed on a sampling random basis, of 25 purchased made in the period under audit. If there is not a sufficient number of purchases with the applicable requirement, the largest sample possible should be used.

Criteria applicable

The evaluation of the adequacy of:

- The farms that are included in the list of areas embargoed by IBAMA was performed based on the list disclosed by the Brazilian Environmental and Renewable Resources Agency (IBAMA), updated and extracted on August 18, 2017;
- The farms caught using slave labor or degrading jobs, as defined in the list of Ministry of Labor and Employment (MTE), was performed based on the list disclosed by Interministerial Ruling No. 4, dated May 11, 2016, updated on July 27, 2017, and extracted on August 18, 2017 directly from MTE's website. We did not use the information basis disclosed by the Institute for the National Pact to Eradicate Slave Work - InPACTO;
- The farms located inside indigenous land and conservation units (protected areas) was performed based on the GEO list.

Regarding the items selected for testing, we adopted the Federal Accounting Council (CFC) No. 1229/09, which approved NBC TA 530 – Audit Sampling, the objective of which is to provide a reasonable basis for the auditor to conclude as to the population from which the sample is selected, providing guidance on the use of statistical and non-statistical sampling in the definition and selection of the audit sampling. We used the random, non-statistical approach, whereby we had opportunity to test 100% of the database for selecting our sampling.

For the sampling criteria in item “3.1 - Stage 1 - Evaluation of the cattle purchasing and suppliers blocking system - Step 1 - Sampling selection”, whereby a stratified random sampling of at least 10% of the purchases made by each manufacturing unit is generated.

Scope and limitations

The purpose of our work was to apply limited assurance procedures on the criteria and processes adopted by the Company to meet the “minimum criteria for conducting industrial-scale cattle operations in the Amazon biome”, not including the evaluation of the adequacy of its policies and sustainability performance.

The procedures performed do not represent an examination in accordance with auditing standards applicable to an audit of the financial statements. Additionally, our report does not provide any type of assurance about the extent of forward-looking information (such as, for example: goals, expectations, strategies and projections) and descriptive information that is subject to subjective evaluation.

Management's responsibilities

The Company's management is responsible for implementing processes and procedures that meet the guidelines and criteria for conducting direct operations defined in the “minimum criteria for conducting industrial-scale cattle operations in the Amazon biome”, and for the internal controls Management determined as necessary to enable compliance with such procedures.

Auditor's responsibilities

Our responsibility is to issue a limited assurance report on the matters described above based on the work performed. We conducted our limited assurance procedures in accordance with the NBC TO 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, issued by the Federal Accounting Council and approved by the Brazilian Institute of Independent Auditors (IBRACON), which is equivalent to international standard ISAE 3000, issued by the International Federation of Accountants (IFAC), applicable to non-historical information. These standards require that we comply with the relevant ethical requirements and plan and perform the assurance engagement to obtain limited assurance that the procedures are compliant, in all material respects, with the criteria established for adopting the “minimum criteria for conducting industrial-scale cattle operations in the Amazon biome”.

Procedures adopted:

The limited assurance procedures were performed in accordance with NBC TO 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, issued by the Federal Accounting Council (CFC) and ISAE 3000 – International Standard on Assurance Engagements, issued by the International Auditing and Assurance Standards Board (IAASB), both for engagements other than audits or reviews of historical financial information.

The limited assurance procedures encompassed the following:

- a) Plan our work, considering the relevance, coherence, volume of quantitative and qualitative information and define the scope of our work, as described below:

For assurance engagements for the period from January 01, 2016 to December 31, 2016, all units that traded cattle originating from the Amazon biome were selected to be part of the scope of substantive procedures, specifically five (05) out of eleven (11) meatpacking units belonging to the group in Brazil, considering branches and subsidiaries, and one (1) office trading live animals. The selected units included:

- Abaetetuba (office exporting livestock);
- Araguaína (meatpacker);
- Barretos (meatpacker);
- Palmeiras de Goiás (meatpacker);
- Rolim de Moura (meatpacker);
- Várzea Grande (meatpacker).

- b) Gain an understanding of the Company's operating systems and internal controls by interviewing the individuals responsible for the processes followed to meet the commitments to adopt “minimum criteria for conducting industrial-scale cattle operations in the Amazon biome”.
 - 1) The Company has an internal system (Intranet) where the cattle suppliers masterfile is registered.

Such system has a module where cattle buyers in each operational unit pre-complete suppliers' information. In this stage, purchasers enter the documents applicable to the case, namely: lease / free lease/ partnership / service provision agreement, if the supplier is not the owner; registry of deeds; title of ownership; deed; rural environmental registry; rural environmental permit; geographical coordinates; property polygon in form of digital map; detailed information; property floor plan, among others. Information on the property and possible supplier (code INCRA; CAR; LAR; CPF; CNPJ; State registry, among others) while conducting a pre-screening of CPF and/or CNPJ of the possible suppliers in the latest IBAMA and MTE database. As supporting documentation of such checking, a clearance certificate should be printed for IBAMA and the screenshot of the search from the latest MTE list should be printed out.

(a) Using the above-mentioned system, reports showing all purchases made from the Amazon biome in the period from January to December 2016 of each one of the units covered by our scope were generated, which was attended by our information technology specialists. For the procedures applied, no filters or biases were identified that might influence the report obtained through the extraction procedure.

- 2) For the "Monitorable, verifiable and reportable traceability system" criteria applicable to indirect suppliers, the Company does not have systems or controls in place to monitor 100% of the Company's purchases of cattle in the Amazon biome, encompassing all preceding links (rearing and fattening).

For the effective monitoring and control, the rural activity should invest in digital inclusion, which currently faces varying technical and infrastructure issues. Actions that can change this scenario would include some government incentive the benefit of which would be quantifiable in the short term in such a way that farmers could be encouraged to implement these procedures and ultimately, meet the consumer market's requirements in relation to the livestock production system.

The Company understands that implementing controls is not cost-effective, since, because it is not required and there are no benefits to suppliers, imposed by government, not all companies may comply with such procedures suggested by Minerva.

- 3) The Company's checks are based on criteria included in the commitment. Any deviations, either in the initial register or in some update of the database, the supplier's CPF/CNPJ and, consequently, all properties pegged to such register are blocked by the system for all cattle purchases from all Company's units, for all purchases for an indeterminate time. Purchases are release only after deviations are corrected in the next update of the database.

For those cases in which a supplier has more than one rural property and one of them is found to be noncompliant with the cattle purchasing criteria (IBAMA, MTE, deforestation, overlapping with conservation unit or indigenous land), raw materials from such suppliers may only be acquired if there is evidence that the cattle derives from a farm in conformity with the criteria adopted by the Company.

In this case, an "exception" procedure is performed whereby the cattle purchaser emails a request for releasing certain rural property to the Sustainability department, which analyzes the reason for blocking and the technical possibility to release within the established

criteria. New searches are made from IBAMA database, up-to-date clearance certificates are issued and the screenshot of the screening of the supplier's CPF/CNPJ from MTE's latest list is printed out. For releases of specific purchases requested by the cattle purchaser, the expected cattle slaughtering date from the respective purchase transaction is checked so that the property can be manually released in the system, from the purchase date through the expected slaughtering and billing date, and is blocked automatically again for security purposes.

For suppliers caught using slave work, creating any type of exception is not allowed. No cattle are purchased from such suppliers by any of the farms and such suppliers remain blocked in Minerva's internal system until there is evidence that they complied with the required criteria, which corresponds to their CPF/CNPJ being removed from the Ministry or InPacto lists.

The list of blocked suppliers (internally referred to as "blacklist") has an inclusion mechanism embedded in the same Intranet module, the use of which is restricted to the Sustainability department's employees. The maintenance of the internal system used to block farmers is made as follows:

- Update the database in relation to embargoed areas by daily uploading the list provided by IBAMA;
- Update of the database in relation to employers convicted due to exploitation of workers in slavery-like conditions, as disclosed by MTE, whenever it is revised, with no periodicity defined;
- Update of Apoio Consultoria database in relation to overlapping of polygons of supplying farms showing official information on deforestation, invasion of indigenous land and conservation units;
- Update of the database in relation to invasion of indigenous land, overlapping of embargoed or protected areas, deforestation and land grabbing by means of official letters sent to the National Indian Foundation (FUNAI), National Institute of Rural Settlement and Agrarian Reform (INCRA), Instituto Chico Mendes de Conservação da Biodiversidade (ICMBio) or the Federal Prosecution Office (MPF).

As shown in Appendices II and III, no cases of noncompliance were identified in performing the procedures included in the commitment to adopt "minimum criteria for conducting industrial-scale cattle operations in the Amazon biome".

In analyzing the database of suppliers not qualified by the Company, we identified only suppliers with issues related to PRODES and conservation units. Accordingly, we selected 100% of the base, with seven (7) cases of overlapping of conservation units and twenty-three (23) cases of PRODES deforestation.

- 4) The Company uses an outside firm called Apoio Consultoria to perform geo-monitoring analyses. As requested in the commitment instrument, we verified all documentation to ensure that such firm is properly qualified to conduct the contracted activities, considering corporate purpose, CNAE, technical responsibilities as specified in its CREA registry and the experience of the professionals involved in the work and other evidence indicated in the commitment instrument. All documentation was properly checked and we did not identify problems relating to the firm's qualification.

- c) To verify the direct suppliers' compliance with environmental and land requirements, we randomly selected 25 purchases using Grant Thornton's IDEA software, distributed in the period from January to December 2016. To make our analyses of supplying properties' compliance with environmental requirements, we requested the related CAR or LAR/LAU/APF. Of the total samples analyzed, we identified five (5) cases that were missing the CAR or LAR/LAU/APF. For these situations, The Rural Property Registry Certificate (CCIR) was provided to support that the supplying properties' land is compliant. No inconsistencies were identified as a result of the tests performed.

Basis for Qualified Conclusion

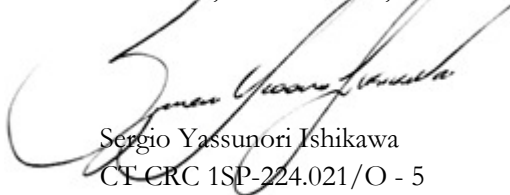
Indirect supplier traceability system

As described in item “**Procedures performed, item b) (2)**”, the Company does not have a “monitorable, verifiable and reportable traceability system” applicable to indirect suppliers to monitor 100% of the Company's purchases of cattle in the Amazon biome, encompassing all preceding links (rearing and fattening). We emphasize that monitoring indirect suppliers requires support from government. This is especially important for small properties.

Qualified Conclusion

Based on the procedures performed and evidence obtained, except for the effects of the matters described in the ‘Basis for Qualified Conclusion’ paragraph in this report, nothing has come to our attention that causes us to believe that the procedures adopted by the Company in the period from January 1 to December 31, 2016 were not compliant in all material respects with the criteria established in the commitment to adopt the “minimum criteria for conducting industrial-scale cattle operations in the Amazon biome”.

São Paulo, November 17, 2017.



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Appendix 1 – Total purchases and sampling (base year)

1 – Total purchases and sampling (base year)

Total purchases of raw materials originating from the Amazon biome conducted by Minerva from January 01 to December 31, 2016	Total purchases of raw materials selected for analyses.
11,157	1,129

Appendix 2 - Cases of noncompliance identified during the period under audit

2 – Cases of noncompliance (base year)

Purchases of raw materials originating from	Total noncompliant purchases	% of noncompliance to total purchases made in the year in the Amazon biome	% of noncompliance to total purchases included in the sample
Properties in which deforestation after 2009 was identified	-	0%	0%
Properties blocked due to presence in indigenous land	-	0%	0%
Properties blocked due to presence in conservation units	-	0%	0%
Properties blocked due to inclusion in MTE list	-	0%	0%
Properties blocked due to inclusion in IBAMA list	-	0%	0%

Appendix 3 – Findings of blocking tests

3 – Blocking tests

	Total tests simulating purchases in the Company's system	Compliant	Noncompliant
PRODES	23	23	-
Conservation Unit	7	7	-
Total	30	30	-

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