

Policy on
**Risk
Management**

Version 2

NOVONOR

Index

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|---|----|
| 1. OBJECTIVE | 3 |
| 2. GLOSSARY..... | 4 |
| 3. PROVISIONS..... | 7 |
| 3.1. BASIC CONCEPTS | 7 |
| 3.2. RISK MANAGEMENT METHODOLOGY | 8 |
| 3.2.1. Setting the Context..... | 8 |
| 3.2.2. Risk Identification | 8 |
| 3.2.3. Risk Assessment and Prioritization | 10 |
| 3.2.4. Risk Treatment..... | 10 |
| 3.2.5. Risks Communication | 11 |
| 3.2.6. Risks Monitoring | 11 |
| 3.3. ROLES AND RESPONSIBILITIES..... | 12 |
| 4. RECORDS RETENTION RULES..... | 13 |
| 5. SCOPE..... | 14 |
| 6. AWARENESS AND CERTIFICATION PROCESS..... | 14 |
| 7. GENERAL PROVISIONS..... | 14 |

The risks management process definition was adapted from the COSO Enterprise Risk Management Framework (Committee of Sponsoring Organizations of the Treadway Commission).

1. OBJECTIVE

The Risks Management Policy of Novonor S.A. has the objectives of establishing the risk management process, which includes establishing the context, identification, evaluation, prioritization, treatment, communication and monitoring of the risks of its business activity, to guide the monitoring of risks management within Novonor, and to strengthen the risks management culture in the Group.

At Novonor, the risks management process is conducted by the members of its Board of Directors, officers and other members, and aims to support the achievement of business objectives by defining strategies to mitigate potential events capable of affecting Novonor and to manage its risks in a manner consistent with its risk-taking capacity, risk appetite and risks tolerance.

The risks management process should be part of the PA cycle, and the priorities and goals resulting from this process should be on the PA of the PD-Novonor and the other leaders at Novonor.

2. GLOSSARY

In order to standardize the expressions and terms used throughout this Policy, the following words and abbreviations mean:

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| Risk Appetite | Risk appetite establishes the limits of acceptable risk associated with the degree of risks exposure that Novonor S.A. is willing to accept in order to achieve its business objectives and create value for its shareholders while respecting its stakeholders |
| CA-Novonor | Board of Directors of Novonor S.A. |
| Risks Taking Capacity | Maximum risk value (stress) that Novonor S.A. is able to bear, considering all risks categories, given its capital and liquidity structure. |
| PA Cycle | Action program cycle involving the steps of:(i) planning and covenant; (ii) follow-up; (iii) assessment; and (iv) judgment |
| Novonor Culture | Novonor's organizational culture based on the business technology developed by founder Norberto Odebrecht |
| DP-Novonor | CEO of Novonor S.A. |
| Company | Any company controlled directly or indirectly by Novonor S.A. |
| Event | It is the fact or event that characterizes the materialization of the risk. It can consist of one or more occurrences and have several different causes. It can also consist of the non-occurrence of some fact or event. |
| Group | It is the group of companies formed by Novonor S.A. and its controlled, associated and affiliated companies |
| Risks Management Group | Work group that supports the PD-Novonor and its directs in matters related to risks management at Novonor S.A. The Risks Management Group should be comprised of up to 3 members, chosen by the PD Novonor |
| Impact | Impact is the extent to which Novonor S.A. may be exposed or unprotected in relation to negative events and their effects, before or after the assessment of the respective risk, which may be tangible or intangible (culture and image) |
| Risks Matrix | Graphical representation of impact <i>versus</i> probability exposure of the risks identified by Novonor |
| Business: | It is characterized by ownership interest in companies that consolidate a market segment, in which Novonor S.A. has control or shared control, with prospects for growth and continuity in the portfolio over the long term. |

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|----------------------|---|
| Novonor | Novonor S.A. |
| Stakeholders | Formed by shareholders, members, customers, users, partners, creditors, suppliers, external partners, service providers, surrounding communities, authorities, media, opinion leaders, business leaders, and class entities, NGOs, governments, and regulatory and funding agencies that may affect or be affected by the activities, objectives or policies of Novonor S.A. or its Businesses |
| Contingency Plan | Set of measures that should be adopted in case of risk materialization, to minimize the negative consequences on Novonor S.A. and ensure the continuity of its business activities, with the definition of those responsible for each measure, and the communication plan |
| Risks Treatment Plan | Set of measures taken to decrease the impact and/or probability of risk materialization to a level that is in line with Novonor's risk appetite; it may include process improvement, system implementation, creation or adjustment of controls, contracting of financial protection instruments, among others. Additionally, the risks treatment plan must define who is responsible and the deadlines for the execution of the measures to be adopted |
| Probability | Is the possibility of risk materialization considering Novonor S.A.'s current controls structure: current techniques for mitigating risks, efficiency and effectiveness of controls, history and previous impacts of risks, complexity of risks management, and level of growth and contraction |
| Risk Officer | An individual responsible for identifying and managing a certain risk related to a process under his or her responsibility. The Risk Officer must be aligned with the Risk Management Group in all matters related to risk management under his/her responsibility |
| Risk | The effect of uncertainty on the achievement of Novonor S.A.'s objectives, characterized by a deviation from what is expected, positive or negative. Risk is often expressed in terms of a combination of consequences of an event and the associated probability of occurrence. It can be classified into at least six categories (in alphabetical order): (i) strategy; (ii) financial;(iii) image and reputation; (iv) legal and regulatory or compliance; (v) operational; and (vi) socio-environmental |
| Risks Tolerance | It is the maximum acceptable exposure for each of the six risk categories, represented by a percentage of the risk appetite established by Novonor S.A. |

3. PROVISIONS

3.1. BASIC CONCEPTS

In alignment with the conceptions and other concepts of Novonor's culture, the exclusive desire for short-term results tends to jeopardize the basis of the Business, which is to serve the customer, with ethics, integrity and transparency¹. To be strong, companies must make a clear choice for the future, giving up immediate results. The risks we take must be related to our Businesses, and we must know and mitigate them to obtain higher and better results².

The risks management process aims at ensuring that decision-makers at all levels of Novonor have timely access to sufficient information regarding the risks to which it is exposed in order to increase the likelihood of achieving its objectives and to reduce risks to acceptable levels. It also aims to preserve the tangible and intangible assets of shareholders, the safety of people, and the integrity of the environment and communities, through the improvement of decision-making processes and the appropriate treatment of the risks and negative impacts resulting from their materialization.

Novonor's risk management process should be aligned with its long-term vision and the DP-Novonor's PA, to enable the identification of events that potentially prevent the achievement of its business objectives, respecting risk appetite and risks tolerance.

The risk appetite and risks tolerance established for Novonor should be incorporated into the PD-Novonor's proposal of Novonor's strategic direction for approval by the BoD of Novonor.

Leaders at Novonor must consistently and methodologically supported, assess the risk environment to which they are exposed, the adoption of effective controls and process improvement, considering, but not limited to, the following aspects:

- size;
- sectors and locations;
- environmental and social aspects in the surroundings of the areas of operation;
- legal and regulatory environment;
- corporate holdings that involve the legal entity as a parent company, controlled company, associated company, or consortium company;
- organizational structure;

¹ Adapted from Survive, Grow and Perpetuate - Norberto Odebrecht.

² Adapted from Succeed and be Succeeded - Emilio Odebrecht.

The **Risks Management Methodology** was adapted from the concepts of COSO's Enterprise Risk Management Framework (Committee of Sponsoring Organizations of the Treadway Commission) and ISO 31000:2009

- Number of members and third parties;
- Interaction with the public administration; and
- Economic and financial structure.

The PD-Novonor PA proposal should contemplate the context, the risks matrix, the treatment of Novonor's priority risks, and the indicators for monitoring them.

3.2. RISKS MANAGEMENT METHODOLOGY

The application of the risks management methodology at Novonor is ensured by the PD-Novonor, supported by the risks management group and the risks management process coordinator.

The risks management process takes place in five steps, as described below.

3.2.1. Setting the Context

Setting the context for the risks management process aims to assess the external and internal environment to ensure that own and stakeholders' objectives and priorities are considered in developing risks management strategies.

The external environment includes, but is not limited to, the cultural, environmental, political, social, legal, regulatory, and economic context of the market in which it operates, as well as the relationships with external stakeholders and their perceptions and values.

The internal environment at Novonor includes, among other elements, the Novonor Culture, governance structure, policies and guidelines, financial condition information systems, internal control environment, and relations with its members and shareholders.

3.2.2. Risks Identification

The identification of risks at Novonor, to be carried out by every member responsible for a process, should list the risks arising from its business activity as a holding company, and occur in a structured manner according to the Novonor PD-AP, by means of:

The **risk categories** are presented in this chapter in alphabetical order, since there is no hierarchy of categories. The methodology for prioritizing risks is presented in item 3.2.3.

- periodic interviews with the direct PD-Novonor team, and with the members indicated by them, to identify trends and new risks;
- interviews with risks officers, members and internal auditors;
- consultations with external auditors and consultants, regulatory bodies, the market, and Stakeholders.

The description of the risks should follow a structured format to facilitate their identification, evaluation, and monitoring.

When performing risks mapping and identification, we should consider, as a minimum, the following **categories of risks**:

- **Strategic risks**: events arising from top management's decision making and which may generate substantial loss in the company's economic value. They are usually associated with business continuity, market, competitors, investments, succession and technological innovation.
- **Financial risks**: events that may compromise Novonor's ability to have the financial resources necessary to carry out its activities and manage its cash flow, in addition to risks related to the granting of guarantees to its business, becoming liable for payments not anticipated in its cash flow. Additionally, there are risks associated with not accounting or recording in a complete, transparent and efficient way the company's transactions.
- **Image and reputation risks**: events that may compromise stakeholder confidence in Novonor's ability to deliver on its commitments, principles, concepts and values, and to act with ethics, integrity and transparency.
- **Legal and regulatory or compliance risks**: events arising from failure to comply with laws, agreements, regulations and Novonor policies. Or non-anticipated legislative or regulatory changes that could compromise Novonor's activities.
- **Operational risks**: events that can compromise Novonor's activities, usually associated with failures, deficiency or inadequacy of internal processes, persons, infrastructure and systems.

- **Socio-environmental risks:** events that may affect the environment, persons or communities in areas of influence of operations or structures under Novonor's responsibility.

3.2.3. Risks Assessment and Prioritization

The risks must be assessed and prioritized from the perspective of probability and impact (degree of exposure) of its occurrence:

- **Probability:** consists of the expected occurrence of the risk in a certain time horizon.
- **Impact:** consists of the result of the materialization of a given risk, measured by preferentially quantitative criteria (examples: potential impact on cash flow or economic value from asset losses, revenue losses, indemnities, fines, increased costs, social impacts, on the environment or on reputation and image, among others).

The result of the risks assessment between probability *versus* the impact of its occurrence is represented in Novonor's risks matrix, which is consolidated by the risks management group in support of DP-Novonor.

After identifying and assessing the risks, they will be prioritized according to the highest ratio between impact and probability, thus establishing the degree of exposure to risk, which will guide the priority of periodic monitoring.

3.2.4. Risks Treatment

DP-Novonor proposes the treatment strategy for the identified, assessed and prioritized risks, which is approved by CA-Novonor.

Treatment should follow a prioritization, based on the assessment of the degree of exposure, and may use one or more of the treatment alternatives explained below:

- **Avoiding the risk:** discontinuation of the activities that generate the risks. No alternative is acceptable or feasible to reduce the **impact** or probability of occurrence of the risk, justifying abandoning the business or process that generates the risk.

The risks treatment alternatives used in this Policy were adapted from COSO's Enterprise Risk Management Framework (Committee of Sponsoring Organizations of the Treadway Commission)

- **Reduce the risk:** adoption of measures to reduce the probability of occurrence or the impact of risks.
- **Share the risk:** reducing the probability of occurrence or impact of the risks by transferring or sharing a portion of the risk through insurance, *hedging*, associations, outsourcing an activity, among others.
- **Accept the risk:** no measures are taken to affect the probability of occurrence or impact of the risks, however, the event must be monitored by controls for periodic reassessment.

The person responsible for each risk must propose the respective treatment to the risks management group, which supports DP-Novonor in the final definition. Once the treatment to be given to the risk is defined, it is included in the risks treatment plans.

For all priority risks, contingency plans must be prepared preventively with the measures to be adopted in case the risk materializes.

3.2.5. Risks Communication

Risks communication must ensure adequate knowledge of the leaders in order to allow for effective prevention, detection, and remediation actions.

Irrelevant information must be identified and collected, encompassing internally produced data, information about external events, activities, and conditions, to enable risks management and decision making. Your communication should be timely and flow in all directions.

Additionally, the PD-Novonor should maintain communication with Novonor's Board to ensure update, participation and alignment in risks management, observing governance at Novonor.

3.2.6. Risks Monitoring

Risk monitoring aims to evaluate the effectiveness of the risk management process and internal controls, by means of ongoing management activities and/or independent evaluations, seeking to ensure that it works as defined and to identify opportunities for improvement, according to changes in conditions that alter the level of exposure to risks.

Monitoring should include indicators, proposed by the risk manager to the risks management group. The performance of risks indicators and their limits must be monitored on an ongoing basis to ensure the implementation of risks treatment plans.

Risks management activities must be adequately documented as a means of evidencing their adherence to the risks management model defined by Novonor.

3.3. ROLES AND RESPONSIBILITIES

CA-Novonor:

- Approve the Risks Management Policy;
- Approve the risk appetite and risk tolerance for each of the categories as part of the strategic direction;
- Approve the risks matrix, the risks treatment plans and the contingency plans under the PA of DP-Novonor;
- Periodically follow up on the risks matrix, risks treatment plans and contingency plans, in the context of the DP-Novonor PA monitoring.

Novonor's Compliance and Audit Committee (CCA-Novonor):

- Recommend to CA-Novonor the approval of the:

- - Risks Management Policy;
- - DP-Novonor's proposal on risk appetite and risks tolerance;
- - DP-Novonor's proposal for the risks matrix, risks treatment plans and contingency plans.
- Support CA-Novonor in monitoring the risks matrix, risks treatment plan and contingency plans;
- Follow and contribute to the planning of the review of risk assessment, prioritization and treatment, in alignment with the DP-Novonor PA cycle.

DP-Novonor:

- Ensure the application of the risks management methodology;
- Incorporate the priorities and goals related to risks management into your PA;
- Propose to CA - Novonor the Risks Management Policy, risk appetite and risks tolerance for each of the categories;
- Propose to the Board of Directors the risks matrix, the risks treatment plans, and the contingency plan;
- Keep CCA-Novonor updated on monitoring and risks exposure;
- Present to Novonor's Board of Directors the monitoring of Novonor's priority risks, by means of its AP Monitoring Report;
- Set up and lead the risk management group to support it in:
 - - proposed risks appetite and tolerance limits;
 - - analysis of the evaluation and prioritization proposals made by each risk manager to define Novonor's risks matrix;
 - - analysis of the treatment proposals for each risk to define the risks treatment plans and contingency plans;
- Designate the coordinator of the risks management process.

Coordinator of the Risks Management process:

- In support of DP-Novonor, coordinate the activities of the risk management process;
- Monitor the progress of the implementation of the risk treatment plans with those responsible for the risks;
- Analyze and report to DP-Novonor and the risks management group on the performance of risks monitoring indicators.

Risk Officer:

- Propose the treatment of each of the risks under his responsibility;
- Ensure the development and execution of risks treatment plans and risks contingency plans;
- Include the priorities and goals related to the risks treatment plan and contingency plan in his PA; and
- Monitor the risks under his leadership and track the performance of the corresponding indicators.

4. RECORDS RETENTION RULES

Not applicable to this policy.

5. SCOPE

Novonor's Risks Management Policy applies to all its members, members of the Novonor Board of Directors, members of the Consulting Board, members of Novonor's Audit Committee, as well as members and managers of subsidiaries that do not have a Board of Directors.

In addition, this Policy serves as a guideline for the members of the boards of directors of Novonor's controlled companies, as appointed by Novonor, to approve and implement, in alignment with the other directors, a policy on risks management that contains the principles, concepts and other guidance defined and explained in this Policy, while promoting, however, the necessary additions and other guidance to adjust to the characteristics of their respective businesses and the contributions of the other directors.

6. AWARENESS AND CERTIFICATION PROCESS

All members of Novonor and its subsidiaries that do not have a board of directors and the chairmen of the boards of directors of companies that do not have a board of directors should be made aware of this Risks Management Policy no later than 30 days after its approval date, so that they can bring the discussion and approval of a similar policy to their respective boards.

7. GENERAL PROVISIONS

If there is any doubt about the content of Novonor's Risk Management Policy, the member cannot omit himself/herself and should seek clarification from his/her direct leader or, if necessary, from the risks management process coordinator.

CONTROL INFORMATION FOR THE GUIDANCE DOCUMENTATION:

References: Sobreviver, Crescer e Perpetuar (Norberto Odebrecht), Suceder e ser Sucedido (Emilio Odebrecht), Enterprise Risk Management Framework do COSO (Committee of Sponsoring Organizations of theTreadway Commission) e ISO 31000:2009.

Validity: This Policy is valid for an indefinite period, and must be revalidated at most every 3 years, and may be changed or revoked at any time.

Documents revoked: N/A

RAF Approver: Marco Rabello - RAF - Finance, Planning and Investments

Document version: 2

RAF Approver: Marco Rabello - RAF Finance, Planning and Investments

| Version | Date | Change |
|----------------|-------------|--|
| 1 | 22/11/2017 | Initial issue of the document. |
| 2 | 19/03/2021 | Structure and format adaptation according to Guideline 1 - Guidance Documentation - Version 2, with inclusion of the items: (i) 4. Records Retention Rules, Control Information; (ii) inclusion of item 3. Provisions and appropriateness of numbering of sub-items; appropriateness of numbering of items; (iii) general text revision to change the company name to NOVONOR; (iv) transferring to the glossary some terms that were previously displayed in information boxes on the side of the document. |