

**ODEBRECHT**

**POLICY ON  
RISK MANAGEMENT**

**ODEBRECHT S.A.**

**Odebrecht S.A. Policy on Risk Management**

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**Group:**

Is the group of Companies formed by Odebrecht S.A. and its controlled and affiliated companies.

**Company:**

Any Company directly or indirectly controlled by Odebrecht S.A.

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

**PA Cycle:**

- Planning and pact
- Monitoring
- Assessment
- Judgment

**1. PURPOSE**

The Policy on Risk Management of Odebrecht S.A. ("ODB") aims at establishing the risk management process that covers context setting, identification, evaluation, prioritization, treatment, communication and monitoring of the risks of its business activity, guiding the monitoring of risk management within Odebrecht S.A. and strengthening the **Group's** risk management culture.

At Odebrecht S.A., the **risk management process** is conducted by the members of its Board of Directors ("CA-ODB"), officers and other members, and aims at supporting the fulfillment of the business purposes, through the definition of strategies to mitigate events that may affect Odebrecht S.A. and managing its risks in a way that is compatible with the risk-bearing capacity, risk appetite and risk tolerance.

The risk management process must be part of the **Action Plan** ("PA") Cycle, and the process's resulting priorities and goals must be included in the PA of the Chief Executive Officer of Odebrecht S.A. ("DP-ODB") and of the other leaders at Odebrecht S.A.

**2. GLOSSARY**

Technical terms and expressions used in this document mean:

<b>Risks</b>	The effect of uncertainty in fulfilling the purposes of Odebrecht S.A., characterized by a deviation in relation to what is expected, whether positive or negative. Risk is often expressed in terms of a combination of the consequences of an event and the associated likelihood of occurrence. It may be classified into at least six categories (in alphabetical order): (i) financial; ; (ii) image and reputation; (iii) legal, regulatory or compliance; (iv) operational; (v) social and environmental and (vi) strategic.
– <b>Risk-bearing capacity</b>	Maximum amount of risk (stress) that Odebrecht S.A. is able to bear, considering all risk categories, given its capital structure and liquidity.
– <b>Risk appetite</b>	The risk appetite establishes the acceptable risk limits associated to the degree of exposure to risks that Odebrecht S.A. is willing to accept to fulfill its entrepreneurial purposes and create value to its shareholders, respecting the stakeholders.
– <b>Risk tolerance</b>	Is the maximum acceptable exposure to each of the six risk categories, represented by a percentage of the risk appetite established by Odebrecht S.A.
– <b>Event</b>	Is the fact or event that characterizes the risk materialization. It may consist of one or more occurrences and have various different causes. It may also consist in the non-occurrence of a fact or event.
– <b>Impact</b>	Impact is the extension to which Odebrecht S.A. may be exposed to or unprotected from negative events and their effects, before or after the respective risk assessment. It may be tangible or intangible (culture and image).
– <b>Likelihood</b>	It is the possibility of risk materialization considering the current control structure of Odebrecht S.A.: current techniques for risk mitigation, efficiency and efficacy of controls, history and previous impacts of risks, complexity of risk management and level of growth and shrinking.
– <b>Risk matrix</b>	Graphic representation of impact exposure versus likelihood of the risks identified by Odebrecht S.A.
– <b>Risk Management Group</b>	Working group that supports the DP-ODB and its direct team in matters related to Odebrecht S.A.'s risk management. The Risk Management Group must be made up of up to 3 members chosen by the DP-ODB.

<p>– <b>Risk Owner</b></p>	<p>Member responsible for identifying and managing a certain risk related to a process under his/her responsibility. The Risk Owner must be aligned with the Risk Management Group in all matters related to management of the risk for which he/she is responsible.</p>
<p>– <b>Contingency Plan</b></p>	<p>Set of actions that must be taken in case of risk materialization, to minimize the negative consequences to Odebrecht S.A. and guarantee continuity in its entrepreneurial activities. The Contingency Plan includes the definition of persons responsible for each action and the communication plan.</p>
<p>– <b>Risk Treatment Plan</b></p>	<p>Set of actions taken to reduce the impact and/or likelihood of risk materialization to a level compatible with Odebrecht S.A.'s risk appetite. It may include improvement of processes, implementation of systems, creation or adaptation of controls, contracting of financial protection instruments, among others. The persons in charge and time frame for execution of the actions must also be defined in the Risk Treatment Plan.</p>

**Business:**

It is characterized by the set of operations and/or investments designed to serve and satisfy clients, offering them specific products and/or services, in certain markets and sectors, consolidated as a Leading Company under a Business Leader (BL)'s responsibility.

**3. BASIC CONCEPTS**

According to the concepts under the Odebrecht Entrepreneurial Technology ("TEO"), to aim exclusively for short-term results can put at risk the foundation of the **Business**, which is to serve the client with ethics, integrity and transparency<sup>1</sup>. To be solid, the Companies must clearly choose the future, in opposition to immediate results. The risks we run must be the ones related to our Business, and we must know them and mitigate them to obtain better and bigger results<sup>2</sup>.

The risk management process aims at ensuring that the persons in charge of making decisions, in all levels of Odebrecht S.A., have timely access to enough information regarding the risks to which it is exposed, so as to increase the likelihood of achieving its purposes and reduce the risks to acceptable levels. It also aims at preserving shareholders' tangible and intangible assets, the safety of the people and the integrity of the environment and communities, through the improvement of decision-making processes and proper treatment of risks and negative impacts resulting from their materialization.

Odebrecht S.A.'s risk management process must be aligned with its long-term vision and with the DP-ODB's PA to allow the identification of events that may prevent the achievement of its entrepreneurial purposes, with due regard for the Risk Appetite and Risk Tolerance.

<sup>1</sup> Adapted from *Sobreviver, Crescer e Perpetuar* – Norberto Odebrecht.

<sup>2</sup> Adapted from *Sucesser e ser Sucedido* – Emílio Odebrecht.

The Risk Appetite and Risk Tolerance established for Odebrecht S.A. must be incorporated into the DP-ODB's strategic direction proposal for Odebrecht S.A. for approval by the CA-ODB.

ODB's leaders must, in a consistent manner and with methodological support, assess the risk environment to which they are exposed, the adoption of efficient controls and the improvement of processes, considering, without limitation, the following aspects:

- Size;
- industries and places of operation;
- environmental and social aspects in the locations' surroundings;
- legal and regulatory environment;
- equity interest involving the legal entity as controlling, controlled, affiliated company or consortium member;
- organizational structure;
- number of members and third parties;
- interaction with the government; and
- economic and financial structure.

The DP-ODB's PA proposal must cover the context, Risk Matrix, treatment of Odebrecht S.A.'s priority risks and monitoring indicators.

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

**Stakeholders:**

Made up of shareholders, members, clients, end users, partners, creditors, suppliers, external partners, service providers, surrounding communities, authorities, media, opinion leaders, business leaders, business associations, NGOs, governments and regulatory and financing agencies that may affect or be affected by ODB's or its Businesses' activities, objectives or policies.

**4. RISK MANAGEMENT METHODOLOGY**

The application of the risk management methodology at ODB is ensured by the DP-ODB, supported by the Risk Management Group and the risk management process coordinator.

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

**4.1. Context setting**

Context setting for the risk management process aims at assessing the external and internal environment to ensure that the goals and priorities of ODB and of the **Stakeholders** are taken into account in the development of risk management strategies.

The external environment includes, without limitation, the cultural, environmental, political, social, legal, regulatory, and economic context of the market where it operates, and also the relations with the external Stakeholders and their perceptions and values.

ODB's internal environment includes, among other elements, the TEO, the governance structure, policies and guidelines, financial situation, information systems, internal controls environment and relations with its members and shareholders.



## 4.2. Risk identification

Identification of risks at ODB, to be carried out by every member responsible for a process, must list the risks resulting from its activity as a holding, and take place in a structured manner according to the DP-ODB's PA, by means of:

- Periodical interviews with the direct team of the DP-ODB and with the members indicated by such team, to identify trends and new risks;
- interviews with the Risk Owner, members and internal auditors; and
- consultations with external auditors and consultants, regulatory bodies, market and Stakeholders.

The description of risks must follow a structured format to facilitate their identification, assessment and monitoring.

When mapping and identifying the risks, we must consider at least the following **risk categories**:

- **Financial risks:** events that may jeopardize Odebrecht S.A.'s capacity to have the financial resources necessary to conduct its activities and manage its cash flow, in addition to risks related to granting guarantees to its businesses, becoming jointly liable for payments that are not foreseen in its cash flow. Also, risks associated with the failure to account for, or to fully, transparently and efficiently record the company's transactions.
- **Image and reputation risks:** events that may jeopardize Stakeholders' trust in ODB's ability to honor its commitments, principles, concepts and values, and to act with ethics, integrity and transparency.

**The risk categories** are presented in this chapter in alphabetical order, since there is no hierarchy in the categories. The methodology to prioritize the risks is presented in item 4.3.

- **Legal and regulatory or compliance risks:** events resulting from failure to obey laws, agreements, regulations and ODB's policies. Or also unexpected changes in legislation or rules that may jeopardize ODB's activities.
- **Operational risks:** events that may jeopardize ODB's activities, usually associated to failures, deficiency or inadequacy of internal processes, people, infrastructure and systems.
- **Social and environmental risks:** events that may affect the environment, people or communities in the areas influenced by operations or structures for which Odebrecht S.A. is responsible.
- **Strategic risks:** events resulting from decisions made by top management that may cause substantial loss to the company's economic value. Generally associated with the business continuity, market, competitors, investments, succession and technological innovation.

#### 4.3. Assessment and prioritization of risks

Risks must be assessed and prioritized from the perspective of likelihood and impact (degree of exposure) of their occurrence:

- **Likelihood:** consists in the expectation of occurrence of the risk within a certain time frame.
- **Impact:** consists in the result of the materialization of a certain risk, preferably measured by quantitative criteria (examples: possible impact on cash flow or economic value, resulting from loss of assets, loss of income, indemnities, fines, increase in costs, social impacts, impacts on the environment or on reputation and image, among others).

The result of the evaluation of risks between likelihood versus impact of its occurrence is represented in Odebrecht S.A.'s Risk Matrix, which is consolidated by the Risk Management Group, in support of the DP-ODB.

After identifying and assessing the risks, they will be prioritized according to the biggest relation between impact and likelihood, thus establishing the degree of exposure to risk that will guide the priority of periodical monitoring.

#### 4.4. Risk treatment

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

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

- **Avoid the risk:** discontinue the activities that incur the risks. No alternative is acceptable or viable to reduce the impact or likelihood of occurrence of the risk, which justifies abandoning the business or process that is posing the risk.
- **Reduce the risk:** adopting measures to reduce the likelihood of occurrence or the impact of the risks.
- **Share the risk:** reduce the likelihood of occurrence or impact of the risks by transferring or sharing a portion of the risk by means of contracting insurance, hedging, establishing associations, outsourcing an activity, among others.

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

- **Accept the risk:** no measure is adopted to affect the likelihood of occurrence or impact of the risks, however, the event must be monitored by controls for periodical reassessment.

The Risk Owner must propose the respective treatment to the Risk Management Group, which supports the DP-ODB in the final definition. Once the risk treatment is defined, it is included in the Risk Treatment Plans.

For all priority risks there must be Contingency Plans prepared preventively with the measures to be adopted in case of risk materialization.

#### **4.5. Risk communication**

Risk communication must ensure that the leaders are properly informed so as to allow effective preventive, detection and remediation actions.

Relevant information must be identified and collected, covering data produced internally, information on events, activities and external conditions, which make risk management and decision-making possible. Its communication must be timely and must flow in all directions.

The DP-ODB must also keep communication with the CA-ODB so as to guarantee the update, participation and alignment in risk management, observing governance at Odebrecht S.A.

#### **4.6. Monitoring risks**

The aim of monitoring risks is to assess the effectiveness of the risk management process and internal controls, by means of continuous management activities and/or independent assessments, seeking to ensure that it is being carried out as defined and to identify opportunities for improvement, according to changes in conditions that may alter the level of exposure to the risks.

Monitoring must include indicators, proposed by the person Risk Owner to the Risk Management Group. The performance of the risk indicators and their limits must be monitored continuously to ensure the implementation of the Risk Treatment Plans.

Risk management activities must be adequately documented as a way to evidence their adherence to the risk management model defined by Odebrecht S.A.

## 5. ROLES AND RESPONSIBILITIES

CA-ODB:

- To approve the Policy on Risk Management;
- to approve the Risk Appetite and Risk Tolerance for each category, within the scope of DP-ODB's strategic direction proposal for Odebrecht S.A.;
- to approve the Risk Matrix, Risk Treatment Plans and Contingency Plans within the DP-ODB's PA;
- periodically follow up on the Risk Matrix, Risk Treatment Plans and Contingency Plans within the context of monitoring of the DP-ODB's PA.

Odebrecht S.A.'s Compliance Committee (CC-ODB)

- To recommend to the CA-ODB the approval of:
  - Policy on Risk Management;
  - the DP-ODB's proposal on Risk Appetite and Risk Tolerance; and
  - the DP-ODB's proposal for the Risk Matrix, Risk Treatment Plans and Contingency Plans.
- to provide support to the CA-ODB in monitoring the Risk Matrix, Risk Treatment Plan and Contingency Plans;
- to monitor and contribute to the planning of the assessment revision, prioritization and risk treatment, aligned with the DP-ODB's PA cycle.

DP-ODB:

- To ensure the application of the risk management methodology;
- to incorporate the priorities and goals related to risk management into his/her PA;
- to propose to the CA-ODB the Policy on Risk Management, the Risk Appetite and Tolerance for each of the categories;

- to propose to the CA-ODB the Risk Matrix, Risk Treatment Plans and Contingency Plans;
- to keep the CC-ODB updated on the monitoring and risk exposure;
- to present to the CA-ODB the follow-up on Odebrecht S.A.'s priority risks through his PA's Monitoring Report;
- to form and lead the Risk Management Group to support him/her in:
  - Proposing limits to Risk Appetite and Tolerance;
  - analyzing assessment and prioritization proposals made by each Risk Owner to define Odebrecht S.A.'s Risk Matrix; and
  - analyzing the proposals for treatment of each risk to define the Risk Treatment Plans and Contingency Plans.
- to appoint a coordinator for the risk management process.

#### Coordinator of the risk management process

- In support of the DP-ODB, to coordinate the risk management process activities;
- to monitor the progress of the implementation of the Risk Treatment Plans with the Risk Owners;
- to analyze and communicate to the DP-ODB and to the Risk Management Group the performance of risk monitoring indicators.

#### Risk Owner

- To propose a treatment for each risk under his/her responsibility;
- to ensure that Risk Treatment Plans and Risk Contingency Plans are prepared and executed;
- to include the priorities and goals listed in the Risk Treatment Plan and in the Contingency Plan in his/her PA; and
- to monitor the risks under his/her leadership and monitor the performance of the corresponding indicators.

## **6. COVERAGE**

Odebrecht S.A.'s Policy on Risk Management is applicable to all of its members, members of the CA-ODB, members of the advisory board, members of Odebrecht S.A.'s fiscal council, as well as to the members and managers of the controlled companies that do not have a board of directors.

Additionally, this Policy acts as a guideline for the members of the boards of directors of Odebrecht S.A.'s controlled companies appointed by it, in alignment with the other board members, to approve and implement a policy on risk management containing principles, concepts and other guidelines defined and expressed in this Policy. Supplementing documents and other guidelines required for the adaptation to the characteristics of each respective business and to the contributions of the other directors shall also be encouraged.



## **7. ACKNOWLEDGEMENT AND CERTIFICATION**

Within no more than thirty (30) days as of its date of approval, all members of Odebrecht S.A. and its controlled companies that do not have a board of directors and the chairs of the boards of directors of Companies shall be aware of this Policy on Risk Management so that they can take it to their respective boards for discussion and approval of a similar policy.

## **8. GENERAL PROVISIONS**

In the event of any doubt regarding the contents of Odebrecht S.A.'s Policy on Risk Management, the members shall not remain silent and shall seek clarifications through their direct leader or, if needed, through the coordinator of Odebrecht S.A.'s risk management process.