

**POLICY ON RISK MANAGEMENT FROM
M. DIAS BRANCO S/A INDÚSTRIA E COMÉRCIO
DE ALIMENTOS**

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POLICY ON RISK MANAGEMENT FROM M. DIAS BRANCO S/A INDÚSTRIA E COMÉRCIO DE ALIMENTOS

1. DEFINITIONS

1.1 The terms and expressions listed below, when used in this Policy, both in singular and plural, shall have the following meaning:

“B3” – B3 S.A. – Brasil, Bolsa, Balcão.

“Employees” – All hired employees, members of the Board of Management, members of committees (statutory or not), members of the Fiscal Council, Statutory Directors (CEO and Vice-Presidents), Non-statutory directors, apprentices and interns in the Company, regardless of the position or job done.

“Company” or “M. DIAS BRANCO” – M. Dias Branco S/A Indústria e Comércio de Alimentos and its controlled companies.

“Internal Controls” – Policies, rules, procedures, activities and mechanisms developed with the purpose of (i) guaranteeing the effective Risk Management; (ii) ensuring the efficiency and effectiveness of operations and the quality and integrity in the registration of transactions; (iii) offering reliability in the preparation of financial statements; and (iv) disseminating and ensuring the compliance with laws and regulations.

“Policy” - Policy on Risk Management from M. Dias Branco S/A.

“Risk” – The possibility that the execution of strategic and operational goals by the Company is negatively influenced by uncertain events, whether internal or external ones. The Risk must not be confused with being the lack or the non-execution of an Internal Control.

2. REFERENCES

2.1. This Policy was developed based on the following references:

- (i) *International Organization for Standardization ISO 31000:2009;*
- (ii) *Committee of Sponsoring Organizations of the Treadway Commission - COSO 2017 Enterprise Risk Management - Integrating with Strategy and Performance;*
- (iii) *Committee of Sponsoring Organizations of the Treadway Commission - COSO 2013 Internal Control – Integrated Framework;*
- (iv) *The Institute of Internal Auditors - IIA’s International Standards for the Professional Practice of Internal Auditing;*

- (v) *The Institute of Internal Auditors – IIA’s Position Paper: The Three Lines of Defense in Effective Risk Management and Control (2013)*
- (vi) New Market Regulation by B3;
- (vii) CVM Instruction number 480, from December 7, 2009, as amended;
- (viii) CVM Instruction number 552, from October 9, 2014, as amended;
- (ix) Brazilian Corporate Governance Institute, IBGC - Enterprise risk management: evolution in governance and strategy (book 19);
- (x) Brazilian Corporate Governance Institute, IBGC - The board of management’s role in the strategy of organizations;
- (xi) Company’s Methodology on Risk Management;
- (xii) Company’s Audit Committee Bylaws;
- (xiii) Company’s Anti-Corruption Policy; and
- (xiv) Company’s Code of Ethics.

3. PURPOSE AND SCOPE

3.1. This Policy has the purpose of establishing the Company’s general rules, guidelines, guidance and responsibilities on Risk Management, in order to ensure that:

- (a) The Risks inherent to the Company’s activities are identified, assessed and minimized in an acceptable level considering their perpetuation;
- (b) The structure of Internal Controls is continuously reviewed, considering the Risks identified, minimizing the costs associated to Risks not controlled and/or unnecessary control activities;
- (c) The operations with potential conflicts of interest are identified and the associated Risks are minimized as of the implementation of measures to segregate functions and/or monitor the activities;
- (d) All Employees understand clearly the Risk Management goals and roles, functions and responsibilities assigned to different Company levels;
- (e) The Company meets the regulatory criteria in force.

3.2. This Policy has the mission of ensuring the Company’s business goals and strategies are achieved, identifying and communicating on a timely manner the need for adjusting operational procedures, in order to align the level of exposure to risks with the Company guidelines.

3.3. The provisions from this Policy must be interpreted together and complement the guidelines on conduct established in the Code of Ethics and in other related policies and procedures (e.g. Company’s Risk Management Procedures and Company’s Methodology on Risk Management).

4. **RISK MANAGEMENT PROCESS**

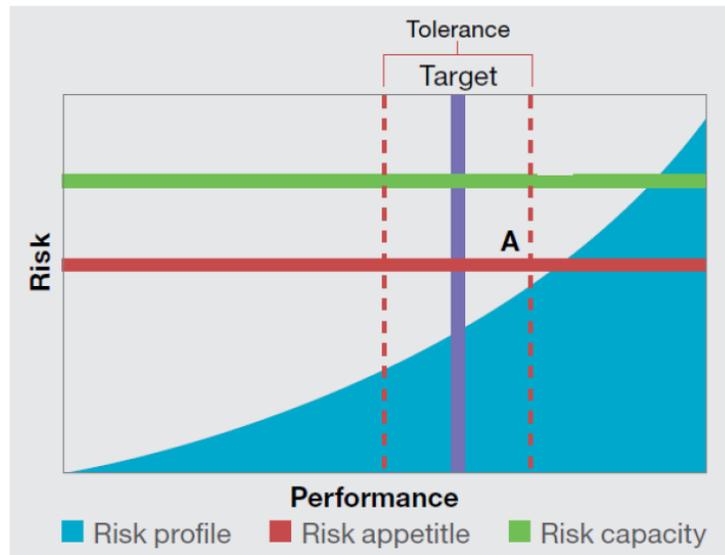
4.1. It is the process conducted by Employees, especially by members of the Board of Management, Audit Committee and Statutory and Non-Statutory Directorates, applied in the definition and execution of the strategy, designed to identify potential events that may affect the Company. In this process, the Risks are duly addressed so that they are maintained in within the limits of the Risk Appetite, providing reasonable guarantee about achieving the goals.

4.2. For the risk management to be effective, it is necessary that its process is in line with the Company's strategies and establishes hierarchies and specific tasks, in addition to clearly defining the parties responsible for risk management. Additionally, it is necessary to establish limits for operation and responsibilities that enable making decisions on the Company's day to day business. The Board of Management is the gatekeeper of strategic planning, and the Risk Management is an integral part of this process. The Audit Committee, based on its regiment, is the advisory organization to the Board of Management in the mission of ensuring the conditions for controlling the risks to which the Company and its controlled companies are subject, assessing the quality and effectiveness of the decisions made for risk management.

4.3. The Employees intrinsically involved in the operation, in their respective work areas, have the primary responsibility for identifying Risks and implementing Internal Controls. The support areas will support the operational areas in the execution of their responsibilities. The Internal Audit will work independently to assess and report the efficiency and effectiveness of the Risk Management activities and Internal Controls.

Definition of Risk Limits

- 4.4. Debating the limits of its operation, the Company consequently articulates its Risk Management process:



Source: Committee of Sponsoring Organizations of the Treadway Commission - COSO 2017 Enterprise Risk Management - Integrating with Strategy and Performance.

- 4.4.1. “Risk Appetite” – It is the global Risk level the Company is willing to face to achieve its goals. The Board of Management, with support from the Audit Committee, plays a crucial role in building a risk management philosophy and in the willingness to accept Risks, especially the ones out of the usual business context. When determining the Risk Appetite among the different Risk categories, it may be desirable to use both quantitative and qualitative definitions. When the Risk can be measured quantitatively, this must be the preferable method for its assessment. Even with qualitative, that is, less precise, definitions, the assessment continues to provide valuable guidance for a good approach to Risks. Periodically, the Board of Management, with support from the Audit Committee, will assess and review the acceptable risk level assumed by the Company, to ensure that the balance between risk and benefit is adequately managed and aligned.
- 4.4.2. “Risk Capacity” – Refers to the maximum potential impact from Risk events the Company could assimilate and, even so, remain sufficiently liquid to operate. The Risk Capacity is usually determined in terms of capital, net assets or ability to obtain credit. The Risk Appetite must not exceed the Company’s Risk Capacity.
- 4.4.3. “Risk Tolerance” – Refers to levels of variation the Company is willing to accept about its specific goals. The Risk Tolerance reflects the acceptable variation in specific results from performance measures. To determine the Risk Tolerance, the Company needs to assess an indicator, such as revenue, market share, customer satisfaction, or profit per share, and consider which range (limit of

variation) of results above and below the target would be acceptable. For example, the Company could establish the goal of 90% customer satisfaction, but have tolerance between 88% and 95%. The Risk Appetite for this indicator could not be below 88%.

It is important to acknowledge that the concepts above can be articulated both qualitatively and quantitatively, or also be expressed as ranges (limits of variation) instead of exact values.

Risk Management Process

4.5. The Risk Management Process is comprised of the following phases, which are detailed in the Company's internal procedures (Risk Management Methodology):

- (i) Alignment: capturing and understanding the Company's strategic short and long-term goals and the environment where such goals are inserted.
- (ii) Understanding on the source of Risks: continuously monitoring the different sources that generate Risks, such as changes in the structure of processes, change in systems, failures in existing controls, mergers and acquisitions, etc.
- (iii) Identification of Risks: mapping internal and external factors that may affect adversely the Company's business strategies and goals, to establish the Risks and Internal Controls matrices.
- (iv) Risk Assessment: qualitatively or quantitatively measuring the impact and probability of occurrence of Risks. Measuring the impact will take into account not only the financial sum, but also aspects related to image, environment, continuity, regulation, occupational safety and health, quality, and human resources (e.g. turnover and mood survey).
- (v) Assessment of Internal Controls: assessing the design and operation of the Company's Internal Controls concerning their effectiveness and efficiency.
- (vi) Response to Risks: definition by the management on a response to the Risks identified, to bring the exposure to a level within the Risk Appetite and Tolerance limits determined.
- (vii) Reporting: timely and relevant communication of Risks to their due target audiences, with attention both to transparency and to eventual confidentiality of information.
- (viii) Monitoring: continuously monitoring and updating the Internal Control environment, the Risks matrix and the actions for response to Risks.

Risk Categories

4.6. The Company classifies its Risks in the following categories, which are detailed in its internal procedures (Risk Management Methodology):

- (i) Strategic Risks: result from guidelines defined in strategic planning.
- (ii) Operational Risks: associated to the possibility of occurring losses resulting from

failures, defects or inadequacy of internal processes, people and systems, as well as from external events, such as natural catastrophes, strikes, etc.

- (iii) Reporting Risks: specifically targeted at the elaboration of financial statements and rules for disclosing information to the market and regulatory organizations.
- (iv) Compliance Risks: relate to the Company's reputation, to frauds and to the compliance with the legislation and regulations applicable to its businesses (including anti-corruption, tax, competition legislation, etc.).
- (v) Cyber Risks: related to the safety and integrity of information systems.
- (vi) Market Risks: of financial nature, especially the ones associated to liquidity, credit, instruments for protection against variations in foreign exchange rates and commodities, interest rates, inflation and other economic indices.
- (vii) Social-Environmental Risks: related to environmental aspects, considering the effects of climate changes and indirect economic impacts of the Company's activities.

Risk Governance

4.7. Based on the Risk Management Methodology, the Company assesses its risks in five levels. The assessments and responses to all Risks shall be taken by the Audit, Risks and Compliance Directorate, with supervision from the Audit Committee, to discussion with the hierarchy levels as defined in the model below. The eventual acceptance of risks must also respect the same governance.

4.8. Extreme risks shall be reported by the Audit Committee to the Board of Management in a timely manner, as they are identified. Such risks must also be included in the annual report from the Audit Committee.



5. TRAINING AND COMMUNICATION

5.1. The Company, through the Organizational Development area, shall maintaining a periodical and constant communication and training plan for all Employees (observing the level of attendance from each one in the risk management activities). The Audit, Risks and Compliance team shall have a specific plan for updating and enhancing the necessary behavioral and technical skills for the adequate development of its responsibilities.

6. RESPONSIBILITIES

6.1. The Board of Management is responsible for:

- Establishing the Risk Management culture in the Company's activities, setting the tone by example, active participation, sponsorship and incentive.
- Defining the strategic goals of the Company that will guide the work for identification of Risks. Periodically monitoring the risks related to strategic initiatives and projects.
- Determining the Risk Appetite and Tolerance premises based on the proposal from the Statutory Directorate, reviewed by the Audit Committee.
- Monitoring the works from the Audit Committee in the definition and review of methodologies, approach, tools, assessment, classification and reporting applied to Risk Management.
- Appreciating and considering, in the annual report on activities from the Audit Committee, the main risks reported and recommendations made.
- Tracking the risk management activities according to the Company's business guidance;
- Ensuring that the Company has an structure of Audit, Risks and Compliance that is adequate and compatible to its size and complexity.
- Caring for the qualification and independence of the Audit, Risks and Compliance area.
- With support from the Audit Committee, identifying, assessing, monitoring and managing the risks the Company is exposed to.
- Approving potential changes and reviews to this Policy.
- Regulating the cases hidden from this Policy.
- Processing the non-compliance with obligations and rules established in this Policy and deliberating on such non-compliance, as applicable.

6.2. The Company's Audit Committee is responsible for:

- Reviewing every year and recommending to approval by the Board of Management the proposal for the Company's Risk Appetite and Tolerance, developed by the Statutory and Non-Statutory Directorates.

- Analyzing and reviewing every year and monitoring the Company's risk matrix.
- Reviewing structure, processes, methodologies, approach, tools, assessment, classification and reporting of risk management.
- Sending to the Board of Management an annual report on activities, including the main risks addressed in the period and the recommendations made.
- Approving and monitoring the activities from the Audit, Risks and Compliance Directorate, including annual work plan, according to bylaws from the Audit Committee.
- Caring for the independence and freedom of operation from the Audit, Risks and Compliance Directorate, according to the policies in force in the Company.
- Reviewing this Policy and proposing eventual changes.

6.3. The Audit, Risks and Compliance Directorate is responsible for:

- Establishing the Company's risk management structure and risk matrix, as well as coordinating, assisting and monitoring their implementation.
- Establishing the Company's Risk Management Process, as well as coordinating, assisting and monitoring its implementation.
- Developing Risk Management methodologies that may be applied efficiently by the Company and that comply with the internal policies and procedures and with laws and regulations applicable.
- Developing Risk Management strategies.
- Supporting the Audit Committee in the continuous assessment of the Company's Risk Management structure and process.
- Assisting the Statutory and Non-Statutory Directorates and the Audit Committee in proposing the Risk Appetite and Tolerance.
- Supporting Employees in the Risk Management at their respective activities.
- Supporting the periodic communication and training plan, within the terms of this Policy.
- Disseminating the Risk Management and Internal Controls culture in the Company.
- Being the main link between the business areas and governance organizations of the Company, in order to ensure that the actions executed by the business areas correctly manage the risks.
- Conducting the risk assessment process at the Company's areas, observing the methodology, strategy and schedule approved by the Audit Committee.
- Validating the results from the Risk Management analyses with the Employees from the areas involved and helping in the definition of strategies for addressing the Risks (tracking indicators and Internal Controls, implementing action plans and/or reducing controls, etc.).
- Conducting the process for assessing the Internal Controls design, observing the methodology and schedule defined.

6.4. The Employees are responsible for:

- Paying attention to the Risks, proposing and implementing Internal Controls, and ensuring and monitoring the implementation of Risk Management related to their respective areas of operation.
- Giving and facilitating access to the Audit, Risks and Compliance Directorate to each information that is relevant to Risk Management, ensuring its integrity and accuracy.
- Ensuring and monitoring the implementation of action plans defined for handling risks.
- Observing the Risk Appetite and Tolerance limits established by the Board of Management.
- Supporting, encouraging and participating on initiatives for communicating, disseminating and training on Risk Management.
- Reporting to the Audit, Risks and Compliance Directorate each and every relevant Risk identified, materialized or not, in order to maintain the proper Risk Management process.

6.5. The Organizational Development Directorate is responsible for:

- Developing and implementing the periodic communication plan.
- Developing and implementing the periodic training plan.
- Maintaining all training sessions and initiatives that corroborate the enforcement of this Policy by the Company documented.

6.6. The Ethics Committee is responsible for:

- Processing the non-compliance with obligations and rules established in this Policy and deliberating on such non-compliance, as applicable.

7. **BREACH ON POLICY**

7.1. The failure to comply with this Policy will subject the violator to disciplinary sanctions, according to the Company's internal rules (*e.g.* Company's Code of Ethics), without detriment to the applicable administrative, criminal and penal sanctions, enforceable by the relevant authorities.

8. **VALIDITY AND AMENDMENTS**

8.1. This Policy comes into force in the date indicated below, after being approved by the Company's Board of Management, and any change or review shall be submitted to the Board of Management itself.

8.2. The rules established in this Policy apply to the Company and all its Employees.

9. FINAL PROVISIONS

Validity: as of January 2, 2020. **1st Draft:**

November 8, 2019.

Responsible for the document:

Step	Responsible
Development	Audit, Risks and Compliance Directorate Legal Directorate
Review	Statutory Directorate Non-Statutory Directorate Governance
Approval	Board of Management

Record of changes:

Version	Item Changed	Reason	Date
01	Original Draft	N/A	[--]
[02]	Several	- Breakdown of the Risk Management Manual. - Detailing of the Risk Management Process. - Adjustments resulting from the new version of the	[--]
