



PO.04

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEM

Responsible Area: Management of Risks and Internal Controls
Management: Internal Audit, Management of Risks and Compliance

Creation: December 16, 2020

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1. PURPOSE

To establish the guidelines and fundamentals for Dexco's Internal Controls and Risk Management System through the identification, evaluation, treatment monitoring and reporting the risks inherent to the company's processes in such a way as to maintain the residual risks at appropriately tolerable levels as well as in an environment of adequate control, supporting the execution of the strategic plan of Dexco ("Company").

1.1. COVERAGE

This Policy applies to all the areas of Dexco, its management and employees.

2. DEFINITIONS

2.1. Internal Controls and Risk Management System

Is the set of policies, norms, procedures and activities of control established in the Company with the purpose of identifying and managing risks with a view to reaching the organizational objectives and goals.

2.2. Risk

Is the possibility of an occurrence of an event which can negatively affect the execution of the Company's strategic plan or the loss of business opportunities.

2.3. Inherent Risk

Inherent risk is the risk characteristic of the business, operations and processes of the Company. In other words, it is the risk evaluated on the basis of the combination of its impact and vulnerability, not taking into account the existing controls to mitigate it.

3.4. Residual Risk

Residual risk is that resulting following the evaluation of the existing controls, that is, the real exposure to risk, given that measures have already been implemented to reduce the Company's exposure to this same risk.

3.5. Risk Appetite

Risk Appetite is understood as the "acceptable" level of risk that the Company is prepared to run in the development of its activities.

3.6. Risk Tolerance

Risk Tolerance is the maximum level of risk which the Company is prepared to run to develop its activities so that it reaches its strategic objectives.

The procedures used to define Dexco's Risk Appetite and Tolerance are established in the Risk Appetite and Tolerance Methodology approved by the Board of Directors.

3.7. Vulnerability

Vulnerability to risk indicates the extent of Dexco's propensity for risk to become a reality considering the potential for an occurrence, the internal controls environment and speed of response.

3.8. Impact

Risk impact indicates the measurement of the consequences should risk arise for Dexco and may go beyond direct financial impacts to include such impacts as image and reputation, operational capacity and involve legal and regulatory aspects.

The inherent and residual risks are classified in accordance with their levels of vulnerability and impact, according to the Dexco's Controls and Risks Identification and Mapping Methodology and shown in its Risks Map, divided into four levels of criticality: Critical, High, Medium, and Low as established on the Risks Scale.

3.9. Risks Scale

Permits the visualization of how a given risk may be relevant and/or how much Dexco is susceptible to it becoming a reality to provide a better classification and comparison between the risks in order to create a corporate yardstick.

3.10. Risk Owner

Dexco's Organizational Unit responsible for risk management.

3.11. Risks Map

Relates to the formulization of the set of risks to which the Company is exposed (including their respective levels of criticality and the business units responsible), according to the processes and methodologies used to identify and evaluate risks and controls.

3.12. Risks Dictionary

Relates to the individual formalization of the types of risk to which the Company is exposed pursuant to the COSO (Committee of Sponsorship Organizations) framework and categorized in levels according to their characteristics: **Strategic, Financial, Operational, Cybernetic and Regulatory**, as described below:

3.12.1. Strategic Risks: group of risks which affect the strategic objectives, business model, competitive intelligence, and governance of the company in the light of the internal and external environment related to the possibility of an occurrence of loss due to adopting a decision by Senior Management and/or due to the inability of the company to protect or adapt to changes in the environment. Strategic Risks are managed by the Board of Directors and the Executive Board with the support of the executive committees.

- **Governance Risks:** related to the possibility of loss due to execution of activities in disaccord with, or absence of norms, policies and control procedures; to the definition of aspects which can lead to actions incompatible with the Company's strategies, values and objectives; to inadequate or non-existent planning relative to succession aspects, executives and shareholders of the Company; among others related to the Governance structure.
- **Business Model Risks:** related to the possibility of losses due to insufficient information for taking short- and long-term investment decisions, execution of projects with greater duration and costs than foreseen or investments that fail to add value to the Company's activities; factors relating to mergers and acquisitions without appropriate planning and execution, over an inadequate period of time and not aligned to the goals and objectives of the Company; to the development and monitoring of technological innovations that do not attend the various areas and needs of the Company's operations; among others related to the structure of the Company's Business Model.
- **External Factors:** related to the possibility of losses due to changes in governmental policy and to inadequate or alteration of macroeconomic policies which may directly impact the functioning and operation of the Company, as well as factors related to the set of public actions which do not guarantee social rights and infrastructure (safety, transportation, health and the environment) and which have an impact on the ability of the Company to achieve its objectives.
- **Image and Reputation:** related to the possibility of losses due to fragilities in disclosures to the Market, Social Networks, Internal and Institutional Communication, Trade Marks and Patents, Customer Satisfaction and Intellectual Property.
- **Competitive Intelligence:** related to the possibility of losses due to digital

transformation, design and customization, pricing and operating margins, technological innovation, customer journey, sales and marketing strategy and Land and Biological Assets.

3.12.2. Financial Risks: group of risks related to reliability of the balance sheet and exposure of Company's financial operations associated to the possibility of losses due to exposure of the financial operations (market, credit and liquidity). Relates to cash flow risks for maximizing operating cash generation.

- **Market Risks:** Risks which if they become a reality, result in losses due to changes in movement of interest and exchange rates and in share and commodity prices.
- **Credit Risks:** Risks, which if they become a reality, result in losses of contractual amounts agreed with borrowers of loans or customers of products sold at term.
- **Liquidity Risks:** Risks, which if they become reality, result in the inability to execute a transaction within a reasonable timeframe and without significant loss; or in the absence of resources to satisfy commitments assumed due to the mismatch between available assets and overdue liabilities.

3.12.3. Operational Risks: a group of risks related to the Company's infrastructure (processes, personnel), which affect operational efficiency and effective and efficient use of resources; risks relating to the possibility of losses (of assets, customers and revenues) resulting from faults, fraud, deficiencies or inadequacies of internal processes, people and systems, as well as socio-environmental and external (catastrophes, strikes, terrorist acts, pandemics etc.).

- **Operational and Production Risks:** related to the possibility of losses due to inadequately positioned distribution channels and with uncompetitive costs, which can impact the execution and management of logistical aspects of the Company; generating of results which do not attend the defined business objectives; unnecessary costs due to the characteristics of information flows and to the way the business processes are executed; to excess, obsolescence or loss of inventory or other assets used or consumed in the business processes; among others related to the Company's processes.
- **Risks of Personnel:** related to the possibility of losses due to procedures executed by employees without the necessary knowledge, training or sufficient experience to execute the defined business activities; to the dependence on key-people for the execution of critical

activities of the Company's business areas; to activities executed not in accordance with authorization levels/limits established by the Company, or in their absence thereof, as well as those related to inadequate mechanisms for hiring and retaining talent in line with the Company's objectives.

- **Socio-environmental Risks:** related to the possibility of losses due to procedures which are harmful to the environment and the community which may expose the Company to legal action by the environmental protection agencies; shortage or absence of natural resources used in operations may affect the capacity of the Company to supply goods and services demanded by the customers as well as those which are inappropriate to those related to inadequate activities relating to occupational health and safety of the employees, thus possibly exposing the Company to labor-related contingencies.
- **Corporate Risks:** related to the possibility of losses due to the dependence on suppliers, commercial practices, Supplies, New Channels and Post-Sale Service and Support.

3.12.4. Cybernetic Risks: group of risks related to the apps, tools, technologies and information/data systems:

- **Technology and Security:** related to the possibility of losses due to unauthorized accesses to data and information, inadequate definition of parameters of security and critical information unprotected from disclosure; unreliable information or lack of information for monitoring of the businesses and decision-making; to the inability to raise information due to faults in communication, loss of processing capacity or difficulty in the operation of systems, as well as those relating to the registration, processing and reporting of invalid and incomplete data or which is not in accordance with the necessities for decision making as well as cybernetic attacks and breaches of privacy and confidentiality of information.

3.12.5. Regulatory Risks: a group of risks related to compliance with the labor, civil, tax/fiscal legislation or those risks which involve procedures relating to regulatory organs such as the CVM/B3, among others, related to the possibility of losses due to exposure of the company or of its assets to possible measures, legal alterations and/or activities not in accordance with the regulations in effect which may have a negative impact on its activity or profitability. Such as in the case of risks related to Corruption, Money Laundering and Financing of Terrorism.

4. BASIC GUIDELINES AND PRINCIPLES OF INTERNAL CONTROLS AND RISKS

- Dexco invests continuously in methodologies for identifying, evaluating, handling and monitoring aspects related to risks with a financial and non-financial impact with a view to timely reporting to the Executive Committee and the Board of Directors, as applicable.

- Dexco uses the 3 (three) Lines Model to adequately manage its risks. Developed by the Internal Auditors Institute (IIA), the Model is designed to establish Roles and Responsibilities of risk management in various areas of the Company as shown below.

- **1st line:** are the operational managers and/or managers of businesses that have the responsibility of being cognizant of and managing their own risks as well as their internal controls. They should implement and execute mitigatory actions (action plans) guaranteeing the compliance of the operations and strategies.

- **2nd line:** are the areas of Internal Controls, Risks and Compliance, components of the Internal Audit, Risk Management and Compliance Unit, which assists the 1st line on a consultative basis in the identification of causes and consequences in relation to risk. In addition, the areas coordinate the integration of the internal controls and management of risks in the corporate environment.

- **3rd line:** is the Internal Audit area, a component of the Internal Audit, Risk Management and Compliance Unit, having the autonomy to evaluate and certify the controls implemented by the 1st line as set forth in the PO.22 Internal Audit Policy.

- The risks must be managed in such a way as to maintain them at an acceptable level of exposure relative to Dexco's Appetite for Strategic, Financial, Operational, Cybernetic and Regulatory Risks.

- Critical and high risks must be reported to the Audit and Risk Management Committee.

- The Internal Controls and Risk Management System should be maintained in alignment with the best practices of Corporate Governance, which should be revised and updated annually so that eventual deficiencies are immediately and fully corrected to ensure their effectiveness.

- Documentation related to the risk management process must be updated periodically, considering this policy, levels of Risk Appetite and Tolerance

as well as Dexco's Risks Map and Risks Dictionary.

- The Internal Controls and Risk Management System should assist the business areas in the development of policies, norms and procedures for assuring that the risks inherent to the activities of Dexco are adequately identified and managed in the following aspects:

- ✓ Compliance with the applicable laws and regulations;

- ✓ Efficiency and efficacy of the operations;

- ✓ Consistency, timeliness, and adequate protection of information;

- ✓ Safeguarding of the assets.

- The Internal Controls and Risk Management System should contribute to the reliability and timeliness of the accounting and financial reports;

- The Internal Controls and Risk Management System should allow for the monitoring of the appropriate segregation of functions, respecting the Company's hierarchical structure in order to eliminate conflicting functions of responsibility as well as reducing and controlling, with the necessary required autonomy, potential conflicts of interest existing in the areas;

- The Internal Controls and Risk Management System should permit the monitoring of social, climatic and corporate integrity aspects including the activities of employees, clients, communities, suppliers and partners;

- Exceptions not established in this policy must be notified and submitted for approval of the Board of Directors;

- Employees, suppliers or stakeholders that detect any deviations from this policy should report immediately to the Internal Audit, Risk Management and Compliance Unit or through the whistleblowing channel.

5. RESPONSIBILITIES

The following are part of the Internal Controls and Risk Management System:

- Employees;

- Risk Owners;

- Internal Audit, Risk Management and Compliance Unit;

- Risks Commission;

- Audit and Risk Management Committee;
- Board of Directors.

5.1. Employees

Are the entire staff of Dexco and its subsidiaries, irrespective of hierarchical level, including directors and executive officers.

- To ensure compliance with the corporate policies, business rules and adherence to Dexco's Risk Appetite;
- To report on a timely basis, risks and situations of non-compliance with this policy.

5.2. Risk Owners

Are areas responsible for managing and reporting risks as established and designated by the Internal Audit, Risk Management and Compliance Unit in conjunction with the Risks Commission.

- To act as 1st Line, managing the risks inherent to the Company's activities;
- To provide the Internal Audit, Risk Management and Compliance Unit with all the necessary information for the processing of risk management;
- To prepare action plans for mitigatory actions defined by the Risks Commission for reducing exposure to risks as well as categorizing the levels of Dexco's Risk Appetite.

5.3 Internal Audit, Risk Management and Compliance Unit

Reports to the Chairman's Office and the Board of Directors through the Audit and Risk Management Committee.

5.3.1 Risk Management, Internal Controls and Compliance:

Coordinates Dexco's initiatives related to the 2nd Line in relation to themes involving Risk Management, Internal Controls and Compliance:

- To evaluate and monitor strategic, operational, financial, cybernetic and regulatory risks inherent to Dexco's operational and business model;
- To revise and update Dexco's Risks Map at least once a year;

- To identify and communicate with the Risk Owners;
- Jointly with the Risks Commission, decide the maximum timeframe for implementation of mitigatory and corrective actions for priority risks;
- At least once every 3 (three) years, to revise this policy and where applicable, to make suggestions for improving the document;
- To disseminate knowledge and support the implementation of practices in risk management.

5.5. Risks Commission

Comprising the Executive Committee with the aim of supporting the Board of Directors in establishing "the tone at the top" for Dexco's risk management process as well as exercising oversight of the evolution in the inherent and residual risks.

- Validate the Risk Appetite and Tolerance Methodology;
- Propose and validate the Risk Appetite and Tolerance Limits;
- Obtain the agreement and evaluate the risks comprising the Risks Directory;
- Propose mitigatory actions (action plans) to be adopted for the identified risks on the basis of the limits defined for Dexco's Risk Appetite and Tolerance;
- Monitor the execution of the mitigatory actions (action plans);
- Raise the awareness of the 1st line on the importance of risk management and the responsibility inherent to each employee;
- To propose and validate alterations and updates in Dexco's Risks Map.

5.6. Audit and Risk Management Committee

An advisory and instructional collegiate body linked to the Company's Board of Directors with responsibility for the oversight and monitoring of the activities of the Internal Audit, Risk Management and Compliance Unit.

- To approve the methodologies for the 2nd and 3rd lines;
- To validate the Risk Appetite and Tolerance Limits;
- To validate alterations and updates in Dexco's Risks Map;

- To track the implementation of the mitigatory actions (actions plans) and monitor the risks;
- To validate Dexco's Internal Controls and Risk Management System and its future revisions when the case;
- To evaluate the compliance of Dexco's Internal Controls and Risk Management System Policy;
- To disclose the result of the monitoring of the Internal Controls and Risk Management System to the Board of Directors.

5.7. Board of Directors

The governance body of Dexco has as its principal mission to protect the interests of all its shareholders with a focus on the generation of short- and long-term value, ensuring that the decisions and execution of the actions in search of these objectives are always in alignment with the Company's Vision, Mission and Values.

- To approve Dexco's Risk Appetite and Tolerance Limits;
- To approve alterations and updates in Dexco's Risk Map;
- To approve Dexco's Internal Controls and Risk Management System and its future revisions, when the case.

6. SANCTIONS

Non-compliance with the guidelines of this Policy shall be subject to the imposition of the applicable disciplinary measures.

7. DURATION

This Policy will become effective from its publication date and shall be revised every 3 (three) years.

8. APPROVAL

This Policy was approved by DEXCO's Board of Directors.

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