



## MRV'S GROUP RISK MANAGEMENT POLICY

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## 1. OBJECTIVES

The Risk Management Policy, approved by the Board of Directors on 04/25/2016 and revised on 06/19/2017 is to establish the guidelines adopted by MRV Group and its subsidiaries, in the identification, assessment, communication and management of risks and opportunities inherent of its operation. MRV Group activities can be negatively impacted, implying losses in the business, as well as being positively affected by taking advantage of the resulting opportunities. The establishment of this Risk Management Policy aims to ensure that responsibilities and guidelines are defined, including applicable goals, methodologies and monitoring.

Regarding managing and monitoring business, strategic and/or operational risks, MRV Group must, whenever is possible, to envisage opportunities that minimize negative aspects of activities by compensating with positive actions. We have exemplified positive<sup>1</sup> effects, mainly on the aspects and indicators: indirect economic impacts (G4-EC7, G4-SO1) and local communities (G4-SO2) published annually in our Sustainability Report.

## 2. COVERAGE

This Policy covers all companies in MRV Group. The guidelines should be observed and complied by all companies and serve as a source of ongoing consultation to implement and / or define Risk and Opportunity management strategies.

## 3. CONCEPTS

- **Risk Matrix:** document that formalizes Strategic risks mapped in MRV Group.
- **Strategic Risk:** they are comprehensive risks affecting MRV Group systemically and can possibly threaten its perpetuation.
- **Operational Risk:** less comprehensive risks, typically isolated in a department and / or process and do not threat MRV Group perpetuation.

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<sup>1</sup> Example of opportunity glimpse in our operation: in the incorporation of enterprises, for example, we can negatively impact the volume of vehicles in the surroundings of the ventures (operational risk), which compensates with the delivery of road improvements, construction of leisure areas and / or public spaces.

#### 4. TYPES OF RISKS

MRV Group Strategic Risks are divided into 7 categories, accordingly to its nature, as follows:

- **Compliance:** risk of legal, regulatory, reputational and / or financial loss due to nonconformities in compliance with and application of laws and regulations and / or MRV Group Code of Conduct, Policies and Standards.
- **Scenario:** risk arising from losses and changes derived from political, cultural, social and economic or financial conditions in Brazil.
- **Credit:** risk of loss resulting from uncertainty regarding the receipt from customers, financial institutions and guarantees of financial investments.
- **Image:** risk of loss resulting from the brand MRV be "worn" by the market and or the authorities or due and negative publicity, whether true or not.
- **Legal:** risk of loss arising from fines, penalties or damages resulting from actions of supervision and control bodies, as well as losses from unfavorable decision in judicial or administrative proceedings.
- **Liquidity:** risk of lack of funds to meet commitments due to the mismatch between assets and liabilities. Loss of opportunity arising from the inability to perform a reasonable time transaction (cash ).
- **Market:** risk arising from the possibility of pressures for change in the prices of our products and input costs for the operation.
- **Operation:** risk of loss resulting from failure, deficiency or inadequacy of internal processes, people and systems or from external events (eg.: meteorological factors).
- **Regulatory:** risk arising from changes in current regulations, that can negatively affect business from MRV Group.

#### 5. RESPONSABILITIES

##### 5.1. Board of Directors

- To approve the guidelines contained in the MRV Group Risk Policy;
- Define the functional structure of the Committees and Departments converged to Risk Management;
- Approve the matrix of Strategic Risk.

## **5.2. Compliance and Risks Committee**

- Assess and monitor the Company's risk exposures;
- Monitor, demand and ensure the compliance with: (i) the laws and regulations applicable to the business and activities; (ii) the Code of Conduct; (iii) the internal rules and manuals;
- Ensure the adequacy, strengthening and operation of internal control systems of MRV Group;
- To decide on the recommendations made by the Risk Management and Internal Audit departments.

## **5.3. Corporate Governance, Ethics and Sustainability Committee**

- Ensure and disseminate the Company's commitment to management based on the pillars of Corporate Governance, Sustainability and Business Ethics;
- To combat all forms of corruption;
- Ensure a regular schedule of training on conduct and ethics for directors and employees of the Company.
- Issue recommendations on situations of potential conflict of interest between the Company's related parties.

## **5.4. Executive Directors**

- Support the decisions of the Board of Directors and Committees such as Risk and Compliance and Governance, Ethics and Sustainability, which refers to risks mitigation;
- Support resources for the implementation of effective internal controls and strategies for risk mitigation.

## **5.5. Risk Management and Internal Audit**

- Develop and review MRV Group Risk Policy;
- Develop the annual audit plan;
- Identify, assess, communicate and treat Strategic and Operational;
- Report to the Board of Directors and Committee such as Risk and Compliance and Governance, Ethics and Sustainability the results of evaluations of Strategic Risks;

- Report to the Executive Board the results of the evaluations of operational risk;
- Investigate complaints arising or not from Confidential Channel which were free and respecting the integrity of the complainant and the accused.

#### **5.6. Compliance**

- Prepare the annual Compliance Plan
- Perform Compliance management;
- Identification, assessment, communication and treatment of Compliance Risks;
- To raise the awareness of MRV Group employees on Compliance, in order to promote conformity;
- Report to the Board of Directors and Risks and Compliance Committee the results from the monitoring process of Compliance Risks.

#### **5.7. Managers of areas correlated to the Strategic and Operational Risks**

- Implement internal controls recommended by the Risk and Internal Audit department;
- Ensure the implementation of action plans to mitigate risks;
- Be proactive in identifying risks communicating to the Risk and Internal Audit department;
- To contribute by providing information that supports the findings made by the Risk Management and Internal Audit department.

### **6. GUIDELINES OF RISK MANAGEMENT**

- MRV Group's Risk Management is aligned with its strategy and confirms its efforts on building sustainable pillars of its business;
- MRV Group's Risk Management follows assumptions established in good market practices expressed in Brazilian and international regulations;
- MRV Group's Risk Management may consider negative and positive impacts during the establishment of the Risk Matrix;

- The elected risks to compose MRV Group's Risk Matrix, shall develop to establish contingency plans, created based on risk events simulations, glimpsing negative and positive impacts;
- The existence of a structured process of Risk Management should especially ensure that the risks and their impacts are considered in the decision-making process.

### **6.1. Identification of risks**

- Strategic Risks are identified through rounds of discussions with the Executive Board and designated people, in addition to benchmark with similar sized companies and market;
- Operational risks are identified by performing audits in files as provided in the annual audit plan. They are also identified by examining complaints with fraud finding.

### **6.2. Risk Assessment**

- Risks are assessed according to its own methodology of the Risk Management and Internal Audit department;
- Once assessed, the strategic risks are cataloged and classified according to their impact (classified by the Executive Board) and level of control maturity;
- Operational Risks receive degree classification: high, medium and low considering two variables: whether the risk is inherent or not and whether or not failure of controls that expose us to the risk ;

### **6.3. Communication of risks**

- The Strategic Risks are monitored by the Risk Management and Internal Audit department and reported to the Risk and Compliance Committee and the Board of Directors semiannually.
- Operational risks are monitored by the Risk Management and Internal Audit department and reported to the Executive Board where necessary, where finalized and issued the audit report.

#### **6.4. Treatment of risks**

- Risks can be accepted, as decided by the Executive Board does not implying the need for adequacy of processes and controls;
- When risks are not accepted, it establishes the obligation to adjust processes and controls for mitigation;
- The mitigation strategy and control of Strategic Risks is discussed and approved by the Board of Directors and monitored by the involved areas with backrests of the Risk Management and Internal Audit department;
- The mitigation strategy and control of operational risk is discussed and approved by the Executive Board and managers of the areas involved with backrests of the Risk Management and Internal Audit department;
- For each Strategic Risk contingency processes are defined in order to guarantee the continuity of our business in the event of exposure, minimizing possible damage.

#### **6.5. Risk Reassessment**

- Strategic Risks are revaluated every six months, independently of its classification of impact and control level of maturity;
- Assessed Operational Risks are revalued according to their classification. High risks are reassessed every six months, average every twelve months and low every eighteen months.