

RISK MANAGEMENT

READY FOR A CHANGING WORLD

Metinvest operates in a complex and changing world, and its continued success requires the management to identify and mitigate the risks inherent in the business to ensure the Group's long-term sustainability.

CONTROL ENVIRONMENT

Metinvest maintains a rigorous risk-management system. This ensures that the Group's management is provided with the right tools to identify, assess and mitigate risks that may arise in day-to-day business activity as well as in project planning and strategic decision making. The goal of the risk management system is to ensure the safety of people, safeguard and enhance the value of assets, protect the reputation of the Group and help Metinvest to achieve operational and financial performance goals in line with its plans.

Metinvest assesses the impact of global processes on its business, including economic downturns, diminishing demand for metallurgical products and worsening trade relations. The Group recognises that its sustainable development requires the effective adaptation of its business model to the changing expectations of society, customers, employees, suppliers, creditors and shareholders.

The risk management structure assigns responsibilities, roles and authorities for all management levels.

RISK MONITORING

The Group's Executive Team reviews the results of monitoring of strategic risks and their dynamics on a quarterly basis. Key priorities are defined and additional corrective measures are decided upon. Metinvest conducts annual reviews of the effectiveness of operational risk management through a customised internal control assessment system – at all of the Group's enterprises, on all key business processes. The results of the assessments and the key issues identified are communicated to relevant senior management for analysis and further decisions; and to members of the Audit and Finance Committee.

The operating risk monitoring system is built into management and internal audit practices, the results of the assessments are used to prepare audit plans and plans for internal consulting projects, and the assessments are updated based on the results of the audit projects.

RISK MANAGEMENT PRACTICE

The Group has implemented a risk management structure that includes responsibilities, roles and authorities assigned for each key management position.

The Risk Management and Internal Control Policy of Metinvest supports risk-based decision making. The conceptual basis of the policy is the Organisation Risk Management Methodology developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). In 2020, it is planned to update this Group policy to align it with international best practices and most recent development in the area of risk management. A dedicated unit that is part of the Internal Audit Directorate performs a coordinating role in building and maintaining the risk management system on the Group level, while first-hand risk management is the responsibility of the relevant operational management. In the development of corporate risk management requirements, Metinvest uses local risk management subsystems in the areas of business planning, tax management, PR, health and safety, CAPEX, credit management, outsourcing, security and anti-fraud management, information security and management of emergency situations. This allows the management to take decisions based on the results of the analysis of specific risks.

Annual business planning is accompanied by the preparation of Metinvest's risk map for the year, which includes key risks that may affect the achievement of business goals. Together with business risks such as market, operational, financial, liquidity and other risks, the Group analyses and assesses non-commercial risks, including the following, among others:

- Environmental impact of production;
- Health and safety of employees and contractors;
- Social risks of employees and local communities;
- Compliance with ethical requirements;
- Information security of personal data.

The risk assessment is performed based on a unified corporate scale. When assessing the probability of a risk materialising and its potential impact on the Group, Metinvest also regularly analyses its existing risk management measures and includes additional ones if required.

decisions, anti-crisis centres were created at each of Metinvest's production assets, which coordinate their efforts to prevent, contain and treat COVID-19.

The following actions have been undertaken to ensure the continuity of business processes:

- preventive measures to reduce the risk of the COVID-19 virus spread among employees
- specific response measures in the event of illnesses among employees of the Group's enterprises

- daily monitoring over a number of COVID-19 cases in the local communities where Metinvest is present
- arrangement of transportation for Group employees to their workplace where local authorities have suspended public transport services.

The anti-crisis centres apply international experience in battling this virus spread and study the experience of other companies in managing this risk.

COVID-19 PANDEMIC

The novel coronavirus that causes the disease known as COVID-19 had a global impact beginning in February 2020, after the reporting period, including on the Group's operations.

Risk management measures related to the pandemic are being carried out by the Metinvest anti-crisis headquarters, which is headed by the Group's CEO. The headquarters has been operating at the Group level since 2017 to rapidly respond to crisis situations of strategic importance. To implement its

SCALE OF RISK ASSESSMENT FOR 2020

PROBABILITY	IMPACT				
	1	2	3	4	5
>60% Risk will definitely be realised					
41%-60% Risk is likely to be realised					
21%-40% Probability of risk occurrence is rather high					
5%-20% Risk is unlikely to be realised					
<5% Risk will not be realised					
Effect on various aspects of Metinvest's activity					
Financial losses (effect on EBITDA and cash flows)	<0.1%	0.1%-1.5%	1.5%-3.5%	3.5%-5%	>5%
Effect on Metinvest's value	Minor	Small	Medium	High	Critical
Labour safety	Light injuries to one or several employees.	Severe injuries to one employee resulting in partial or total disability.	Severe injuries to several workers resulting in partial or total disability.	Single fatal incident.	Two or more fatal incidents.
Reputation	Minor impact on reputation. Negative mention in the local press.	Short-term, easily recoverable damage to reputation. Article in local media with negative coverage of the Company's activity.	Significant damage to reputation will take several months. Negative article in local and national media.	Damage to reputation that is hard to recover from. Incurrence of financial and other losses. Negative coverage at the national level or short-term coverage at an international level.	Irretrievable damage to reputation that leads to significant financial and other losses. Prolonged and negative media coverage on the national and international levels.
Quality of goods sold	100% of products meet order specifications. Product characteristics allow Group to meet customers' requirements for the next 10 years without capital investments.	> 99.5% of products meet order specifications. Product characteristics allow for meeting customers' requirements for the next 8 years without capital investments.	> 99.0% of products meet order specifications. Product characteristics allow for meeting customers' requirements for the next 6 years without capital investments.	> 98.5% of products meet order specifications. Product characteristics allow for meeting customers' requirements for the next 4 years without capital investments.	< 98% of products meet order specifications. Product characteristics allow for meeting customers' requirements for the next 2 years without capital investments.
Information security	Slowdown in execution of business processes. A stop in the work of an employee or a small group of workers.	Stoppage in fulfilment of production tasks by certain employees with minor impact on business. Loss of non-critical information resources with an acceptable recovery time of 8-48 hours. Information leak that can stop the work of a business unit.	A stop in delivering certain business processes with a medium financial and other losses for business. Loss of information resources with an acceptable recovery time of 4-8 hours. Information leak that may lead to a partial or complete stoppage of asset operations.	Shutdown of operations at an asset and significant financial and other losses for business. Loss of critical information resources with an acceptable recovery time up to 4 hours. Leak of personal data and/or confidential information.	Shutdown of operations across the Group. Complete and irrecoverable loss of critical information resources. Leak of strictly confidential information and critical personal data.