

Mitigating uncertainty

Amid the unprecedented turbulence of 2020, Metinvest's robust risk management system again demonstrated its ability to mitigate uncertainty in challenging times.

CONTROL ENVIRONMENT

Metinvest maintains a rigorous risk management system. This ensures that the management is provided with the right tools to identify, assess and mitigate risks that may arise in day-to-day business activity, including 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 Group's reputation and help Metinvest to achieve operational and financial goals in line with its plans.

The Group assesses the effect of global developments on its business. It 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 Executive Team reviews the results of monitoring strategic risks and their dynamics annually. Key priorities are defined and additional corrective measures decided upon. Metinvest conducts annual reviews of the effectiveness of its operational risk management through a customised internal control assessment system, which encompasses all of the Group's enterprises and key business processes.

The operational risk monitoring system is connected to management and internal audit practices through a feedback loop. The results of the reviews and key issues identified are communicated to the senior executives involved for analysis and further decisions, as well as to members of the Audit and Finance Committee. Findings are used to prepare plans for audits and internal consulting projects, and reviews are updated based on the results.

RISK MANAGEMENT PRACTICE

Metinvest has implemented a risk management structure that assigns responsibilities, roles and authority to each key management position.

The Group's Management and Internal Control Policy supports risk-based decision making. The conceptual basis for this is the Organisation Risk Management Methodology developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). A policy update, which was planned for 2020 but postponed until 2021, will align it with best practices for risk management standards (ISO 31000).

A dedicated unit in the Internal Audit Directorate coordinates the risk management system at the Group level; while the relevant operational managers are responsible for risk management in practice.

In developing 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 emergency situation management. This enables the Executive Team to take decisions based on analysis of specific risks.

Annual business planning take place in conjunction with preparation of the Group's risk map for the year, which includes key issues that may hinder the achievement of objectives. Together with commercial threats such as market, operational, financial, liquidity and other risks, Metinvest analyses and assesses non-commercial ones, including:

- Environmental impact of production
- Health and safety of employees and contractors
- Social risks of employees and local communities
- Compliance with ethical requirements
- Reputation
- Information Security.

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

FRAMEWORK OF RISK ASSESSMENT IN 2020

PROBABILITY						
>60% Risk will definitely be realised	5					
41%-60% Risk is likely to be realised	4					
21%-40% Probability of risk occurrence is rather high	3					
5%-20% Risk is unlikely to be realised	2					
<5% Risk will not be realised	1					
		1	2	3	4	5

IMPACT						
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. Recovery of 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.	Disruption in fulfilling production tasks for certain employees with a minor impact on business. Loss of non-critical information resources with an acceptable recovery time of 8 to 48 hours. Information leak that can stop the work of a business unit.	Disruption 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 to 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.	

Quantitative and qualitative indicators applied for evaluation of impact of commercial and non-commercial risks