Risk Governance and Management

Tata Steel operates in an interconnected world with stringent regulatory and environmental requirements, increased geopolitical risks and fast-paced technological disruptions that could have a material impact across the value chain of the organisation. Tata Steel has implemented an Enterprise Risk Management (ERM) process to provide a holistic view of aggregated risk exposures as well as to facilitate more informed decision-making.

In its journey towards risk intelligence, a robust governance structure has been developed across the organisation. The Board of Directors has constituted a Committee of the Board called the Risk Management Committee. At the Senior Management level, a Group Risk Review Committee has been constituted to drive the ERM process across the Tata Steel Group.

Information regarding key risks facing Tata Steel and their mitigation strategies is given here:

R1 Macroeconomic Risks

- Overcapacity and oversupply in the global steel industry as well as increased levels of imports may adversely affect steel prices, impacting profitability.
- Newer developments in the competitive global business environment and potential consolidation among competitors may adversely impact the Company's financial condition and prospects.
- Slower than expected pace of growth in India, coupled with expansion in domestic steel capacity, may result in lower than expected realisations.

KEY MITIGATION STRATEGIES

- **Diversification of product portfolio**
- **Development of alternate markets**
- **Participation in industry consolidation**

R2 Financial Risks

- Fluctuation in foreign exchange rates due to volatility in financial markets may impact the Company's debt servicing and create uncertainties in accessing the financial markets.
- Substantial amount of debt on the balance sheet may have an adverse impact on the Company's ability to raise finance at competitive rates.
- Changes in assumptions underlying the carrying value of certain assets may result in the impairment of such assets.

KEY MITIGATION STRATEGIES

- **Maximising operational cashflow**
- **Terming out debt and refinancing debt with favourable covenants**
- **Appropriate foreign exchange hedging policies**
- **Integration of business planning and cashflow projections with liquidity management**

R3 Regulatory Risks

- Non-compliance to increasing stringent regulatory environmental norms may result in liabilities and damage to reputation.
- The Company operates leased mines. Non-renewal of mining leases may result in the Company having to purchase minerals at higher prices from the open market, impacting its profitability.
- Removal of favourable trade measures such as anti-dumping laws, countervailing duties, etc. may impact the Company's business and prospects.

KEY MITIGATION STRATEGIES

- **Focus on compliance**
- **Dialogue with regulatory authorities for greater clarity and availing legal consultations for timely clearances**
- **Working with industry associations towards simplification of rules, a predictive policy regime and transition time for regulatory changes**

R4 Operational Risks

- The steel industry is prone to high proportion of fixed costs and volatility in the prices of raw materials and energy. Limitations or disruptions in the supply of raw materials could adversely affect the Company's profitability.
- Failure of critical information systems/ servers that control the Company's manufacturing plants may adversely impact business operations.
- Violation of safety standards, unsafe acts and conditions may lead to Lost Time Injuries (LTIs) or fatalities, resulting in stoppage of operations, loss of personnel, and damage to assets and reputation.

KEY MITIGATION STRATEGIES

- **Enhancing in-house capability and leveraging from past learnings and expertise**
- **Establishing sources of supplies from alternate geographies**
- **Enhancing in-house capability in rail logistics and developing Deep Sea Port capacity**
- **"Committed to Zero" - Safety drives across the Company**

R5 Market Related Risks

- Steel is a cyclical industry and excess volatility in the steel and raw material markets may adversely impact the Company's financial condition.
- Competition from substitute materials, or changes in manufacturing processes, may lead to a decline in product demand, resulting in loss of market share.
- Product liability claims could have an adverse impact on the Company's finances.

KEY MITIGATION STRATEGIES

- **Development of value-added products and enhanced services and solutions**
- **Strengthening contractual agreements**

R6 Climate Change Risks

- As of May 2018, 195 United Nations Framework Convention on Climate Change (UNFCCC) members have signed the Paris Agreement and 176 countries, including India, have become party to it. The Agreement aims to keep a check on the rising global temperatures and intensify actions required for a sustainable low-carbon future. Going forward, the steel industry will face stringent international and domestic regulations relating to Greenhouse Gas (GHG) emissions. Increasingly stringent climate control regulations may impact the Company's operations and prospects.

KEY MITIGATION STRATEGIES

- **Continued investment in environment related projects**
- **Collaboration with academic/research institutes for projects on climate change issues**

R7 People Risks

- Any labour dispute or social unrest in regions where the Company operates may adversely affect its operations and financial condition.
- Loss of one or more members of the Senior Management, or inability to attract and retain employees, may affect the Company's business and prospects.

KEY MITIGATION STRATEGIES

- **Build relations with key stakeholders including local/regional influential people, interest groups and bureaucracy across levels of administrative machinery (taluka to state level) to address labour or social unrest**
- **Succession planning for Senior Management to ensure continuity in business**
- **People related policies for attracting and retaining talent**

R8 Strategic Risks

- The Company is growing its Indian operations through organic and inorganic routes. The Company may be unable to realise the anticipated benefits of these growth plans which could have a material adverse impact on its financial condition and reputation.
- The Company may be subject to business risk relating to proposed joint venture with thyssenkrupp AG, including potential delays in completing the proposed transaction and/or the proposed transaction not consummating successfully.

KEY MITIGATION STRATEGIES

- **Strong engineering and project team to commission the expansion project within budgeted time and cost**
- **Ensuring that learnings from previous projects are applied for improved execution and faster ramp-up of production**
- **Deputation of experienced team from Tata Steel along with strong review and governance to accelerate the performance of the acquired assets**
- **Integrate the management of the acquired company to drive synergies. Bring Tata Steel expertise to the acquired assets in operations, maintenance and marketing to ensure high capacity utilisation, cost competitiveness and better product mix**
- **Experienced team driving focussed consultations with the relevant stakeholders in Europe**

The material issues mapped to key risks and long-term strategies have been detailed below.

Material Issues	Risks	Long-term Strategies
Economic		
Growth to meet customer aspirations	R1 R2 R3 R5 R8	• Organic and inorganic growth options (Refer Page 44)
Profitability	R1 R2 R3 R4 R5 R8	• Global benchmark in operational efficiency • Downstream focus - Service & solutions (S&S), Tubes, Wires • Revenue generation through enriched products • New materials business (Refer Page 39, 40, 42, 47)
Environment		
GHG emissions	R3 R4	• Waste gas utilisation • Reduction in fossil fuel based power consumption • Carbon rate reduction in blast furnace (Refer Page 55)
Water consumption	R6	• Minimise effluent discharge • Augment intake through recycling/ harvesting (Refer Page 56)
Resource efficiency	R2 R3 R4	• Enhance value from circular economy system- LD slag, By-product gas & Scrap • Global benchmark in operational efficiency (Refer Page 58)
Biodiversity	R3 R4	Sustainable Mining through focused initiatives around prevention, recovery, reuse and recycle to minimize ecological footprint (Refer Page 57)
Social		
Safety & Health	R4 R7	• Eliminate of incidents on rail and road • Improve competency for hazard identification and risk management • Contractor safety risk management • Excellence in process safety management (Refer Page 32)
Capability building	R7	• Build capability of contractor workforce, suppliers, dealers, distributors and other business partners • Benchmark with reputed institutes for seeding alternative learning methods • Augment management training resources/ infrastructure in line with new age digital technologies (Refer Page 36)
Impact based CSR	R4 R7	Address core development gaps for significant betterment in the well-being of communities in Jharkhand and Odisha through signature programs around key focus areas of Health, Education, Skill development, Sustainable livelihood, Sports & Ethnicity - Maternal & Newborn Survival Initiatives (MANSI), Right to education – Thousand schools project, Samvaad, etc. (Refer Page 60)
Diversity & Inclusion	R7	• Make manufacturing appeal to diverse talent & attract more women • Attract & recruit PwDs and improve accessibility for all • Develop women leaders through mentoring & training programs (Refer Page 36)