



System Capital Management Sustainability Report 2009-2010

Laying the Foundations for the Future

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CEO Statement



This report covers the most challenging period in my time as CEO of the SCM Group. In 2009 economic conditions in the global economy were the worst we have known and our main market, Ukraine, experienced a severe contraction. The recovery that began in 2010 has been fragile. My task over this period has been to manage effectively these short-term pressures, while keeping the company focused on our long-term goals.

This report shows how we have struck that balance by taking the tough decisions necessary to maintain good liquidity and trust of our employees and partners, while maintaining investments for the long term. Metinvest's acquisition of the United Coke Company in the United States in April 2009 and the Ilyich Steel Plant in Ukraine in August 2010 continued our strategy of building a vertically integrated industrial holding in the steel sector. Yet just as important for our success are the investments that we outline in this report:

- UAH 1.527 billion invested in environmental protection, as well as an ongoing drive to increase energy efficiency, including the projects rolled out to mitigate the climate change.
- UAH 490.4 million invested in health and safety, which reflects that this remains our number one priority in social responsibility of SCM Group as we aspire to be a world leader in this area.
- UAH 30.7 million invested in building the skills of our employees which, alongside the commitment to our employees that saw average pay at SCM companies exceed industry averages, shows our commitment to attracting and retaining talent.
- UAH 50.5 million invested in the communities where we work to support the infrastructure and improve the quality of education and healthcare.

Our sustained investments in these areas, despite the economic crisis, demonstrate our belief that environmental sustainability and social responsibility are fundamental to our long-term success.

These difficult economic times have also been an opportunity to ask ourselves tough questions about how to get the maximum value out of these investments. This report describes how we have continued to strengthen our engagement with stakeholders inside and outside the business to shape these programmes. It also shows how we have changed. The crisis has taught us valuable lessons about managing risks that are reflected in changes to our management and corporate governance systems that we describe in the chapter “Delivering on Our Commitments”.

The process of compiling this report has been just as important as the report itself. It is an opportunity to share knowledge and best practice across the Group as our companies prepare for new challenges as the global economy recovers.

We seek to comply with the international practices and hope that this report will contribute to the continuing evolution of corporate social responsibility in Ukraine by demonstrating how financial, environmental and social goals can and must be aligned around the vision of competing successfully in global markets. In doing this we remain committed to the principles of the UN Global Compact.

Oleg Popov
CEO
System Capital Management

Profile

SCM Group in Numbers (information for 2009)

Over **100** businesses

Over **130,000** employees

Consolidated assets
\$18.539 billion

Consolidated revenues
\$8.151 billion

The goal of System Capital Management (SCM) is to become Ukraine's leading global company. By applying world-class standards to all that we do SCM aims to create long-term value for our investors, which, in our view, best serves the sustainable development of both our business and Ukraine.

In 2009 SCM's consolidated assets across 100 companies were \$18.5 billion and the Group employed over 130,000 people.

SCM's core business is investing in the metals, energy and finance sectors. Our vertically integrated mining and metals group, Metinvest, is the world's 6th largest producer of iron ore and 28th largest producer of steel. Our energy company, DTEK, accounts for 24% of Ukraine's thermal coal production and 46% of the country's thermal energy output (including associated company Dneprenergo).

SCM is also building a diversified portfolio of investments in other sectors including telecommunications, media, real estate, petroleum product trade, pharmacy business and heavy engineering.

To compete in the global marketplace of today and tomorrow SCM needs to meet the highest environmental standards, enhance the skills of our workforce and invest in the communities where we operate. This presents particular challenges as many of our businesses face a legacy of under-investment from decades of state ownership. However, during the decade of our operations SCM has been following a multidimensional corporate responsibility programme and achieved success in addressing the set objectives.

Corporate responsibility is central to SCM's business strategy by:

- Investing in sustainability to meet international environmental standards, particularly on energy usage and green house gas emissions, as part of our drive for efficiency across our businesses. Our total investment in environmental protection in 2009 was UAH 1.527 billion.
- Investing in our people to make their professionalism and commitment a core part of our competitive advantage, with achievement of the highest international standards of health and safety as our number one priority. Our total investment in health and safety in 2009 was UAH 490.4 million, with a further UAH 30.7 million committed to other training and development.
- Investing in our communities to make them places where people are happy to live and work, by partnering with local authorities to mitigate shortfalls in local services such as infrastructure, education and healthcare, and promoting Ukraine's long-term development. Our total social investment programme was UAH 50.5 million in 2009.

SCM is 100% owned by Rinat Akhmetov.

In the face of short-term financial pressures SCM's board and management have been clear that the company should remain focused on the long-term, continuing to invest in environmental and social sustainability to lay the foundation for our future success.



Context

System Capital Management's vision is to build effective businesses and manage them according to global best practice, ensuring long-term returns on our investment while participating in the development of the regions where we operate.

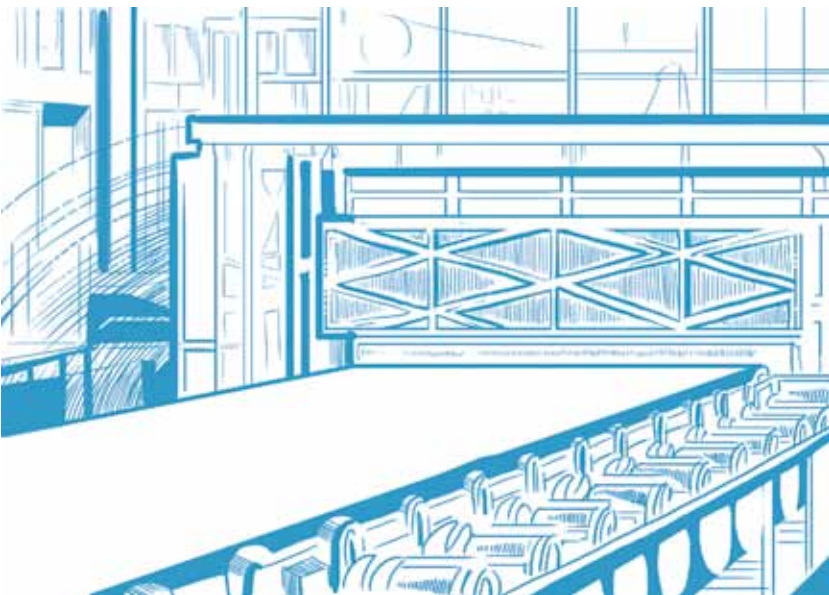
SCM Group structure

SCM was founded in 2000 in Donetsk (Ukraine) and since then we have built up a portfolio of investments in key segments of the Ukrainian economy, primarily mining and metals, energy, banking, insurance, telecommunications, real estate and media.

SCM is a young company. We expanded rapidly in our early years increasing the investment portfolio in different industries. Since 2006 we have focused more on creating the right structures for sustainable growth and announced corporate restructuring. Under a corporate transformation programme, we have established sectoral holdings in mining and metals (Metinvest), energy (DTEK), financial services (First Ukrainian International Bank, Dongorbank, ASKA and ASKA-LIFE insurance companies) and real estate (ESTA Holding). Also, we set up holdings in publishing and media (Segodnya Multimedia and a media group based on Ukraina television channel) as well as reorganized telecommunication assets under a single brand, Vega.

Our main goal has been to make SCM not only Ukraine's leading financial and industrial group, but also a truly competitive and successful global business.

More information about our structure, location and sales markets is available in the SCM Annual Report 2009 published on our official website www.scm.com.ua in the section Investor Relations/ Reports and Presentations.



Metinvest

The Metinvest Group was formed in 2006 as a vertically integrated mining and metals business with shares owned today by the SCM Group (75%) and Smart Group (25%). Now Metinvest is Ukraine's largest steel producer. In 2009 Metinvest Group enterprises produced 7m tonnes of crude steel (24% of the entire steel output in Ukraine), over 9.2m tonnes of steel products, 4.1m tonnes of metallurgical coke and 29.2m tonnes of raw iron ore.

Metinvest is organised into three divisions:

- Iron Ore Division: Northern Ore Mining and Processing Plant (SevGOK), Central Ore Mining and Processing Plant (CGOK), Ingulets Ore Mining and Processing Plant (InGOK), Danube Shipping Stevedoring Company.
- Coke and Coal Division: Avdeyevka Coke and Chemicals Plant (AKHZ), Krasnodonugol mining group, Inkor Chemicals, United Coal Company.
- Steel and Rolled Products Division: Azovstal Steel Plant, Yenakiyevo Steel Plant, Metalen, Makeyevka Steel Plant (MMZ), Khartsyzsk Pipe Plant (KhTZ), Prometey, Promet Steel, Ferriera Valsider, Metinvest Trametel, Spartan UK, Skif-Shipping, Metinvest International S.A., Metinvest Eurasia, Metinvest Ukraine, Metinvest SMC.

More information about Metinvest is available in its annual reports at www.metinvestholding.com.



DTEK

DTEK was formed in 2005 and is 100% owned by SCM Group. It is Ukraine's largest vertically integrated energy business, with a 24.4% share of thermal coal production, a 45.8% share of thermal power generation (Vostokenergo and Dneprenergo), and a 7.7% share of thermal power distribution in 2009. Its principal businesses are:

- Coal Mining and Enrichment: Pavlogradugol mining group, Komsomolets Donbassa Mine, Mospinskoye, Kurakhovskaya, Dobropolskaya, Oktyabrskaya and Pavlogradskaya coal enrichment plants.
- Power Generation: Vostokenergo (Luganskaya, Zuyevskaya and Kurakhovskaya thermal power plants).
- Power distribution: Energougol ENE, Service-Invest.

DTEK also includes engineering and maintenance companies and organisations providing social services (Sotsis and Sotsugol).

More information about DTEK is available in its annual reports at www.dtek.com.

Finance

The financial business of SCM Group includes two banks, First Ukrainian International Bank (FUIB) and Dongorbank, and two insurance companies, ASKA and ASKA-LIFE.

In 2009 the Association of Ukrainian Banks ranked FUIB 13th by assets and 12th by equity. Dongorbank took 27th and 29th positions in this rating respectively.

Our insurance businesses also held leading positions by assets. In particular, Insurance Top rating put ASKA in 10th position among national insurance businesses and ASKA-LIFE earned 6th place among life insurers in Ukraine.



Media

Television, internet and publishing are our core operations in the media business.

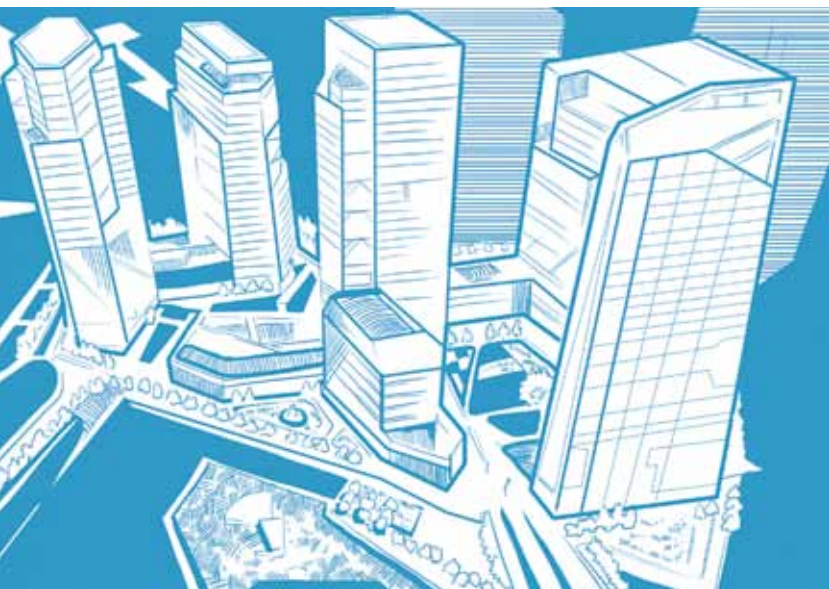
Ukraina Media Group runs one of the biggest national channels, Ukraina, and a range of niche channels. With the audience share growing by 45% in 2009 year-on-year the channel ranked 3rd in the national rating with the average share of 8.52% (according to GfK Ukraine).

Established in July 2008, our internet holding, Digital Ventures, is focused today on its major project – a horizontal web-portal, tochka.net, which has been performing with strong traffic and popularity figures.

Our publishing holding, Segodnya Multimedia, issues 12 periodicals with Segodnya national daily being the main product. The publication has five local editions in the cities with over a million citizens – Kiev, Donetsk, Kharkov, Odessa and Dnepropetrovsk – and a national issue coming out in other Ukrainian regions. In December 2009 one issue of Segodnya was read by 1.276 million people making the newspaper the second most popular general interest daily in the country (according to TNS Ukraine).

Telecommunications

Our telecommunications business is Vega Group – the biggest private operator in Ukraine's fixed-line market by the number of subscribers. At the end of 2009 it took second place in Ukraine by fixed-line subscribers (5.6% of Ukraine's telephony market according to the State Statistics Committee) and fourth position in the segment of broadband internet access (5.4% of Ukraine's market according to iKS-Consulting) with around 690,000 telephone lines and 121,000 broadband access ports.



Real estate

ESTA Holding manages SCM Group's assets in the real estate market with the main activity focused on investments, development and management of commercial, residential and hotel property.

In September 2009 Opera and Donbass Palace were among the first five-star hotels in Ukraine to have agreed with TUI Travel PLC, official EURO 2012 tourism partner, to accommodate football teams, official delegations and visitors of the forthcoming tournament. By the beginning of 2010 the assets in ESTA Holding's portfolio were valued at about \$224.6 million.

Structural changes

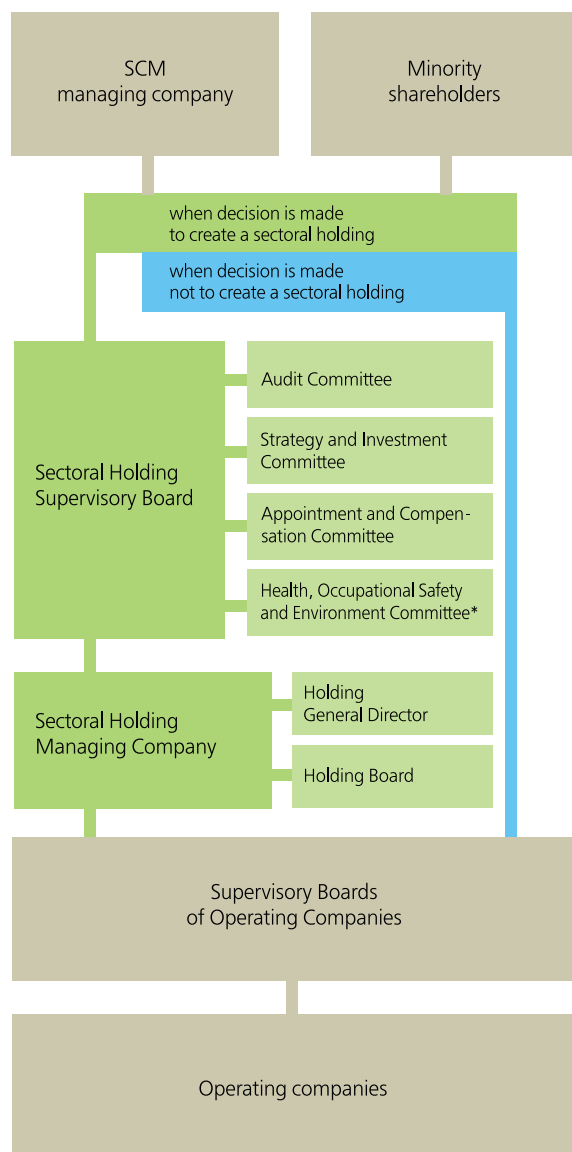
The following changes took place in the SCM Group structure in 2009.

Industrial holdings:

- Metinvest completed acquisition of 100% of United Coal Company, one of the leading producers of coking coal in the USA.
- DTEK established DTEK Trading to trade coal and electricity in the Ukrainian and international markets.
- DTEK established Wind Power to realize wind power projects.

Non-industrial companies:

- Since 2009 the group of telecommunication companies Farlep-Optima-CSS has been operating under Vega brand. In 2009 the company continued to reorganize by bringing 11 legal entities under its umbrella. As a result, the number of Vega's legal entities was almost halved, which improved business efficiency and helped to standardize services in all regions of the Group's operations.
- Following its strategy of withdrawing from the brewing business SCM sold shares in Lugansk Brewery and Poltavpivo.



*Applies only to Metinvest and DTEK

Corporate governance

Today the new corporate structure signals a change in SCM's concept, switching from operational management of individual enterprises to strategic management, where operational companies take responsibility for devising and implementing their growth and development strategies.

We believe that this new corporate structure offers clear lines of responsibility to allow more effective and transparent decision-making. This structure is underpinned by our corporate values of effectiveness, professionalism and accountability.

We are proud that the investment we have made in corporate governance was recognised in the listing of "TOP 100 Best Senior Managers of Ukraine" by Ekonomika publishing house, which ranked SCM Chief Executive Officer Oleg Popov number one in the "Best Senior Manager" in Financial and Industrial Holdings category, Metinvest CEO Igor Syry number one in the "Team Leader" category and DTEK CEO Maxim Timchenko number one in the "Change Management" category. In addition, Oleg Popov won in a special category "Strategist". In 2008, 2009 and 2010 SCM took first place in the ranking of socially responsible companies in Ukraine issued by *Gvardiya* magazine of Galitskiye Kontrakty publishing house.

We continue to expand our business internationally. Metinvest owns steel rolling mills in Europe – Ferriera Valsider and Trameal (Italy), Spartan (UK) and Promet Steel in Bulgaria – and in April 2009 bought a 100% stake in the United Coal Company in the United States.

This is a reflection of our ambition to be a global player in the market that operates to the highest global standards. In 2009 the Ukrainian market represented only 27% of Metinvest's total sales with major markets such as South East Asia (23%), Europe (19%) and the Middle East and Africa (10%) becoming increasingly important. Metinvest is now the 28th largest steel producer in the world, according to the World Steel Association, an organisation that Metinvest was proud to join in 2009. Metinvest is also the world's sixth largest iron ore producer.

Key financial figures

In 2009 SCM Group had consolidated assets of \$18.5 billion and a turnover of \$8.2 billion. We made a net profit of \$97 million, all of which was reinvested in the business.

This report covers the most challenging period for SCM in our corporate history. Our results for 2009 reflect the full impact of the global financial crisis that began in the last quarter of 2008.

The global downturn hit the Ukrainian economy. Ukraine's gross domestic product fell 15% in 2009 and has recovered only slowly in 2010 with growth of 3-4% forecast for 2010 and 2011. Our financial results have also been heavily affected by the decline in the value of the Ukrainian Hryvna (UAH) against the dollar, which fell from UAH 5.27 in 2008 to UAH 7.79 in 2009.

These macroeconomic trends impacted on SCM businesses in number of ways in 2009:

- The decline in Ukraine's sovereign risk rating to CCC+ meant that financing was more difficult to obtain and the cost was greater.
- A decline in the steel market nationally and globally in 2009 reduced Metinvest's production of iron ore by 3% and steel by 15%, while the consumer sales of steel and rolled product division fell 27.3% compared to 2008. These factors, together with the fall in the value of the Hryvna, led to a 54% decline in Metinvest's turnover over this period.
- A decline in demand for electric energy led to a 13.6% reduction in electricity generation by DTEK, although this was offset in part by increased sales of coal. The biggest income (97.7% of consolidated revenues) comes from the national market. In 2009 DTEK worked to expand its sales markets through coal exports.

	\$ million		
Consolidated gross income	9,563	15,985	8,151
Operating expenditure	7,771	12,316	7,518
Salaries and bonuses including pensions to employees	1,040	1,513	1,082
Taxes including profit tax and payroll taxes without VAT	912	1,244	654
	2007	2008	2009

In this challenging economic environment we responded by restructuring many of our businesses to retain and, where possible, increase market share and to drive down costs. This process has been painful at times but we have been guided by two principles:

- to ensure that our businesses come out of this period stronger and ready to expand when market conditions improve, and
- to be mindful of our social responsibilities to our employees and other stakeholders in the course of restructuring (See Case Study on Segodnya).



Surviving the economic crisis at Segodnya

"I am from Argentina, so I knew what was coming," says Guillermo Schmitt, the CEO of the Segodnya Multimedia holding, looking back on how the company restructured as soon as the financial crisis started in September 2008. "Before the crisis, Segodnya had big investment plans to reinforce its position in the regions, where the company had opened offices. Now the imperative was to reduce costs, including planned investments, and protect market share. Even then it was worse than I anticipated. January and February 2009 were just terrible".

The newspaper business is heavily dependent on advertising, which is particularly sensitive to the economic climate. Ukraine in 2009 was no exception – advertising in the print media fell 36% on the year before – yet aggressive marketing helped Segodnya to outperform the market, limiting its fall in advertising revenue to 20%. As a result, Segodnya's share of the print advertising market increased from 42% in 2008 to 44% in 2009.

Segodnya also beat its competitors on newspaper sales. Improved marketing and content limited its fall in overall circulation to only 16%. This was a good result as Ukraine's average circulation in 2009 fell 33.3% compared with 2008. This result was even better in light of the decision to raise the cover price by 75% to UAH 2 for the local daily editions and UAH 2.7 for the national issue, which ensured that, despite the fall in circulation, sales revenue increased 17%.

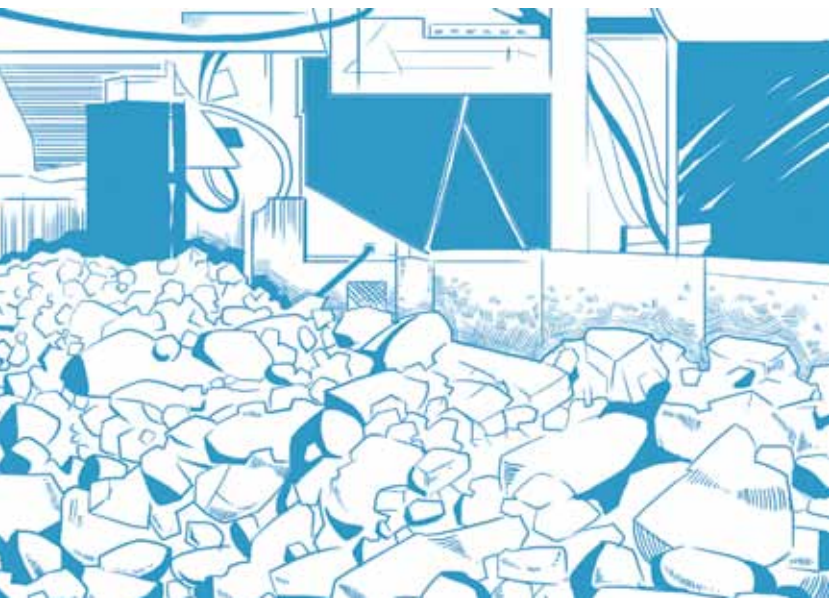
Developing Segodnya's online business remained a priority even amid the crisis. Following a redesign of the website and investment in new hardware to improve the site's reliability and functions, in 2009 total page views increased by 38% to 51.6 million, taking Segodnya to 7th position in the independent 'bigmir.net' rankings of news websites in Ukraine. By engaging a new internet advertising agency, FISH, the company increased revenues from the website by two thirds.

Together, these measures allowed Segodnya to limit its fall in income to 7% in 2009. Cost savings of 36% were achieved by temporarily closing the evening newspaper distributed free of charge and Tvoyo newspaper, reducing the number of pages in the newspaper, postponing investment in a new printing works in Donetsk and cutting the number of returned unsold papers from 9.1% in 2008 to 8.3% in 2009.

Employee productivity doubled during this period due to development of the internal training system. The number of training hours grew by 17% in 2009 compared with 2008 and overall by 54% over 2007-2009. Introduction of a new editorial IT system (ATEX) and an improved incentive structure also contributed to stronger performance of our staff.

A reduction in staff headcount in 2009 by 16% was unavoidable. "It's the hardest part of my job," explains Schmitt "it's heart-wrenching. This is a small organisation and I know all of the people by their first names. You just have to be fair when letting people go."

"The first responsibility of the CEO is to preserve the organisation," says Schmitt. "Restructuring is always difficult and sometimes painful. Throughout this process Segodnya's management kept an open dialogue with staff to make sure that employees were informed about the decisions being taken and to seek their views. Unlike some other companies, we took a fair approach when letting people go and provided severance pay in full compliance with the law."



As well as crisis management, we also continued the day-to-day work of turning around some of our recently acquired companies, which involves a heavy investment of management expertise as well as capital - see Case Study of one of DTEK's recent acquisitions, Dobropolskaya Coal Enrichment Plant.

SCM not only weathered this economic storm but continued to invest in bringing our companies up to global standards on environmental protection and health and safety. These industrial businesses have a legacy of decades of under-investment under their previous owners, both government and private. Despite the difficult economic environment total investment in development of enterprises in 2009 at Metinvest was \$324 million and DTEK \$244 million. A third of that investment was in environmental measures.

Turnaround at Dobropolskaya Coal Enrichment Plant

"To change the mentality demands toughness but you also need to understand people, to understand if someone cannot do something or just does not know how to do it", Vladimir Boyarenok, the CEO of the coal enrichment plant at Dobropolye, reflects on the biggest management challenges he has faced since it was acquired by DTEK in October 2007.

Built in the 1950s, the plant saw little investment after the 1960s and festered under public ownership following the breakup of the Soviet Union in 1991. "For fifteen years, all the managers could think about was just keeping the plant going, they did not have time to think about things like staff development," explains Vladimir Boyarenok. "Things happened chaotically. There were lots of accidents."

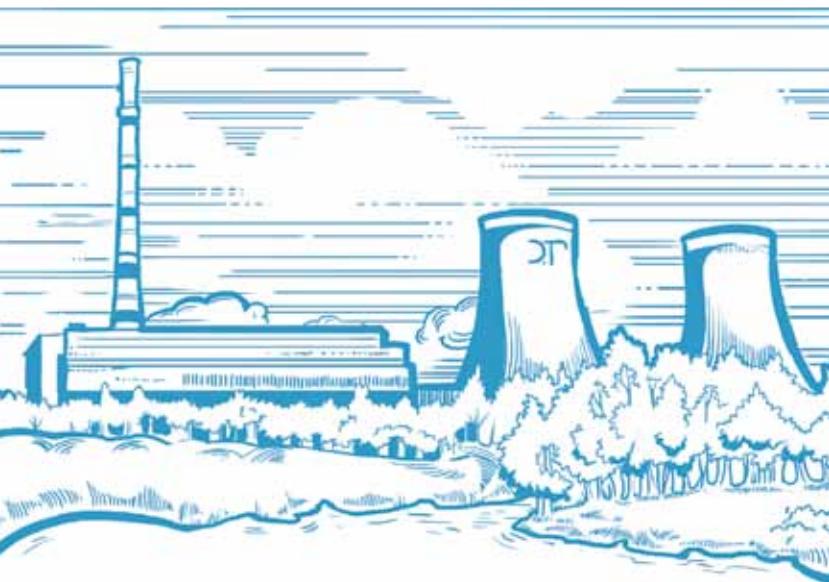
Since Dobropolskaya joined DTEK in 2007, it has been his job to turn things around on environmental performance and health and safety, as well as financially. "The challenge was to teach people to work independently and not have every decision referred to me as the director," says Vladimir Boyarenok, who implemented a new management structure and recruited a new management team to deliver the change.

“342 days without an accident” reads the sign at the entrance to the plant. This, along with improved financial and environmental performance in less than three years, is a testament to the effectiveness of the strategy the management team has chosen. New investment from DTEK has helped development, but the CEO is clear that success comes from the human side of running the business. “My biggest achievement, he says, has been to build a management team.”



Investing in Our Environment

Climate change is arguably the gravest threat that our world faces and one which SCM Group companies, and in particular our industrial holdings, Metinvest and DTEK, are playing a part to address. We understand that over the next five years we can expect to see significant tightening of regulations on green house gas (GHG) emission, both in Ukraine and internationally.



Introduction

For DTEK, the main business driver is integration of our country with the European Energy Community (EEC). Ukraine expects to become a member of the EEC in 2010 and will begin to harmonize its energy-related national laws and regulations with those of the EU. Starting from December 2009 DTEK has the right to export electricity to Hungary, Romania and Slovakia following the amendments to the Law of Ukraine on Electric Power, which resulted in deregulation of the national electricity export market.

Fuel and energy make up a significant portion of the total cost of steel production, coal mining and electricity generation. Moving proactively to reduce GHG emissions in the mining and metals businesses will benefit these energy-intensive sectors by reducing costs and, for energy business, DTEK, it is opening up new business opportunities in renewable energy.

SCM also believes that reducing our businesses' carbon footprint is integral to what it means to be a responsible company, so we are taking measures to reduce GHG emissions across the Group.

Metinvest and DTEK continue to invest in reducing the environmental footprint of their enterprises acquired over the past five years from the state. The problems refer to the impact these businesses have on the air, water and land.

Here too we face tightening regulation as Ukrainian legislation moves towards European environmental norms, which imposes costs on the businesses through licence fees and environmental fines, so investments in tackling these problems will produce benefits for our companies in cost savings and improved performance.

SCM Group is actively engaged with government and legislators to create a robust and transparent framework for environmental regulation in Ukraine.

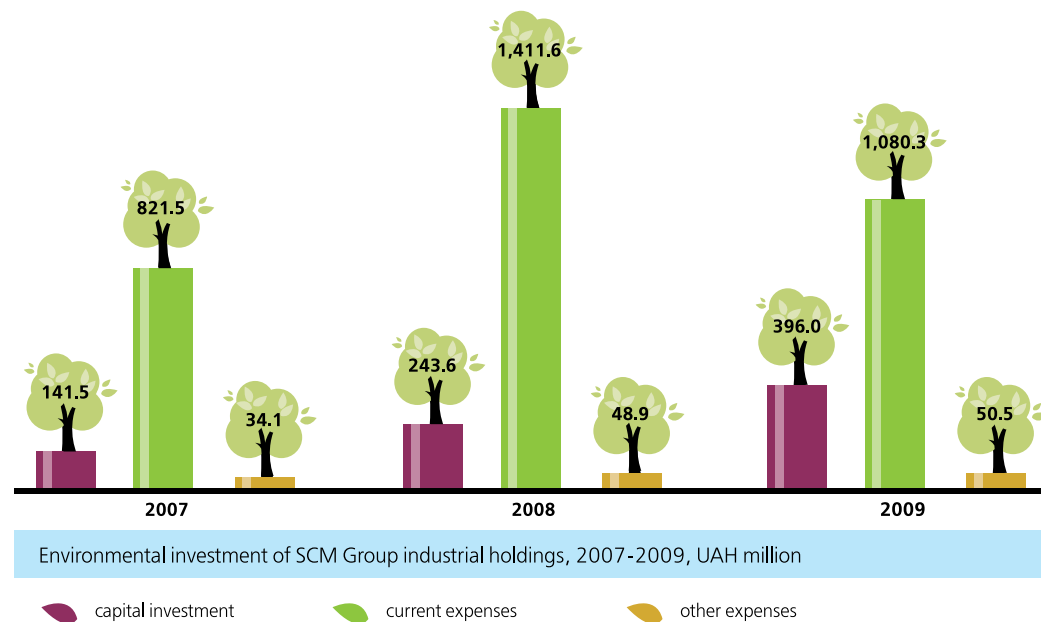
DTEK has worked with the government and parliament of Ukraine to promote reforms in the power sector, particularly, to develop and approve the principles of funding of environmental activities. DTEK came forward with an initiative to introduce an environmental section into the long-term energy strategy of Ukraine to 2030 in conformity with the agreement on Ukraine's integration with the European Energy Community. In addition, DTEK suggested the development of a sectoral programme to ensure compliance of Ukrainian thermal power plants and combined heat power plants with the Directive 2001/80/EC.

DTEK and Metinvest companies also engage directly with local and national governments on environmental issues in the communities where they are based.

As a responsible company, in all areas of environmental protection we aim to go further than is demanded by government regulators through a proactive programme of investments in energy efficiency, ecological footprint reduction, environmental rehabilitation and alternative energy sources. The total investment required runs into billions of dollars.

Even in difficult economic times we know that we cannot shirk our commitments on environmental sustainability, which is why SCM companies have continued with a substantial programme of environmental investments of UAH 1.527 billion in 2009. The financial crisis did mean that some projects had to be delayed and our total investment was lower than in 2008. However, our commitment is demonstrated by the fact that investment in environmental programmes in 2009 was higher than in 2007 (see chart). As part of our focus on the long term, we also sustained our commitment to capital investments and regularly increase their share in the total investments. In 2009 capital environmental investments amounted to UAH 396 million.

Facing a massive need for environmental investments and limited capital, SCM companies have been rigorous in setting priorities.



Metinvest's strategy on environmental protection is set out in the corporate Health and Safety and Environment Protection Policy agreed in 2009. Delivery of the policy is managed by Metinvest's Department for Health and Safety and Environment Protection, which:

- contributes to develop and revise regularly the health and safety and environment strategy
- audits the operations of the Group's businesses
- contributes to business planning and budgeting
- establishes an integrated health and safety and environment management system in line with the laws and the best global practice.

The Department plans to achieve 100% coverage of its businesses by the ISO 14001 international standard in the next few years.

In 2009 DTEK adopted an Environmental Protection Policy that sets out the company's goals in this area and how they relate to the broader corporate strategy. The policy outlines a plan to implement a consistent environmental management systems (EMS) at all DTEK's enterprises with ISO 14001

accreditation expected by the end of 2010. Under this EMS, Environmental Protection Committees have been established at all enterprises and the new post of Deputy Chief Engineer for environmental protection has been created at Pavlogradugol and DTEK's coal enrichment plants.

Climate change and energy efficiency

Improving performance on GHG emissions, energy consumption and carbon intensity of production is one of the priorities for SCM Group.

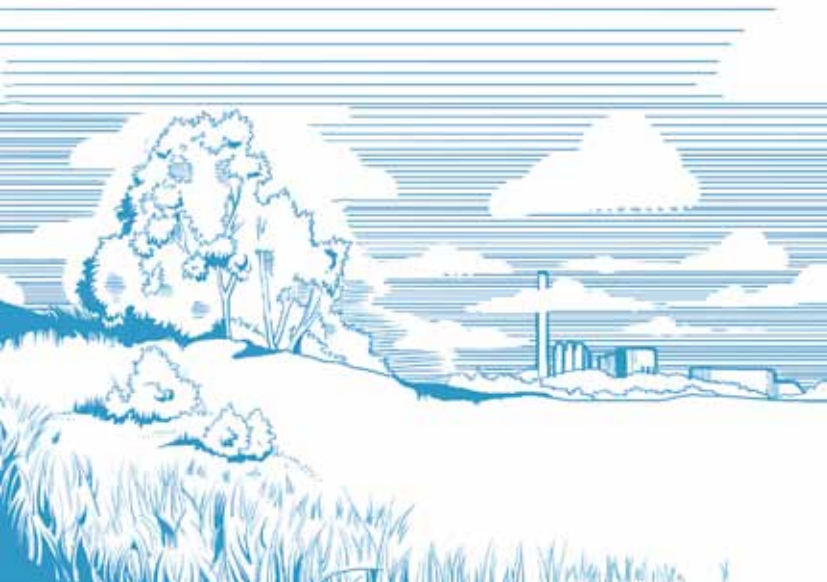
In 2009, SCM industrial companies consumed 320.1 million GJ of energy and produced 778.5 million tonnes of emissions. This represented a 14% reduction in energy usage (from 371.3 million GJ in 2008 to 320.1 million GJ in 2009) and a 10% reduction in total air emissions in line with reductions in output.

SCM Group's industrial holdings emitted 34 million tonnes of green house gases in CO₂ equivalent in 2009 – slightly less (0.05% as shown in chart on page 32) than in 2008 as a result of changes in the GHG emission calculation method at Metinvest. In particular, to compile a new inventory of emission sources YeMZ Group calculated CO₂ emissions both from its boilers and other sources in light of the expected introduction of a fee for air contamination with CO₂ emissions.

However, for DTEK, GHG emissions fell 12% in 2009.

Also, energy efficiency actions saved 40.1 million kWh of electric power, 1.8 million GJ of fuel and 296,500 GJ of thermal energy in 2009 with the economic effect being a saving of UAH 74.4 million.

Power generating plants and steel mills account for a significant share of energy consumption



	Electrical power, million kW·h	Thermal energy, million GJ	Fuel, million GJ	Economic effect, UAH million
2008	120.2	426.809	3.1	141.4
2009	40.1	0.297	1.8	74.4

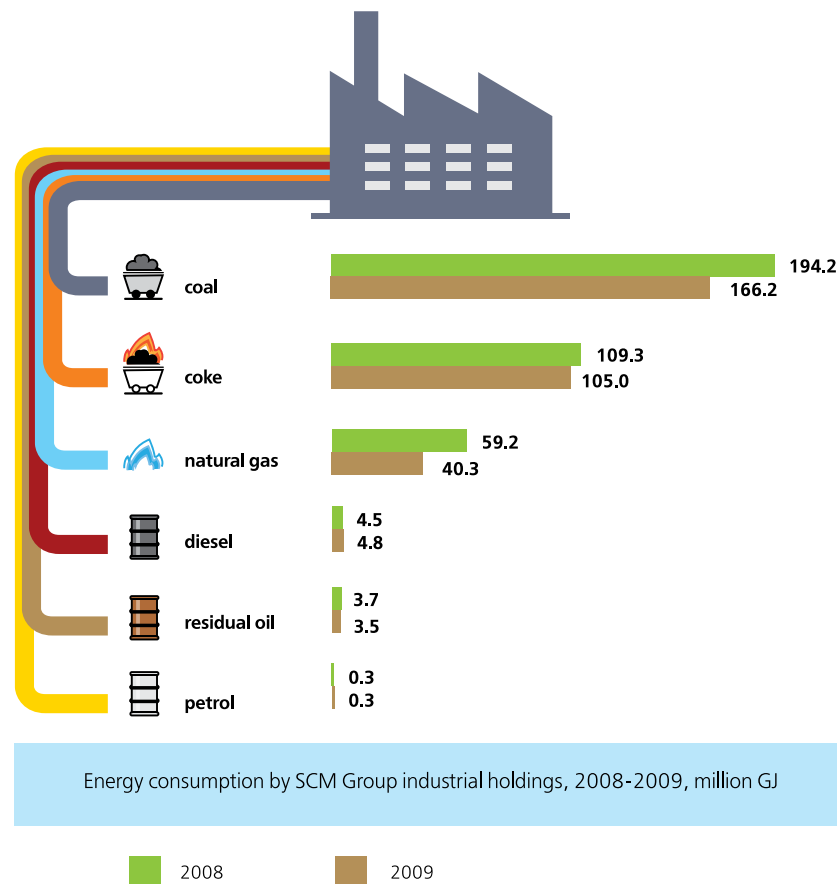
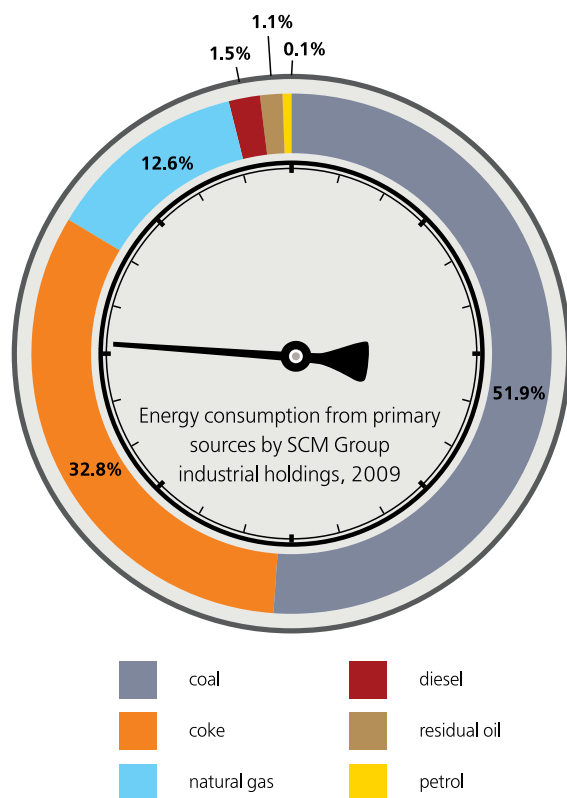
Energy saved by SCM Group industrial holdings, 2008-2009

The big difference in thermal energy savings between 2008 and 2009 comes from extensive activities at Azovstal in 2008, which resulted in significant savings of thermal energy.

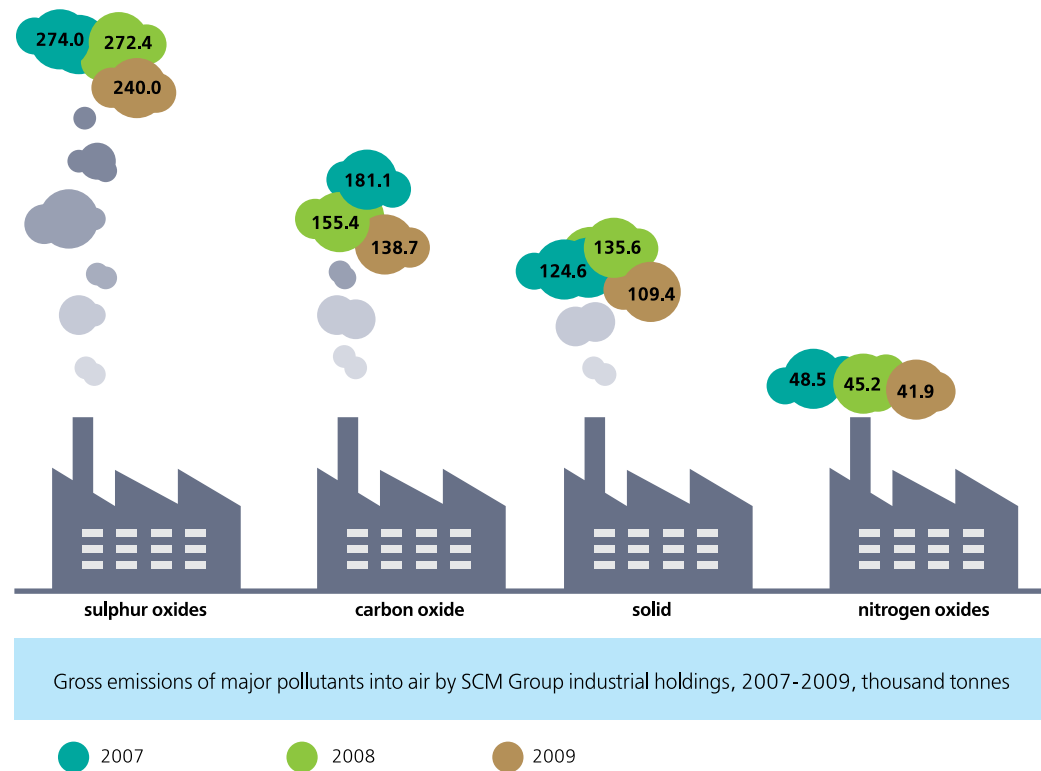
and GHG emissions. These companies are therefore the priority for our energy efficiency efforts.

SCM industrial enterprises are engaged in a long-term programme of investments to curb GHG emissions. Metinvest and DTEK are leaders in Ukrainian industry in implementing projects under the Kyoto Protocol Joint Implementation mechanism.

The Kyoto Protocol mechanisms can help industrial companies to improve both their environmental performance and energy efficiency. This is achieved by using the protocol's Joint Implementation (JI) mechanism to raise additional finance for projects which reduce emission of green houses gases. Companies do this through the sale of emission reduction units (ERU) awarded for reducing green house gas emissions to investors or businesses who wish to use the ERUs to offset their emissions in other, usually more economically developed countries.



Metinvest has ten Joint Implementation projects underway with a total impact of reduced GHG emissions of 7-8 million tonnes of CO₂ equivalent over 2008-2012. The largest project is planned at Azovstal steel plant, which would reduce GHG emissions by 4.5 million tonnes of CO₂ equivalent during the period 2008-2012 (see case study).



Kyoto Protocol Mechanisms at Azovstal Steel Plant (Metinvest)

One of the biggest steel mills in Ukraine Azovstal (Metinvest), has been implementing its comprehensive modernisation programme since 2007. The plant invests its own funds and the cash raised through a JI project developed and realized by Global Carbon, one the biggest players in the international emissions trading market under the Kyoto Protocol. In 2009 the plant completed the following activities as a part of the programme:

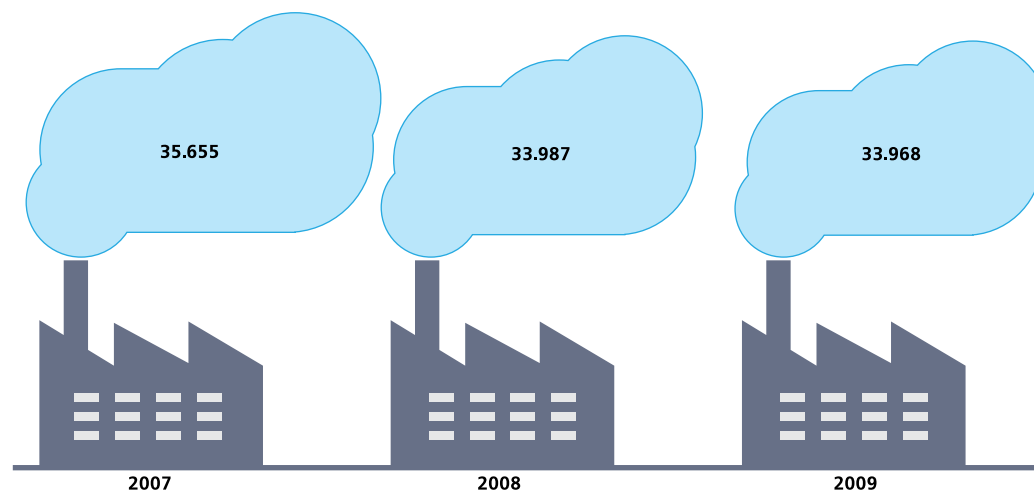
- *introduced a closed railcar to transport the dust caught by the electric filter at blast furnace 6*
- *repaired gas cleaning facility of converter 2 in the converter shop*
- *decommissioned normalizing furnace 3 in plate shop*
- *decommissioned four heating components in the blooming mill*
- *reduced sea water supply to continuous furnaces at its rail and structural shop*
- *replaced an environmentally unfriendly PCB transformer with a dry-type transformer in plate shop*
- *installed a vent valve in the tar-water collector at its trapping shop*
- *repaired a gas flue and restored gas tightness of boiler 7 in the boiler shop*
- *improved coke gas cleaning from hydrogen sulphide by replacing irrigation facilities of scrubber 2.*

The Kyoto Protocol Mechanisms allow the plant to use the resources efficiently and work to reduce its environmental footprint.

In 2009, Yenakiyev Steel Plant (YeMZ) invested UAH 342 million in energy efficiency. Modernising blast furnace 3 is the major focus of YeMZ's energy saving efforts. With a system of pulverised coal injection, the furnace will stop consumption of natural gas.

The advance aspiration systems of cast house and trestle will reduce air emissions to 50 mg/cubic meter (by about 40%). Aspiration gases will be treated with modern, powerful electric filters.

For 2010, Metinvest plans further investment of UAH 641 million in programmes at YeMZ and expects to yield a return from reduced energy costs and from the sale of emission reduction units.



Greenhouse gas emissions by SCM Group industrial holdings in CO₂ equivalent, 2007-2009, million tonnes

DTEK is one of the few energy companies in Ukraine that is implementing a comprehensive modernisation programme of its generating facilities. The company's major Joint Implementation project is at Vostokenergo where, in 2009, an investment of \$40 million upgraded power units at Zuyevskaya and Kurakhovskaya plants to extend service life, increase installed capacity and reduce fuel consumption. DTEK's Komsomolets Donbassa Mine has signed an agreement with ING Bank for the sale of 300,000 emission reduction units under a JI project (see case study on closing the methane cycle). In 2009 DTEK made significant investment in wind energy thus becoming a leader in this area in Ukraine (see case study).

Closing the methane cycle

Methane gas has been a hazard for miners since man first dug for coal underground. The traditional approach in the coal industry has been to reduce the risk of explosion by venting the gas into the atmosphere. Although methane makes up less than 1% of the SCM Group's total GHG emissions, it is a significant part of the environmental footprint of coal mining businesses. What if that harmful GHG pollutant could be tapped and used as fuel?

Under a Joint Implementation project, DTEK's Komsomolets Donbassa Mine has been flaring methane since 2008, which reduces the GHG emissions and thus contributes to mitigating climate change. In 2009 that waste energy was harnessed for the first time by converting a mine boiler, which was formerly coal-fired, to methane. This initiative is expected to yield reductions of GHG of about 100,000 CO₂ equivalent tonnes a year. In the framework of the project an agreement was signed with ING Bank N.Y. for trading in emission reduction units of 300,000 CO₂ equivalent tonnes.

Rollout of this technology to DTEK's Pavlograd mines was planned for 2010.

The big reductions in GHG emissions that are needed to meet SCM's obligations to play its part in tackling climate change will come from major investments like these.

It is our hope that the development of the carbon trading market and better prices for carbon in the longer term will provide enhanced financing for SCM companies' investments in energy efficiency in the future.



Energy of the next generation – wind power in Ukraine

Wind power is an important and exciting new business opportunity in Ukraine, and one where DTEK wants to be the market leader. With a goal of generating 20% of the company's power from renewables in the future, in 2009 the company launched the country's largest wind measurement project and identified two regions with the highest potential in terms of wind speeds and supporting infrastructure: Donetsk and Zaporozhye oblasts.

Such a cutting-edge project needs not just international technology, but also international financing, which was made more costly by the decline in Ukraine's sovereign credit risk rating in 2009.

Wind power is not just an environmentally sustainable business for DTEK; a new green energy tariff (green tariff) also makes it potentially attractive from the commercial perspective. Ukrainian energy legislation, which was based on the experience of the European Union, sets a sliding scale for energy prices, with wind power, as a highly sustainable technology, attracting the highest tariff of €113 per MW. This tariff, which is 60% above the average European tariff, reflects the priority that Ukraine places on sustainable development and energy security. The tariff is also fixed in Euros, which minimises the risks for the international project financing partners that DTEK needs to work with on such a complex initiative. The premium on the green energy tariff will decline to zero by 2030, which creates a strong financial incentive for DTEK to move ahead quickly with its next investments in wind power.

Today DTEK is exploring the possibility of building the first wind farm in Botiyevo village, Zaporozhye oblast. If approved, the project can more than double Ukraine's current installed capacity for wind power. Preparatory work is underway at three further locations.

DTEK is committed to using the most advanced international technology for its wind farms. At the same time the legal requirement that there be 50% local content in these projects by 2014 means that the wider Ukrainian economy will benefit as well.

While the major investments in environmental protection and energy efficiency are taking place at our industrial businesses, SCM is also building a culture of sustainable thinking across the Group:

- Segodnya Multimedia is exploring the feasibility of using solar technology to supply electricity to its offices and print works.
- The Donbass Palace Hotel in Donetsk, which is part of the ESTA Holding, is doing its bit by installing a new, more efficient air conditioning system, and switching to energy-saving light-bulbs and sensor lighting.

*Bernard Micallef, Chief Executive Officer, Donbass Palace and Opera:
“When it comes to climate change, you cannot see it simply as a business decision. There’s no financial payback for some of these investments. You either decide to go down the sustainability road or you don’t.”*

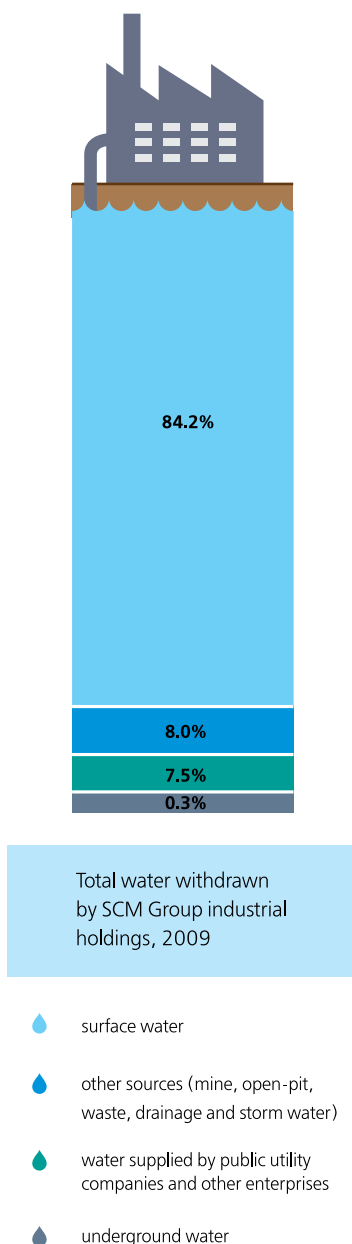
While GHGs are the main global challenge in terms of atmospheric pollution, we are also working to address local air pollution problems. Along with cutting GHGs, we seek to reduce emission of contaminants into the air, such as dust, nitrogen oxides and sulphur oxides arising from mining, coke ovens, steel production and electricity generation.

Metinvest’s major initiatives:

- Use of TNT-free explosives for bulk blasts at the InGOK opencast iron ore mine. This allowed emissions of nitrogen oxides to be cut by 44 tonnes, carbon oxides – by 80 tonnes and dust – by 1,768 tonnes.
- Investment of UAH 25.3 million in an ALSTOM electric filter for the roasting machine in the ore crushing shop at SevGOK.
- A UAH 6.5 million investment at Azovstal to overhaul two sinter facilities including replacing gas flues and scrubbers.
- An investment of more than UAH 3.9 million in the prevention of ignition of waste dumps and extinguishing of burning rock at Krasnodonugol.

DTEK major initiatives:

- Reconstruction of the electric filter on Power Unit No. 1 at Vostokenergo's Zuyevskaya plant at a cost of UAH 22.2 million. As a result, Vostokenergo reduced dust content in the emissions from 320 to 180 mg/m³ and gross dust emissions by 900 tonnes. A comprehensive programme to modernize electric filters of power units at Vostokenergo's thermal plants reduced sulphur oxide emissions by 30.5 tonnes (11.2%) and particulate emissions by 30.8 tonnes (27.7%). In addition to reconstruction, in 2009 Vostokenergo also reduced the total fuel use as a result of lower electricity output.
- The closure of the drying shop at Dobropolyskaya coal enrichment plant was the main cause of a 5.8% reduction in particulate emissions in 2009. With upgraded and new dewatering facilities, the plant meets the water content standard in its coal concentrate without the need to dry the material.



Water

Our industrial businesses impact on water resources in two ways – withdrawal of water from the environment (84% of the water used came from surface water in 2009) and discharge of water into the environment. In 2009 SCM companies reduced water usage and waste water discharge by 11% (see chart) following a number of factors including the decline in output. 85% of the water we used in 2009 was recycled, which was a small increase on 2008 (84%).

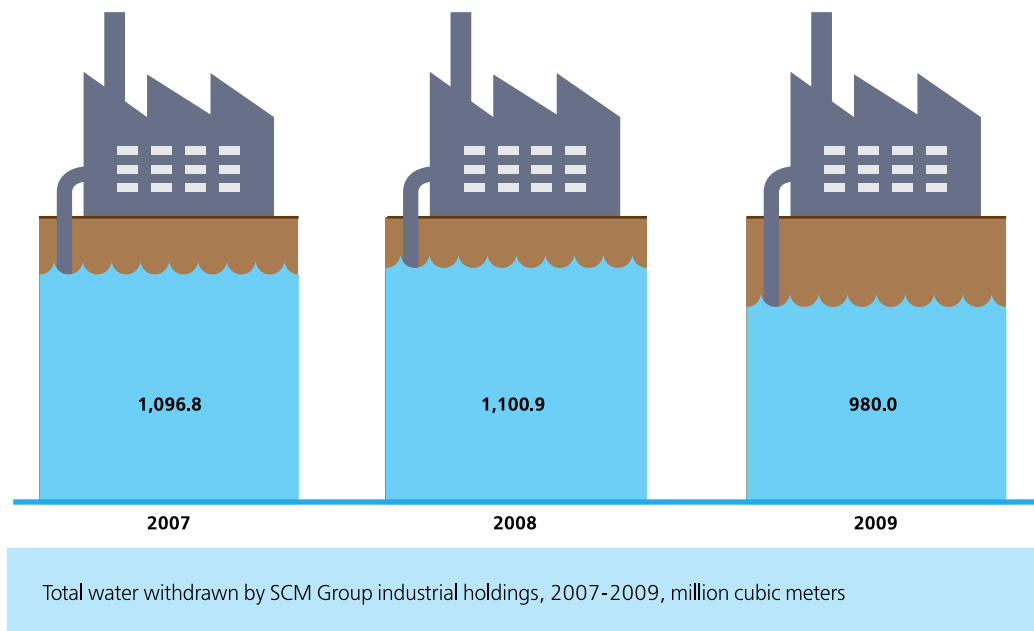
SCM Group businesses are committed to reducing their impact on water resources and carry out projects to use water sustainably and cut discharges of pollutants into water.

In the Soviet era, when most of our plants were built, little consideration was given to their impact on water resources. This is a particular problem for Metinvest's Azovstal steel plant, which was constructed in a way that uses the Azov Sea as a source of cooling water.

In 2009 Azovstal focused on two areas to reduce water consumption from the Azov Sea: stopping the use of sea water to cool furnaces in the plate shop (saving 403,300 cubic meters of water) and reducing consumption of sea water by the gas purification facilities of blast furnaces (saving 2,183,000 cubic meters of water).

Metinvest recognises that its enterprises have an impact on water bodies, including the Sea of Azov with their discharges. In order to reduce negative impact on surface and underground water and to minimise surface water contamination Metinvest's enterprises are implementing a number of initiatives:

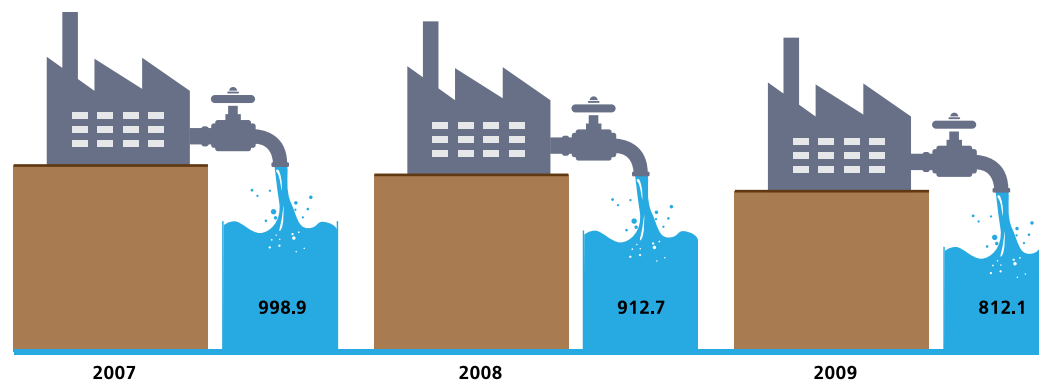
- Azovstal mechanically treats waste water discharged by steelmaking shops and uses biochemical treatments for the waste water discharged by coke and chemicals facilities. Mechanical treatment includes using a sludge dump, which receives the wastewater from the sintering plant, blast furnace plant and rolling plant. The sludge dump purifies the wastewater from suspended solids, settles, clarifies and cleans waste water before it is discharged in the Azov Sea. The biochemical treatment is done with microorganisms in special aerated facilities. Microorganisms react with pollutants in the waste water to break them down and destroy them.



- Azovstal continued to use its facility designed to purify the liquid matter in the collector of chemical waste generated by coke production facility in Sartana settlement. The project seeks to prevent polluting substances (phenols) from getting into the underground water of Sartana settlement from the chemical waste collector. This activity is a part of the Environmental Protection project and Programme of Economic and Social Development of Donetsk Oblast.
- InGOK is also implementing projects to capture leaked water at the storage ponds of tailing dumps. These activities helped collect and return to the recycling water supply system 25.7m³ of water. The engineering protection of underground and surface waters from the filtration impact of the tailing dumps captures up to 97.5% of leaked water.

	2008	2009
Biochemical oxygen demand	356.6	436.5
Oil products	17.1	17.0
Suspended matters	1,520.5	1,815.3
Chlorides	67,563.6	86,601.2
Sulphates	26,138.7	30,000.8
Ammonia nitrogen	118.6	105.0
General iron	105.1	41.2
Nitrates	562.9	469.9

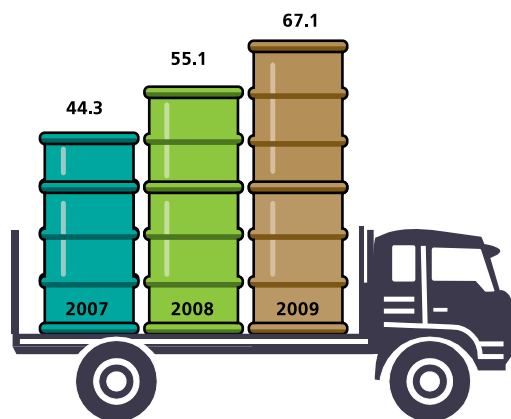
Content of contaminants in waste water of SCM Group industrial holdings, 2008-2009, tonnes



Total waste water discharged by SCM Group industrial holdings, 2007-2009, million cubic metres

Initiatives by DTEK companies to reduce discharge of waste water include:

- Vostokenergo's Zuyevskaya TPP developed a mechanism in 2010 to return untreated waste water into the production cycle to minimise or avoid discharges into the Krynka river.
- Vostokenergo's Luganskaya TPP developed a project to eliminate waste water discharges into the Yovsug river.



Total waste used and cleaned by SCM Group industrial holdings, 2007-2009, million tonnes

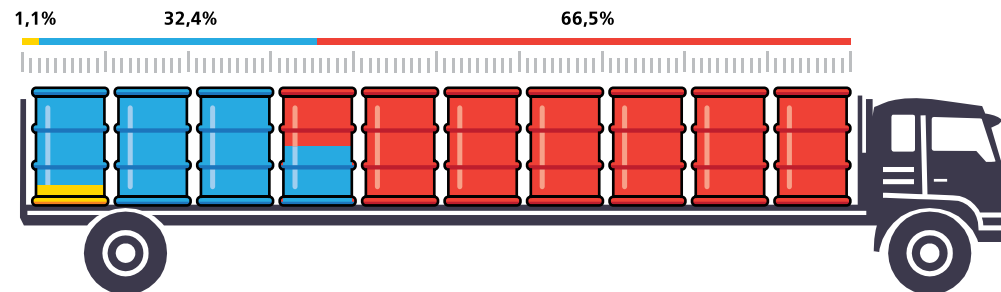
	2007	2008	2009
waste generated	163.4	193.4	205.9
waste disposed	117.9	136.7	137.7
waste used and cleaned	44.3	55.1	67.1
waste transferred to outside organizations	1.6	3.4	2.2

Waste generation and treatment by SCM Group industrial holdings, 2007-2009, million tonnes

Solid waste and land reclamation

Most of the solid waste generated by SCM Group industrial companies comes from our mining operations.

Total production of solid waste increased by 6.5% in 2009 to 205.9 million tonnes (see table), largely as a result of an increase in preparatory work at Metinvest's iron ore plants to open up new seams for mining.



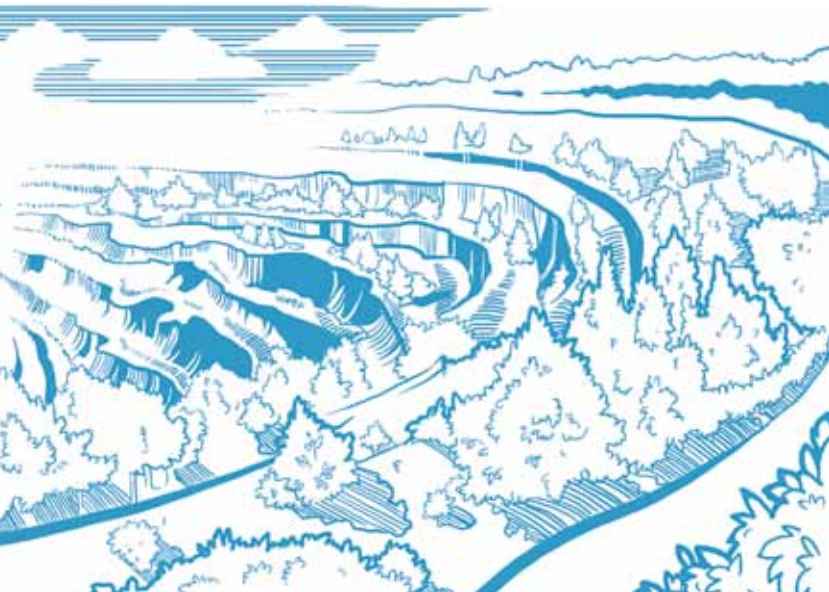
Waste treatment by SCM Group industrial holdings, 2009

disposed
 used and cleaned
 transferred

Disposing of waste produced by ore mining enterprises is a significant cost that is likely to rise as pressure on land increases as open pits get developed and existing waste dumps reach capacity. Our goal is to reduce costs and the environmental impact of the waste we produce by recycling and reusing as much waste as possible.

In 2009 more than a third of our waste, 67.1 million tonnes, was handled in this way, an increase of 22% on 2008. As a result, although SCM companies produced more waste in 2009, there was almost no increase in waste disposal (see table).

In the area of waste treatment SCM companies are working to further reduce our environmental impact by increasing production efficiency, to reduce the amount of waste generated and increase capacity to recycle waste for other purposes, including rehabilitation of land disturbed by mining operations.



Metinvest's ore mining plants take continuous efforts to reclaim land. For example, following a comprehensive reconstruction project developed by a state company Krivbassproekt and the Institute of Natural Resources and Environment Management, InGOK reclaimed land in Shirokovskiy district in Krivoy Rog in 2009. Particularly, the company spent UAH 914,500 to plant 18,000 trees on 10 hectares of a waste dump.

In 2009 InGOK also continued partnership with the Ukrainian Academy of Sciences on land reclamation at the Vizirka Nature Reserve, which is a 121 hectare nature conservation site that is becoming increasingly popular as a local recreational centre (for more information see SCM's 2008 Sustainability Report).

As a part of technical reclamation CGOK is implementing an extensive project – backfilling of the mined-out area in open pit 2 with waste rock from Gleyevatskiy open pit 1. This helps to address an environmental problem of the mining sector – the need to occupy croplands for waste rock disposal. To dispose of the overburden rock from Gleyevatskiy open pit the plant would have taken 140 hectares of croplands. The project also helps to reduce the disposal of production waste from CGOK by 1.8 million tonnes annually. The plant invests up to UAH 15 million every year in this initiative with the spending in 2009 making UAH 17.6 million.

DTEK's businesses also reclaim lands damaged by their production processes.

Coal mines in the western Donbass have substantial reserves located under the Samara River and its tributaries. Mining operations can cause disturbance, including subsidence and flooding to the river floodplain and to adjacent farmland. When DTEK purchased former state owned mines in the region it inherited sizeable areas of land which required reclamation. Today the company has 339 hectares which need to be rehabilitated and restored to its original condition.

DTEK's Pavlogradugol mining group currently reclaims land by filling the sinking areas with the rock extracted during mining activities. After this the group covers the land with fertile soil and green plants. A total of 15.1 hectares of land were reclaimed and transferred to the land reserve in 2009 at a cost of UAH 4.3 million. Pavlogradugol also uses drainage systems to protect forests and farming land from flooding.

Vostokenergo takes technical reclamation actions at its waste disposal areas. For example, Kurakhovskaya TPP covered the surface of its inactive ash dump with a layer of sandy clay and productive soil followed by sowing of permanent grass. Kurakhovskaya coal enrichment plant will seed various vegetation at the eastern side of its waste disposal site.

DTEK seeks to recycle and reuse waste in its production processes or to hand it over to outsourcers for further use. Pavlogradugol reuses approximately 50% of the mined rock to reclaim land. In the electricity generation sector, Vostokenergo recycles ash and slag waste as construction materials. In 2009 the company used 83,000 tonnes of ash and slag in its own building projects or sold it to outside construction companies.

Expanding the existing waste disposal sites in order not to use new land is an important activity taken by DTEK to preserve land resources. For example, Zuyevskaya and Kurakhovskaya power plants have projects in place to increase dams of their ash dumps thus extending the operating life of these sites without the need to occupy new land.

Our non-industrial companies are also doing their bit to reduce waste. Segodnya newspaper has been using environmentally friendly ink since 2008. As early as next year, the hotels in the ESTA Group will recycle paper, plastics, glass and metal, although the speed at which this can be carried out is constrained by the dearth of waste management companies with the capacity to recycle waste.



Investing in Our People

The future of SCM as a globally competitive company depends on its people as they are our most important value and it is their skills and talents which will enable the Group to compete successfully in both domestic and international markets.



Introduction

While much of our industrial business is linked to natural resources like coal and iron ore, the Ukrainian economy is increasingly integrated with European and global markets. This is an opportunity but also a threat, as more international firms invest in Ukraine and increase domestic competition.

In the global marketplace our competitive edge is not going to come from wage costs, but from the productivity that comes from the skills and commitment of the people who work for SCM companies. As a Ukrainian company we enjoy the advantage of a highly educated population and it is our goal to build on that strength.

The last two years have been tough for our people, as some of our businesses have had to continue restructuring. We believe that the best way we can meet our obligations to our employees is by building efficient, competitive businesses that can survive these difficult times and thrive as the economy recovers. The last years have brought out the best in our people – in facing these challenges they have displayed the professionalism that is one of our values and a dedication that has carried us through the deep recession.

Our commitment to our people starts with the obligation to keep them safe at work. That is why health and safety remains our number one corporate commitment.

Ukrainian industry inherited a shameful legacy of unsafe work practices and inattention to workers' health from the Soviet era, which was compounded by long periods of neglect as mines and factories languished without resources under public and private owners after independence in 1991.

We believe that workplaces should be safe and that all accidents are preventable. Since their creation, Metinvest and DTEK have taken great strides to reduce accidents and fatalities.

In the last two years though, the management teams at these firms have tackled the difficult 'last mile' challenge on health and safety. Once important actions are taken and significant improvements compared to the initial situation are achieved, the companies need to continue to focus on reaching a zero-accident level. Changing the mindset of our employees to build a culture of safety is the way to achieve this goal.

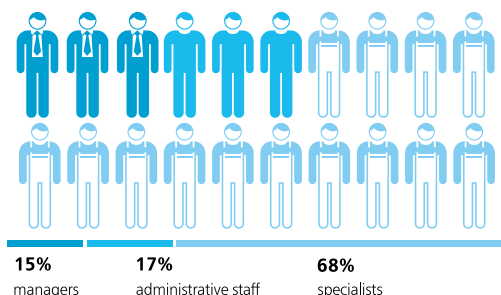
The behaviour change that is necessary to improve health and safety demands strong management skills and a heavy investment in training.

In the face of resource constraints, our companies have found new and innovative ways to deliver training, not just on health and safety but also on education and professional development.

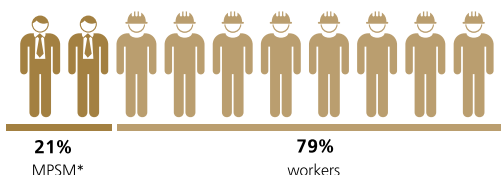
Illya Arkhipov, Director of Business Development, SCM, "I have a dream for SCM Group companies becoming the employer of choice, so that people on the street, if asked what company they would like to work for, named SCM companies in the top five in each given industry."

Staff composition of SCM Group, 2009

Categories of personnel (non-industrial companies)



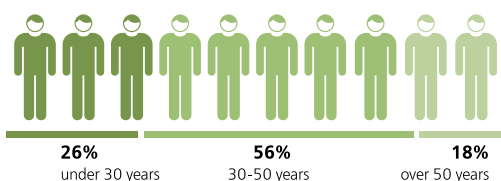
Categories of personnel (industrial holdings)



Gender



Age



* managers, professionals, specialists and maintenance workers – according to the Ukrainian State Occupational Classification.

Our people and pay

In 2009 over 115,000 people worked for SCM companies covered in this report. This was a reduction of 14% or 19,300 jobs compared with 2008. Restructuring and efficiency savings in response to the economic crisis caused part of this reduction. However, a substantial number of these jobs – such as cleaners, caterers, security guards, service engineers – were not lost but outsourced to external contractors. Where staff reductions were required, as far as possible this was carried out through natural wastage.

SCM understands the human impact of necessary business decisions to outsource non-core functions or to make redundancies. Our companies have worked hard to manage these changes responsibly in consultation with staff directly and through their trade unions.

A key part of any outsourcing programme is negotiating the transfer of our employees to the contractor that is taking over the service, with guarantees on the protection of their salaries and other benefits for at least a year.

Responsible restructuring at DTEK

In 2009 DTEK reorganised its business processes and outsourced ancillary functions. As a result 4,050 employees left DTEK in 2008-2009 with Pavlogradugol accounting for the biggest share (2,251 people in 2008 and 741 in 2009).

During the reorganisation Pavlogradugol strictly upheld the collective agreement and agreed employment issues and social benefits with its staff and trade unions. At the same time, the trade unions were concerned about the further economic development of the company and reduction in number of employees. However, following the negotiations the trade unions approved transfers of non-core functions to outsourcers.

Being a complex process for employees and employers, the reorganisation is justified in the longer term. Therefore, it requires a constructive position of the staff in the reorganised departments and trade unions.

Employees are usually offered to be relieved from their current position and transferred to a new or established organisation. For instance, in 2008 and 2009 DTEK continued to outsource security and other services by transferring them from DTEK to Servisnoye Predpriyatiye (Service Company) offering the benefits and guarantees fixed in the collective agreement of the service company.

DTEK seeks to alleviate the impact of the reorganisation as much as possible by providing assistance to those organisations that took over the outsourced functions, e.g. supporting them with orders at the initial stage. With guaranteed orders, these companies can focus on attracting new customers to be more competitive and sustainable financially.

A good example of “soft” reorganisation is Pershotravensk Repair and Engineering Plant, which was removed from Pavlogradugol but remained within DTEK.

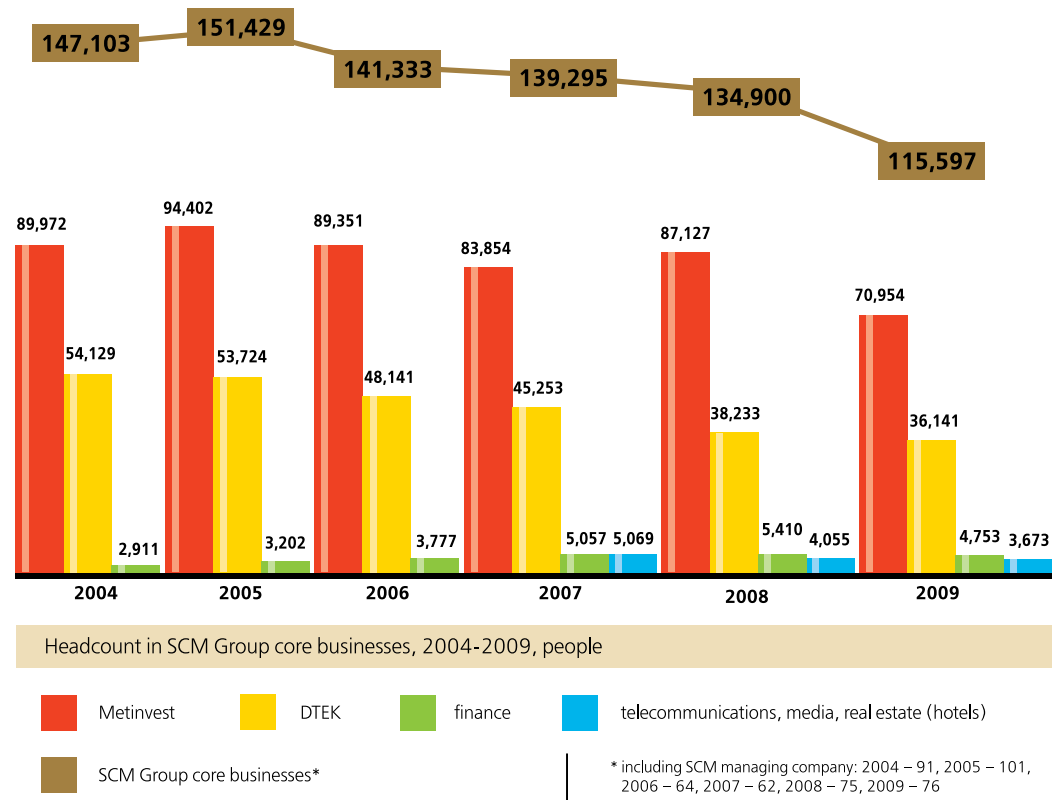


The restructuring process at Metinvest was carried out within the framework of industry agreements, collective bargaining agreements and current legislation. In addition, the redundant employees were provided with additional support. For example, to support its employees Central and Northern GOKs established the Public Coordinating Councils, which considered the employees' applications. As a result, many employees were offered other jobs or provided with an opportunity to attend skills training courses for occupations where there were shortages of skilled staff and these were arranged by the HR Training and Development Department.

One of major tools used in the restructuring process was outsourcing of non-core activities. In 2009 enterprises of the Iron Ore Division outsourced cleaning, medical, security, catering and repairing services. Also, Metinvest companies developed criteria covering the selection of outsourcers and continued business relations with the outsourcing companies to ensure a smooth change over. The employees, who moved to the outsourcers, retained their job profile (type of work, salary and social benefits fixed in the collective agreements). Also SevGOK's, Central GOK's and InGOK's employees retained the right to participate in the voluntary medical insurance programmes.

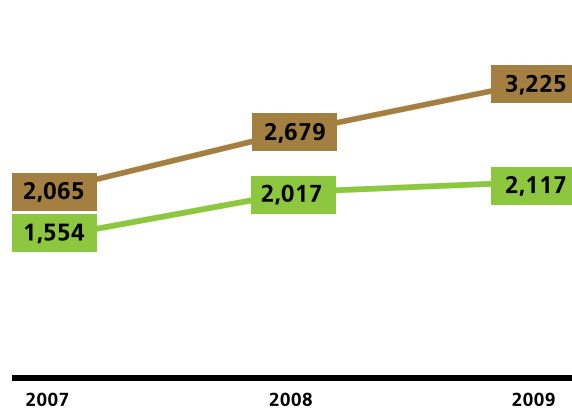
Our non-industrial businesses also have seen extensive restructuring and reorganisation over the last two years. The biggest project has been the continued work to bring 42 companies together to form the Vega telecommunications company, Ukraine's largest private fixed-line operator. The restructuring has delivered substantial efficiency savings, for example by integrating 17 billing systems into one, which has meant that 16.7% of staff left the company between 2008 and 2009. Vega has sought to manage this process responsibly and in accordance with the law. In 2009, 804 employees left Vega with 270 of them being made redundant as a result of reorganisation. These employees received severance pay as required by the law. Another 147 people resigned following a mutual agreement with the employer and received financial assistance to the amount of one or two base salaries. In addition, 45 employees were dismissed because they assumed new jobs in a company within the telecommunication group.

Restructuring has also been a management challenge for TRK Ukraina, which relocated its headquarters to Kiev from Donetsk in several stages. Firstly, the staff in the Donetsk office filled out surveys and expressed their interest in working in Kiev and the preferable conditions.



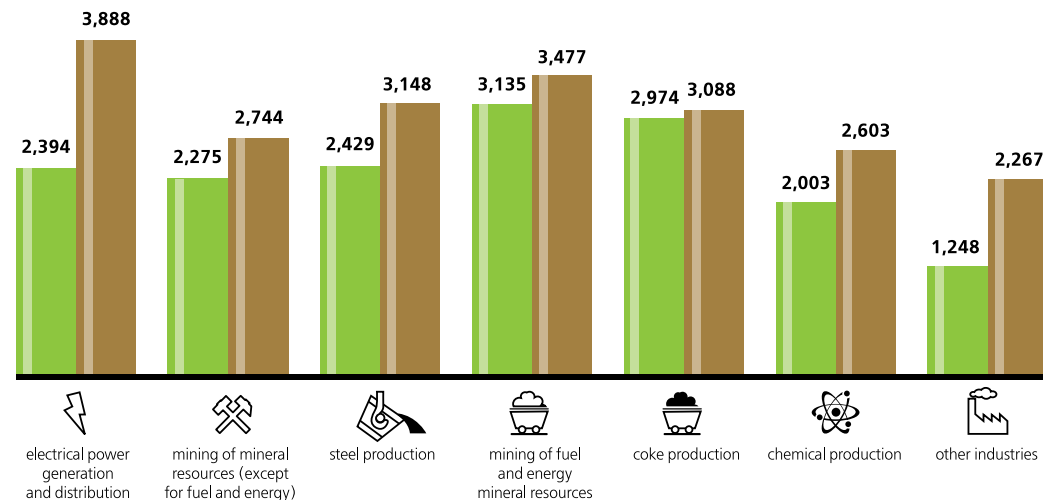
Managers offered a move to the employees who wished to relocate. As a result, 16 of the 38 people, who left the company in Donetsk, were transferred to the Kiev office. Most of the staff who were unable to relocate have stayed on with the company working for the regional channel, Donbass, broadcasting for the eastern part of Ukraine.

In order to protect jobs, SCM industrial companies also slowed down the salary increase rate. The salary in UAH increased on average by 20% in 2009. Although this represents an 18.5% reduction in dollar terms due to currency depreciation, the premium on working



Average salary at SCM Group industrial holdings against Ukraine's industrial average salary, 2009, UAH

■ Ukraine's average salary in industry (according to the State Statistics Committee of Ukraine)
■ average salary at SCM Group industrial holdings

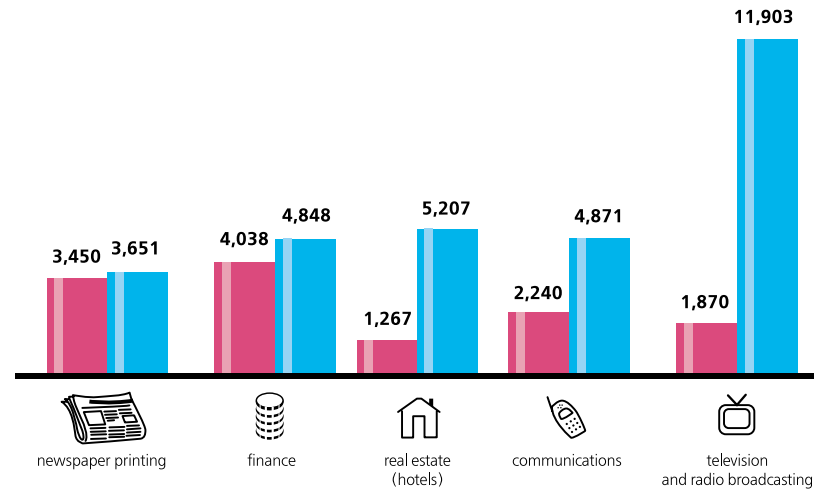


Average salary at SCM Group industrial holdings against Ukraine's industrial average salary, 2009, UAH

■ Ukraine's average salary in industry (according to the State Statistics Committee of Ukraine)
■ average salary at SCM Group industrial holdings

for SCM Group industrial plants compared to the average for similar jobs in Ukraine increased significantly. The salary at SCM's companies in 2008 was higher than Ukraine's average by 33%, while in 2009 our employees earned 52% more. Average inflation in 2009 came to 15.9%, according to the State Statistics Committee of Ukraine. In every industrial sector SCM employees continue to be better paid than the national average for their peers (see chart). The same pattern held true in our non-industrial businesses (see chart).

As well as short-term crisis management measures, SCM industrial companies have also continued to press ahead with changes to rewards and incentives, to make the best use of human resources. The cornerstone of our approach has been the internationally-recognised



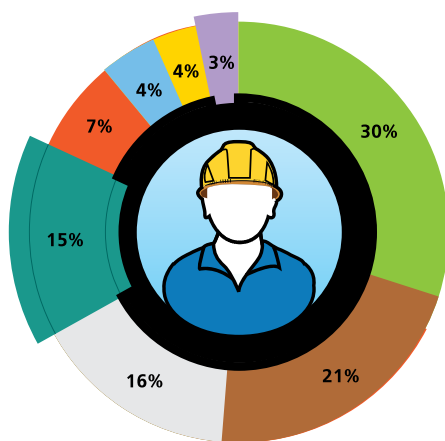
Average salary at SCM Group non-industrial businesses against Ukraine's average salary, by type of business, 2009, UAH

- average salary by type of business (according to the State Statistics Committee of Ukraine)
- average salary at SCM Group non-industrial companies

* according to the State Statistics Committee of Ukraine (types of business correspond to the following entries in the classification of the State Statistics Committee of Ukraine):
 1 – press and printing, 2 – finance, 3 – hotels, 4 – post and communications, 5 – culture, sports, recreation and entertainment

Hay Group methodology to analyze organizational structures, appraise people and jobs, define career progressions and develop pay and reward programmes.

Metinvest continues a group-wide project to ensure provision of fair and competitive compensation packages and motivation incentives for its employees. Since 2006 its businesses have realised pilot projects to adopt a new job appraisal system aligned with the contribution of each position to the production results.



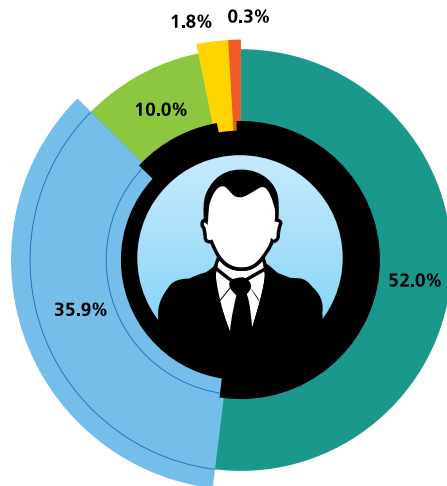
Social benefits and allowances
at SCM Group industrial holdings, 2009



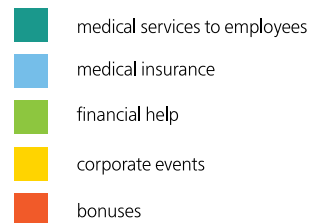
The system based on Hay Group practices was adopted across the enterprises of the Iron Ore Division and at Azovstal in 2009, while the first stages of building a job classification system were implemented at Krasnodonugol, AKHZ, KhTZ and YeMZ as well as Metinvest Holding. This programme described jobs and created databases; assessed positions of senior managers, mid-level managers, specialists and workers; developed base salary policies and designed plans to communicate results of the project to employees. DTEK has begun to implement the same methodology at Pavlogradugol and Komsomolets Donbassa coal businesses, which will be completed in 2010. Rollout to Vostokenergo will be completed in 2011.

In Kiev, where TRK Ukraina broadcasting company is expanding rapidly after the relocation from Donetsk, its Human Resources Department has built modern evaluation and reward structures. The appraisal system assesses performance and competencies of employees.

To evaluate the performance the company communicates its goals to senior managers and further to every employee and establishes goal achievement criteria and their priority. Every six months managers appraise how their subordinates delivered on the goals. Competences are appraised with a “360-degrees” approach, which includes evaluation by the manager, colleagues, subordinates and personal assessment. The system ensured a deeper understanding of employees, their values, motivation and satisfaction, as well as involved the staff in achieving corporate goals and built a regular feedback process. Also, TRK Ukraina established a transparent incentive system based on the contribution of every employee to the overall business success.



Social benefits and allowances at SCM Group non-industrial businesses, 2009



Our health

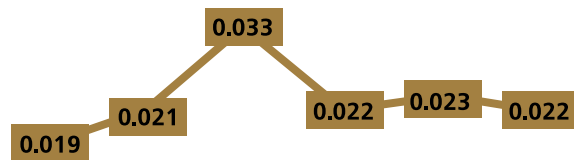
Our industrial businesses are, by definition, hazardous working environments. At our coal and steel enterprises most of the staff are classified as engaged in work with a risk of occupational disease. Improving health and safety at SCM Group is not just a moral obligation. Fewer accidents also mean less downtime, better staff morale and lower insurance premiums.

The investments that SCM Group companies have already made to tackle the legacy of neglect of health and safety in the workplace are paying off. Accidents were down by 16% from 668 in 2008 to 559 in 2009; fatalities also fell by 20% from 25 to 20 in that period.

Using the official Ukrainian benchmark of fatal accidents per million tonnes of coal produced, our performance against our domestic peers is exceptional. Even against international comparators like Anglo American and BHP Billiton, our coal mines rival them in terms of health and safety.

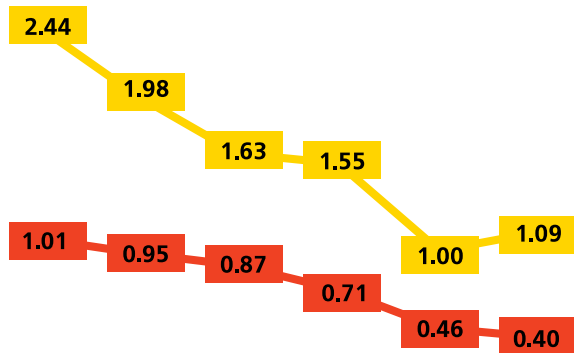
Yet we cannot be complacent. The best measures of our performance are the accident and fatality rates per 200,000 man hours. While the accident rate at our industrial plants has dropped by 60% since 2004 (from 1.51 cases in 2004 to 0.62 in 2009) and the fatality rate has also fallen by a third from its high in 2006 (see charts) this is still not good enough. The total injury rate has gone down by 16% from 668 to 559 cases of injuries. We take regular steps to improve our performance further towards our goal of zero accidents.

The challenge we now face is that we have taken the easy wins of replacing defective or obsolete safety equipment. SCM Group's ore production plants and steel mills modernised their ventilation and lighting systems, while coal mines installed modern equipment improving the working environment and health and safety conditions.



2004 2005 2006 2007 2008 2009

Fatal accident frequency rate at SCM Group industrial holdings, 2004-2009



2004 2005 2006 2007 2008 2009

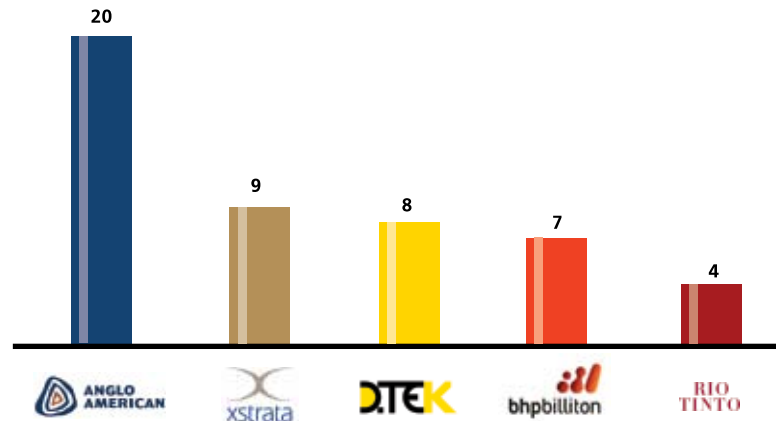
Lost time accident frequency rate at SCM Group industrial holdings, 2004-2009

Metinvest DTEK

However, according to our analysis around 90% of accidents are now caused, not by mechanical, but human error. This takes us into the difficult area of behavioural change across the tens of thousands of employees working in hazardous environments, and changing the mindset of our workers towards 'zero tolerance' on dangerous working practices.

The next stage of our drive on health and safety is based around the international OHSAS 18001 standard, which we plan to roll-out in all enterprises in the Metinvest and DTEK groups by the end of 2010. Under the OHSAS standard, health and safety is hard-wired into the organisation and must be made a part of the key performance indicators of all managers, including directors.

The OHSAS standard also means a completely different approach to dealing with accidents. The old Soviet system identified blame, whereas the OHSAS system is all about finding 'root causes' to prevent a reoccurrence of the behaviour that caused the accident. Health and safety committees established within supervisory boards set policy and get involved in discussion of accidents and remedial measures. This approach also encourages staff to report accidents so that we can learn the lessons from 'near misses' to stop more serious accidents occurring. We accept that encouraging workers to come forward to report accidents may have had a negative effect on the safety statistics in the short run. Yet this will help to prevent accidents in future and this is just a beginning – Metinvest and DTEK are now devising new ways to get the message about priorities in health and safety home to every employee.

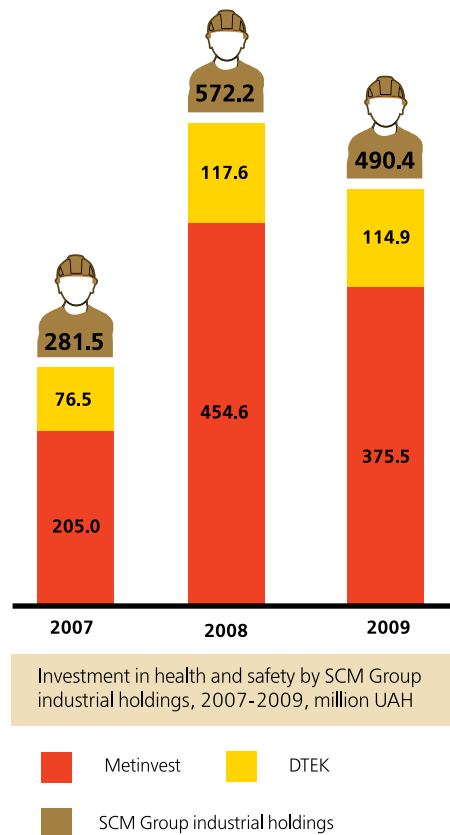


Fatal injury frequency rate at DTEK against international coal companies, 2009, accidents

Keeping the grade at Krasnodonugol

In the autumn of 2007 Krasnodonugol mining group, which is part of the Metinvest, was the first Ukrainian coal production business to be certified to the new version of the standard, OHSAS 18001:2007. In December 2009 it passed an audit to verify that it was maintaining those standards.

The auditors from Bureau Veritas Certification Ukraine were not just looking for potential hazards; they wanted to know that the team at Krasnodonugol were constantly thinking about preventing accidents. As a result, the auditors found that health and safety is a priority for Krasnodonugol.



In 2009, SCM industrial companies invested nearly UAH 490.4 million in health and safety. Although this was 14% less than 2008, this does not mark any lessening of the companies' commitment. The lower expenditure was the result of the tight financial environment. In addition, we set strong focus on behaviour change.

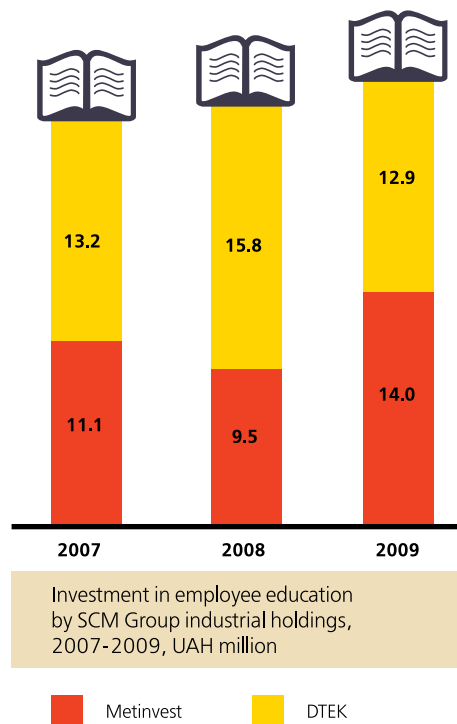
Metinvest has developed a system of internal coaches to teach corporate health and safety standards. The effective and socially-responsible decision has been to use retired members of staff as the trainers, an approach that has been identified by McKinsey analysis (Shaping the Future: Solving Social Problems through Business Strategy) as global best practice. Trainers bring a detailed knowledge of the business and credibility with the trainees, to help them understand problems and learn from the solid expertise of trainers. In 2009, 17 internal health and safety coaches worked across the Metinvest Group and taught 1,566 people in the production enterprises.

To get the message across to staff, Metinvest's Krasnodonugol has also adopted an innovation first used by DTEK's Pavlogradugol mines — health and safety videos for miners. The videos explain what employees need to do in emergencies, as well as their obligations to prevent accidents. Televisions showing the videos have been installed in briefing rooms, as well as in the lobby and hallways. The television system works 24 hours a day and is managed from the control room. Miners say that the TV stories are a good addition to the mandatory safety briefings at the start of each shift. Lost-time accidents at DTEK's businesses in 2009 were mostly caused by violations of working discipline, production process and standards as well as poor condition of some equipment. To change the situation, the company developed the Occupational Healthcare project with plans to test the psychophysiology of all employees, analyze deeper the risk groups and significantly improve the quality of medical services. DTEK will build also on its long-term modernisation programmes and install safer and more modern systems and equipment.

In 2009 DTEK's businesses rewarded employees for excellent health and safety performance in line with Health and Safety Incentive Provisions. The documents aim to encourage employees to get involved in extensive programmes for better safety at work. In particular, the provisions set the principles of rewarding employees including bonuses. For example, enterprises provide incentives to employees who helped to detect unacceptable production risks or prevent accidents.

At the same time, violations of health and safety standards result in penalties in line with internal regulations that impose disciplinary actions and revoke bonuses for breaches of corporate and national norms.

In 2011 Vestokenergo's power plants and Komsomolets Donbassa Mine plan a pilot project on financial and non-financial motivation to ensure a responsible attitude to safety at work. SCM Group industrial companies are among the leaders on health and safety in Ukraine and are now working to share their experience to help employees of other companies. In 2009 Pavlogradugol attended a conference on health and safety at coal production and mine building enterprises organised by the Ministry of Coal Industry of Ukraine and the Union of Mining Specialists. Our experts are now helping to shape government policy and we are hoping to see new national standards on health and safety soon.



Our skills

Training budgets at SCM Group core businesses were slightly squeezed in 2009 (8%) due to the recession and amounted to UAH 30.728 million. However, the industrial holdings raised their investments in professional training by almost 6% (see chart) and increased the number of trained employees by relying on more cost-effective approaches, such as greater use of in-house trainers, who now deliver 80% of all training at Metinvest and DTEK. At SCM's non-industrial companies, the training budget had to be more than halved from UAH 8 million in 2008 to UAH 3.8 million in 2009 but total number of trainings only fell by 25%.

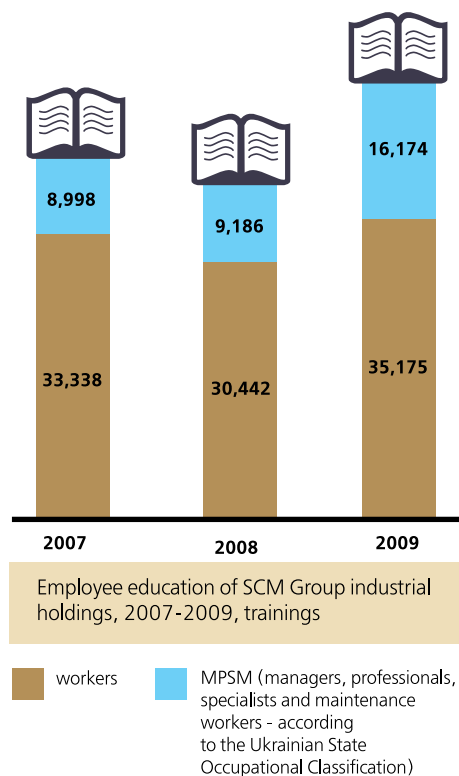
SCM Group industrial holdings take an innovative approach to education by developing their own training programmes.

Creating the leaders of tomorrow at DTEK

As an organisation of 50,000 people DTEK understands the need for effective management. In 2009 the company launched two major initiatives to attract and build a cadre of talented managers.

In November 2009 DTEK launched a national programme of outreach and partnership with universities across Ukraine to attract the brightest and best students to work for the company and help the universities to produce graduates with the right skills for the corporate world and economic industries.

So far, DTEK has concluded agreements with Donetsk Technical University and Dnepropetrovsk National Mining University, and is negotiating with Kiev National Economic University and Kiev National Technical University of Ukraine with the aim of concluding agreements by the end of 2010.



DTEK staff are working in task groups with the universities to develop training programmes for specialities demanded at DTEK. Students get paid internships at the company. DTEK is also running a programme of career days at leading universities across Ukraine helping the graduates make the best choice of their future job.

Also, DTEK launched its own corporate university – the DTEK Academy – in partnership with the Kyiv-Mohyla Business School and Ward Howell consultancy, which opened its doors in November 2009.

The DTEK Academy is a training centre of the company established to supply DTEK with managers who will have strong professional competencies and leadership potential.

The Academy's first programme is 'The Power of Knowledge', an eighteen month course that combines theoretical training equivalent to an MBA and best practice training from managers within the company.

An intensive course for the managers with most promise – the TOP 50 programme – will be based around personal development plans, under the supervision and mentorship of one of DTEK's senior managers.

Metinvest's Ore Mining Plants go back to school

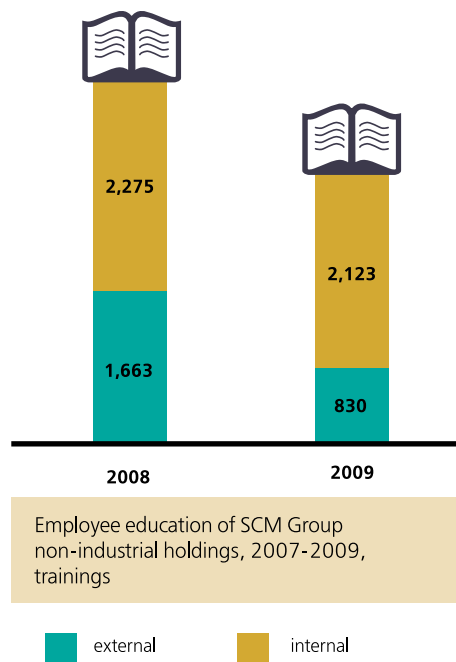
As the technology is broadly the same for everyone in Ukraine's ore mining industry, the competitive advantage has to be employees. To realise that competitive advantage SevGOK and CGOK (Metinvest's iron ore division) have created three 'schools' to enhance skills of their staff.

The School of Line Management teaches fundamental skills to managers and foremen such as staff appraisal, teamwork and presentation skills. In 2009 more than 600 staff went through the School's programmes. The courses are designed and taught largely by internal trainers who understand well the business objectives of their companies. The impact of the training is assessed by the trainee's line manager three months after the course has been completed. Since the training began, more than half of the participants have been promoted or are acting at a more senior level.

The School of Young Specialists supports the professional development of technical specialists. During three years these employees develop, train and improve their professional skills and adapt to the social environment. Applying internal education and tutorship techniques, the project seeks to speed up the induction period, teach the fundamentals of the corporate culture and develop professional, business, personal and managerial qualities of young specialists. In 2009 the school trained 112 young specialists.

The School of Core Services follows a differentiated approach to provide quality professional training according to functional needs of employees. A cascade method is widely used for external training, which means that an employee attends a course in an external centre, develops an education programme for a particular group of specialist and organises a training session to share the gained knowledge and skills with his colleagues.

In addition to the Schools, more than 30 staff of the Iron Ore Division are also undertaking advanced management training through the Open University Business School in the UK.



In 2009 Segodnya Multimedia trained employees mostly at its corporate university, where the operating personnel attend internal courses taught by senior managers of the company. The system has a number of advantages as it helps focus education on the business areas, which have direct impact on company's performance. By studying specific working situations and actual products, the students systematise knowledge and can further apply it in their daily activity. The university offers such programmes as Advertising Sales Techniques, the Art of Management, Segodnya Local Publications and covers all companies of the holding: Media Press, Priazovskiy Rabochiy, Donetskkiye Novosti and Vecherniy Donetsk.

Insurance business, ASKA, runs a corporate school providing full-time and distance learning as well as skill testing. As a part of the curriculum, newly-hired employees attend an induction programme and functional managers from the headquarters organise regular courses for regional staff.



Investing in Our Community

A commitment to the communities where our companies operate is fundamental to SCM's business strategy, and is reflected in our corporate statement: "SCM's mission is to create a world-class business that contributes to the economic and social development of Ukraine".



Introduction

Being very big businesses many of SCM Group enterprises, particularly, coal and iron ore mines are connected to the places where they operate. This creates a powerful bond between the business and the community.

In some locations our businesses' tax contributions make up half or more of the local government budget. For example, Komsomolets Donbassa Mine (DTEK) accounts for 67% in the local budget of Kirovskoye town, Pavlogradugol (DTEK) – 80.5% in Pavlogradskiy district (Dnepropetrovsk Oblast) and Vostokenergo (DTEK) – 80% in Schastye town (Lugansk Oblast).

A significant percentage of the local population is linked in some way to the business as an employee, a member of the family of an employee, or as a pensioner of the company.

Wherever we invest in development of these regions, we believe that responsibility to the community is not only an obligation of being in business, but it also makes good business sense. If the towns and cities where our companies are located have social problems, this will impact on the motivation of our workers and may make it difficult to attract the best people to come and work for us (see article by UN expert). By the same measure, as the financial crisis showed, if our country has problems, our business suffers.

The last two years have been difficult for Ukraine. Throughout this period SCM companies have focused on ensuring the biggest possible effect from their investments on the local communities, to make sure that every hryvna in our social investment budgets works as hard as possible.

Expert comment

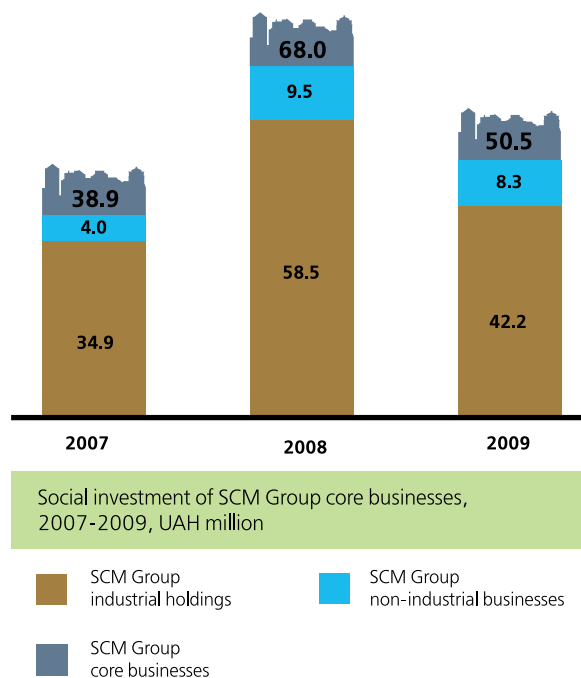
Mono industry and mono company towns are a legacy of resource-led industrialization beginning in the late 19th century and Soviet central planning in the 20th century. In these towns and cities, which can have in excess of 100,000 inhabitants, local government and communities are mutually interdependent and consequently face special challenges.

Processes of industrial restructuring affecting levels of employment at local employers and their tax contributions to the local budget, have important effects on towns' populations, standards of living as well as towns' infrastructure, utilities and public services. Equally, large employers depend on towns' economic and social conditions for recruiting and retaining well motivated and stable workforces. This is especially the case where employers need to attract high quality labour to the locality from outside the local area.

Where industrial companies have struggled, towns have been afflicted by decreased tax revenues, migration, depopulation and poor housing and transport infrastructures. Such towns have also suffered from acute social problems associated with poverty and unemployment. Equally, where local companies have been successful, higher tax contributions and community investments have promoted local economic development which in turn benefits the operation of the company.

Thus in monocompany towns the economic performance of large enterprises is intricately interwoven in the economic and social development of the local community. In these circumstances the relationship between company management and the local self-government can perform a strategic role in shaping local economic development especially at times of national economic crisis as in the last couple of years.

Doctor Adam Swain, Professor, Nottingham University, Great Britain



Our contribution

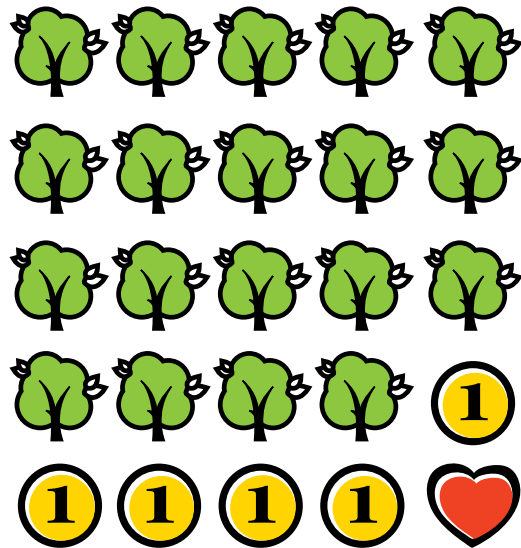
During the economic crisis, across the SCM core companies, our first, and most important, social duty was to keep our businesses going to support our communities by creating jobs, buying from local companies and partnering with educational institutions. We also contributed \$654 million in taxes in 2009 (nearly seven times our net profits).

Our companies had fewer resources to make social investments (as community investments, charitable donations, or sponsorships) in 2009, which meant that we had to refocus our priorities. Social investments by core businesses of the SCM Group in 2009 totalled around UAH 50.5 million – 26% less than in 2008.

SCM's industrial companies put UAH 39 million into their local communities in 2009 to support infrastructure and utilities, public health, education, culture and sport. Metinvest and DTEK look for strategic investments that have a real impact on the lives of people in those communities and, if possible, create new opportunities for community members (See health case studies).

2008 was also an exceptional year because of an infrastructure project carried out by the Metinvest's iron ore division in Krivoy Rog to create comfortable living conditions for employees in Damanskiy residential area. The total cost of the project amounted to over UAH 10 million. More information is available in Metinvest Sustainability Report 2008 at www.metinvestholding.com.

We try to leverage the impact of our community investments through direct involvement of stakeholders or match funding. A growing number of businesses in Metinvest and DTEK manage these programmes through partnership agreements with local government. In 2009 Metinvest's AKHZ, Krasnodonugol, Azovstal and KhTZ worked to social agreements with their communities. DTEK signed social partnership declarations in eight towns (Kirovskoye, Kurakhovo, Schastye, Zugres, Pavlograd, Ternovka and Pershotravensk) and two districts of its operations (Pavlogradskiy and Petropavlovskiy).



Social investments of the SCM Group's core businesses, 2009

- UAH 39.031m — investment in development of local communities
- UAH 9.391m — sponsorship
- UAH 2.070m — charity

We believe that this approach guarantees that the money is used strategically, to meet the communities' priorities, and ensures transparency. In December 2009 DTEK was the winner of the first Nationwide CSR Project Contest organised by the Centre for the Development of CSR in the Local Community Development category for its long-term partnership projects with seven local communities since 2007.

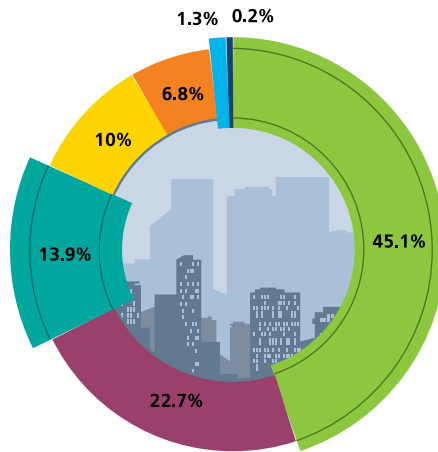
Public budgets were severely hit by the recession in 2009 — nominal tax receipts fell 9.5% in hryvna terms nationally (according to the State Statistics Committee) — and, as a result, many public services were short of funds for basic investments. Metinvest and DTEK companies used their community investment programmes to help fill the funding gap by making essential investments.

In the city of Mariupol, where Metinvest's Azovstal plant is a major employer, the company covered the majority of the UAH 2.2 million cost to repair an out-patients' clinic, which serves the 36,000 people of Ordzhonikidzevskiy District. Replacement of the roof, utilities, new windows and a new entrance were all part of the renovation.

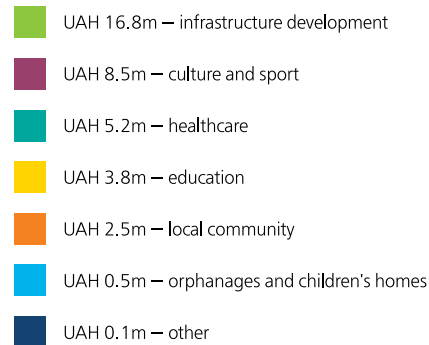
In 2009 DTEK's Pavlogradugol supported the health services in Pershotravensk town with an investment of UAH 500,000 to provide the surgery suite with modern facilities such as operating tables, lamps and air-conditioners with anti-bacteria filters, and to renovate the ward for veterans of the Second World War. The company spent almost a similar amount renovating the children's hospital in Pavlogradskiy district.

As well as financial contributions, some industrial companies also use their plants and machinery to provide local communities with services. For example, Zuevskaya and Kurakhovskaya power stations within DTEK provide hot and cold water supply services to people in local towns. Metinvest's AKHZ and CGOK provide sewage treatment to the local towns — 2.587 million cubic metres and 100,400 cubic metres in 2009 respectively.

The employees of SCM industrial businesses also gave generously of their own time and money to support their communities. At Metinvest, staff at AKHZ raised UAH 234,000 to provide meals to families and pensioners living in poverty from the company canteen. Metinvest staff also gave their time to voluntary work such as the people's patrol in Khartsyzsk to maintain order in the town.



Investment of SCM Group industrial holdings in local communities, 2009



Young volunteers from SevGOK planted trees and shrubs at the “Polye Pshenichnoye” Commemorative Plate, which was installed to honour the soldiers who defended the territories of Buryye Ugli and Novoivanovka villages during the Second World War.

Viktor Deripaska, Mayor of Dobropolye, a coal town of 32,000 people, “We can always find a common language with DTEK. Dobropolskaya coal enrichment plant is not the major business in the town but it is the only one helping the community. The other coal companies are state-owned and aren’t profitable.”

SCM Group’s non-industrial businesses focus more of their social investments on charitable and sponsorship activities (see Donbass Palace case study). A number of these initiatives are carried out as partnerships with the Foundation for Development of Ukraine, which was established in 2005 as SCM’s corporate foundation but separated from the company in 2008 to become the personal foundation of SCM’s shareholder, Rinat Akhmetov.

The Foundation and SCM Group are entirely distinct legal entities but both parties look to exploit synergies. For example, Segodnya newspaper partners the Foundation in a number of initiatives. Particularly, Segodnya publishes stories of the project Say No to Orphanhood (www.sirodstvy.net) on its print and online editions. In May 2010 the publication supported another project of the Foundation, Cancer Can Be Cured, and launched a special section “STOPCANCER” (www.segodnya.ua/stop_cancer.html), to raise readers' awareness of cancer.

On 1 June each year, Children’s Day in Ukraine, the Foundation acts as a conduit for SCM Group employees’ gifts to children with special needs. So, in 2009-2010 Donetsk Children Cancer Department and Donetsk Children Cardiology Department received medical equipment and medicines. Also, the Foundation helped to arrange entertainment performances for the children and gave them gifts helping to improve the conditions of their stay in hospitals.

The Vega telecommunications group, which is expanding its role as an internet provider, has joined the Coalition for Child Safety Online founded by Microsoft Ukraine as part of its programme,

Compass University Ranking 2009	
Ranking	University
1	National Technical University of Ukraine "Kyiv Polytechnic Institute"
1	Kyiv Shevchenko National University
2	National University of Kyiv–Mohyla Academy
3	Donetsk National Technical University
3	Kyiv Hetman National Economic University
4	National University "Lviv Polytechnic"
5	National Technical University "Kharkiv Polytechnical Institute"
5	Kyiv National University of Construction and Architecture

Compass University Ranking 2010	
Ranking	University
1	National Technical University of Ukraine "Kyiv Polytechnic Institute"
2	Kyiv Shevchenko National University
3	Kyiv Hetman National Economic University
4	National University of Kyiv–Mohyla Academy
4	Donetsk National Technical University
5	National University "Lviv Polytechnic"
5	Kyiv National University of Construction and Architecture

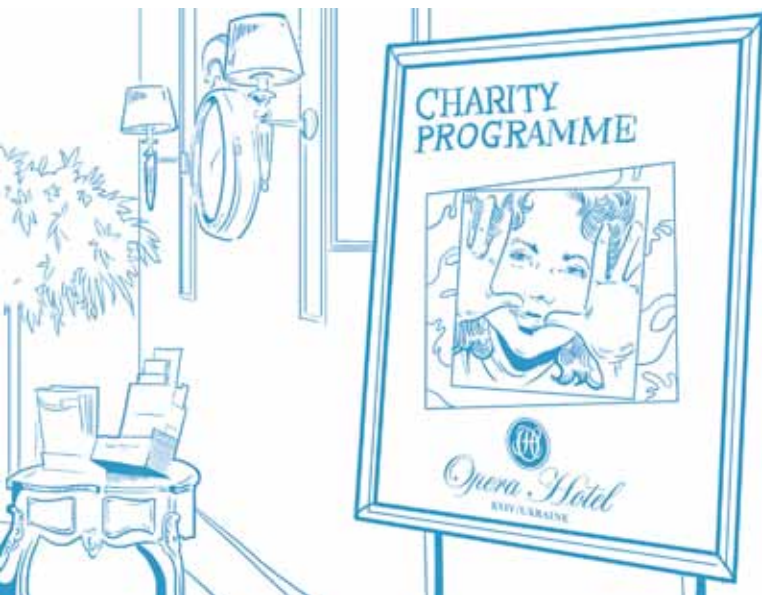
Partnership in Education. The programme seeks to draw attention of Ukrainian society to the problem of children's safety on the internet and brings together business, the community and government to tackle this problem.

The fundamental principles of Vega's sponsorship and charitable activities are outlined in its internal Sponsorship and Charity Policy developed and approved in 2009. Following this document Vega chooses several priorities for its projects. In charity the priority is to provide help to children. In particular, Vega finances an information bulletin issued by parent volunteer group Raduga, which is a member of an open association of organisations and individuals working with children who suffer from cancer. In Dnepropetrovsk Vega employees take an active part in the association's initiatives.

In August 2009 FUIB and FC Shakhtar organized a trip for the children from FC Shakhtar football academy to the UEFA Super Cup 2009. Young footballers could watch one of the most important global sports events of the year and even take part in it. Future stars of the Ukrainian sport came onto the pitch with players at the beginning of the match.

The bank has been supporting Nadezhda Donetsk Children's Cancer Centre since 1997. In 2008-2009 the bank organized Hope for Life campaign encouraging its employees, partners and clients to raise funds for special blood separation equipment. As the result, Nadezhda received UAH 262,000 and could buy the latest German equipment.

SCM managing company has a significant programme of nationally-targeted social investments. One of our most important initiatives was to continue with the Compass National University Ranking project, which aims to improve the quality of education of graduates of Ukrainian universities to meet the requirements of employers. Under this project we carried out rankings of Ukrainian universities in 2009 and 2010.



Top hotel takes care of the kids

"I'll do anything for kids," says the general manager of Donbass Palace and Opera (ESTA), Bernard Micallef. In Donetsk, the five-star Donbass Palace hotel sponsors a children's home outside the city. "The ones in the centre of the city get all the attention," explains Micallef "so we went outside to a home that really needed our help."

Donbass Palace has provided corporate assistance to a children's home in Snezhnoye town (Donetsk Oblast) for one year so far organising entertainment shows, buying learning tools and sports equipment and covering travel expenses to take children to summer camps.

Donbass Palace works with the local branch of the international charitable fraternity, the Lions Club, to host activities for the children at the hotel and to hold exhibitions of their art work.

Guests at the hotel are also asked to donate one Euro a night to the Let the Heart Beat charity cause, which supports the Donetsk Paediatric Cardiac Unit.

"The best thing we do," says Micallef "is when we provide free accommodation to foreign specialists who come to Donetsk to perform complicated surgeries, give consultations and train our doctors." The cardiac surgeons give their time for free and the last group, from Italy, which visited for 10 days in April 2010, carried out 56 operations. "The Donbass Palace Hotel makes a great contribution to our partnership by accommodating our colleagues free of charge," says Professor Vladislav Grin, Director of the Gusak Institute of Emergency and Reconstructive Surgery of the Academy of Medical Sciences of Ukraine, who co-ordinates the visits. "It's a great example of socially responsible business which is worthy of the highest recognition."

SCM managing company promotes Ukraine on the international stage and plays an active role in international organisations. We are a strategic partner of the World Economic Forum (one of only 100 globally) as well as a supporter of events and activities which encourage Ukraine's integration

with European Union. SCM is an active member of the European Business Association and the American Chamber of Commerce in Ukraine, and is also a member of US-Ukraine Business Council and the EU-Ukraine Business Council. On all these platforms our representatives are getting the message across to international investors that Ukraine is a good place to do business.

Our impact

SCM Group companies developed their social investment programmes based on dialogue and consultation with the communities we work in, through formal partnership discussions with local and regional governments and direct engagement with citizens.

To identify priority destinations for investments, the community liaison teams of Metinvest's businesses organised surveys of public opinion in neighbouring towns. For example, in March and May 2009 Krasnodonugol (Metinvest) interviewed the citizens in Sukhodolsk town (Lugansk Oblast) to identify their priorities for community investments, which included new drains and bus stops and renovation of residential buildings. Krasnodonugol will take into account the opinion of the local people in its social investment programmes.

DTEK started to develop its social partnership programmes with local governments in 2007. At sessions of the coordination working group the representatives of DTEK and authorities approve priorities and projects to be funded. In March 2009 DTEK attended a meeting of Donetsk NGOs and businesses covering the important issues of cooperation of private, governmental and NGO sectors. DTEK presented its first sustainability report and CSR Policy.

The received feedback gives us understanding of the effectiveness of our social investment programmes and guides the future strategy. SCM companies are now working to strengthen this feedback loop to give more rigorous evidence on our local impact.

Responsibility
Employees

Responsibility

Cooperation

Efficiency

Efficiency

Obligation

Responsibility

Reporting

Corporate governance

Ethics

***Sustainable
development***

Employees

Ethics

Corporate governance

Sustainable development

Society

Corporate governance

Society

Efficiency

Reporting

Ethics

Employees

Delivering on Our Commitments

SCM reports publically on its financial and sustainability performance to international standards and has in place high standards of corporate governance and dialogue with stakeholders which help to ensure our sustainability in the long term.

Our commitment to excellence in corporate governance

SCM is committed to building its system of corporate governance in line with global best practice. Corporate social responsibility is hard-wired into the organisation through the health, occupational safety and environment committees, which are among four Supervisory Boards committees at Metinvest and DTEK alongside the Strategy and Investment, Audit and Compensation Committees. The committees officially report to the Supervisory Board on a quarterly basis.

SCM monitors the corporate social responsibility of all the enterprises in the Group, as part of our regular management reporting processes. Our representatives also sit on the supervisory boards of the companies SCM invests in, alongside representatives of SCM managing company, minority shareholders and independent directors. SCM's industrial holdings have both created their own board-level committees to oversee health and safety and sustainability strategies. Dedicated corporate social responsibility teams at Metinvest and DTEK also oversee social investment activities of our businesses, reporting to their boards through the Human Resources and Corporate Communications Directorates.

A strategic approach to sustainability is not just about delivery, it also requires a corporate culture that thinks ahead to the consequences of business decisions in five, ten or twenty years' time. Our companies' risk management mechanisms therefore play a vital role in shaping our sustainability strategy. For example, Metinvest follows its Internal Control and Risk Management Policy. In 2009 DTEK created a board-level Committee on Risks, which advises the Board on risk management decisions.

We believe that these corporate governance structures allow SCM to keep social responsibility and contribution to sustainability at the top of our strategic agenda and ensure effective delivery against our agreed priorities.



Our commitment to our stakeholders

Effective delivery also requires outstanding communication to ensure that employees understand and act on corporate priorities and also to get their feedback in shaping those priorities. We also need to explain our policies to external stakeholders and get their feedback.

SCM has been the leader in corporate transparency in Ukraine, according to Gvardiya magazine. We were the first company in the country to publish our corporate structure in 2006, a sustainability report in 2008 and an annual report in 2009. "Transparency pays," explains Natalia Yemchenko, SCM's Director of Communications. "Back in 2005 we had no public profile, which fuelled a lot of myths. We have been changing perceptions of our business and relationships with our partners step by step since then." We are now taking this proactive approach to communication and stakeholder engagement.

In 2009 DTEK began the rollout of two key corporate policies: a corporate code of ethics, which sets norms of behaviour for relations both inside the company and between the company and its partners, counterparties and other stakeholders; a corporate information policy to build a common approach to how the company manages and shares information. These policies had been developed with extensive employee involvement. DTEK also carried out a reputational audit, which identified four key stakeholders: employees, external stakeholders (such as local communities, the media etc.), investors and government.



Ethics matters

Corruption is bad for business because it undermines property rights and deters investors. In 2010 the World Economic Forum's Global Competitiveness Report reported that corruption was the biggest problem in doing business in Ukraine for 13.9% of respondents, up from 10.3% in 2009.

According to a 2008 survey by the international organization Trace, 85% of the corruption in Ukraine comes from state sources. The government therefore must take primary responsibility for tackling the problem, for example, by removing the opportunities for corruption which Ukraine's ineffective and byzantine regulatory system creates.

Yet business must play its part too. "Like a great dance, it takes two partners to make a corrupt deal or payment," explains Jock Mendoza-Wilson, SCM's Director of International and Investor Relations. "What business has to do is to push back to officials or other actors who want payment." That is why SCM has had a policy of business ethics since 2007. SCM Group's financial companies – FUIB and ASKA – have had codes in place for a number of years. In 2010 Metinvest and the Vega telecoms group were developing their own business ethics codes, which we will discuss further in next year's report.

DTEK is using a range of tools to communicate with different stakeholders. *Nasha Gazeta*, DTEK's corporate newspaper, is the primary channel of communication with staff to keep them informed of corporate developments. The paper is also used to publicize initiatives like the information hotline for employees with concerns or questions about possible breaches of the ethics code or information policy. Feedback is also provided through suggestion boxes that are installed at production enterprises. In addition, employees can send their messages to the e-mail address of *Nasha Gazeta*.

Individual enterprises such as Pavlogradugol also carry out their own surveys of employee satisfaction. In 2009 DTEK also launched managerial conferences to bring executives from across the company together to share their experience.

Metinvest is using an effective set of tools to communicate with internal and external stakeholders. For example, SevGOK surveyed its staff to identify obstacles to improvements in health and safety.

Corporate portal Vegacity is the primary communications channel at Vega Group. Vegacity is a concept of a place where Vega's employees live, work, interact and talk to each other.

The sections on the portal include:

- Vega Ideas Centre – an innovations centre designed to consolidate and analyze ideas, suggestions and requests the staff make to improve business efficiency and life of the company.
- Active Projects – one of the busiest sections as it ensures better cooperation between employees involved into ongoing projects and organises online surveys.
- Feedback – the section used to send internal (technical and domestic issues) and external (to an insurance company, for example) inquiries.

In addition, Vega publishes a corporate newspaper VegaNews, which in 2010 was awarded with Grand Prix at the Ukrainian corporate media contest.

Trade unions are particularly important stakeholders for SCM Group's industrial companies. The pay and benefits packages at Metinvest and DTEK are structured as part of collective agreements with the unions and they have played an important part in dialogue about short-term measures to manage the economic crisis and long-term fundamental reforms to pay structures, outsourcing of functions, and implementing new health and safety procedures. These negotiations have not always been easy, but our companies have invested every effort in working out solutions that are satisfactory to all parties.



Our commitment to our customers

Without our customers we do not have a business. They are our most important stakeholders. For our industrial companies, the economic crisis has meant that we have had to compete keenly on price, quality and service to keep existing customers and win new business. Most Metinvest enterprises have introduced and certified quality management systems to verify compliance with the requirements of international standard ISO 9001. DTEK's coal product quality is managed in accordance with governmental and industry standards.

In our non-industrial businesses quality of service is our key competitive advantage (see case study on Vega). This is particularly the case in our real estate business — ESTA Holding's five star hotels, the Donbass Palace in Donetsk and the Opera Hotel in Kiev.

ESTA Holding retains an independent agency to carry out quarterly inspections of service quality and survey customer satisfaction. This relentless focus on service — from cleanliness to environmental responsibility, to the quality of restaurants, to the language skills of staff — is part and parcel of being in the luxury business. In 2009 both hotels passed anonymous inspections by the international network 'Leading Hotels of the World', a prestigious and demanding standard, which showed that our hotels are among the best in the business.



Vega telecom listens to its customers

"Our customers want to be able to speak to the right person for support on financial or technical issues and to get prompt service," explains Yelena Ikonnikova, Commercial Director of Vega Telecommunications Group. "We have invested in building the capacity of our customer service centre so that our staff can give corporate customers the personalised service they expect."

Getting the customer service centre up to standard was one of the big challenges of the corporate restructuring that created the Vega Group in 2008. Vega is an unmatched operator in Ukraine's telecommunications market. No other company in this industry was established from such a big number of small providers with their own access network architecture, billing systems, etc.

A new national call centre had to be created from 10 separate call centres that had existed previously, with the goal of providing all customers with quality services. Vega has now achieved a guaranteed call response rate of 94% of phone calls and, in 2010, was listed among top 10 telecommunication companies that offer high quality of services by the 'Hot Skills' association of managers of call-centres.

To identify problem areas promptly, Vega's contact centre and sales outlets organised a feedback telephone and e-communications channel called the Quality Line. In addition, Vega monitors messages on its corporate blog and external resources: forums, blogs, online communities, etc. Every complaint and suggestion left by subscribers is analysed and taken into account in a programme of further improvements.

Based on requests of subscribers the following programmes have been introduced over the past two years:

- *expanding payment acceptance methods (in payment terminals, through bank card, at banks);*
- *individual check-up of internet access speed (allows a subscriber to determine the maximum speed of his line and adjust the tariff plan accordingly);*
- *changing the tariff plan in the Personal Page (it was possible only upon a written request in Vega's sales centre before);*
- *managing telephony and internet services by making a call to Vega's contact centre.*

Subscribers are updated about these changes on the corporate website and Vega blog, in media and through individual channels (in bills and e-mails, over telephone, etc.)

In 2009 Vega was also the first Ukrainian telecommunication company to launch its own corporate blog to establish a two-way communication between potential and existing subscribers. The team of Vega-bloggers included Chief Executive Officer Yuriy Chuikov, Commercial Director Yelena Ikonnikova and Director of Business Development Konstantin Kolesov. In three months after the launch, BUBA (Best Ukrainian Blog Awards) recognised Vega's blog as the best Ukrainian corporate blog.

Disruption of network integrity through illegal cable cut-outs remains the biggest problem affecting the quality of services. Vega's access network is made mostly of copper, which is often cut out. Because of the poor national regulation of the nonferrous scrap pick-up operations, malefactors can damage telecommunications networks without any punishment bearing merely a symbolic penalty.

Worse, the largest part of Vega's access network lies in the cable channels owned by state-run Ukrtelecom. This company is the monopolist owner of cable channels and is not always quick in granting permissions to access the sections with damaged cables, which significantly delays the line restoration process. The problem may be less pressing after Ukrtelecom is privatised and the government has more opportunities to regulate the telecommunication services market.

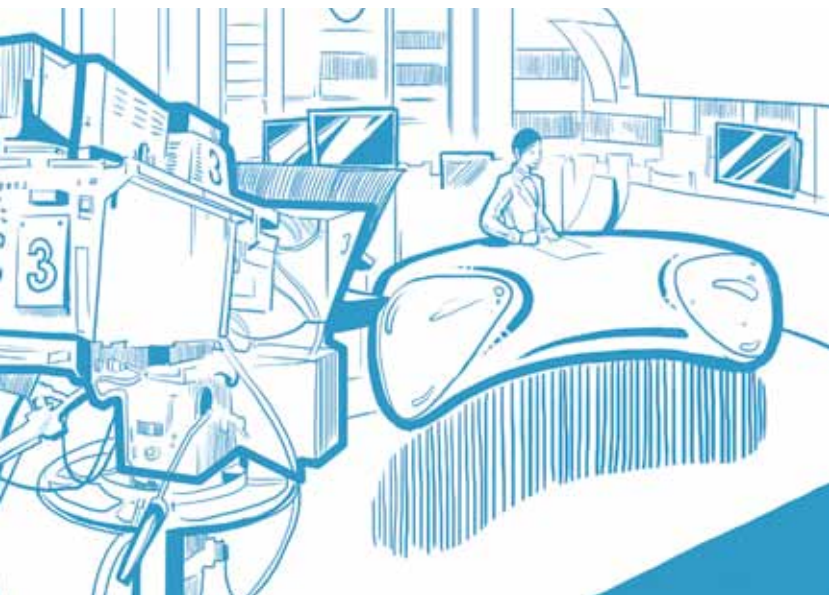


Customer service is also integral to our financial businesses, which are increasingly facing competition from multinational firms. Improving the quality of client service was paramount for ASKA amid the tougher competition in the insurance market. The actions to achieve the goal include:

- *Settlement of insured events.* In 2010 the company established Service Centres in all Ukraine's regions to provide quality service to the clients and maintain the strong reputation of the brand in accordance with ASKA's mission – Reliable Company Close to People! The centres employ trained specialists with client skills, who can find an individual approach to clients. ASKA also has a system in place to update clients about loss settlement progress and organised the payment process for more efficient settlement of insurance claims.
- *Quality control.* The customers can call, e-mail or voice mail their claims or requests as to the quality of service in the company's performance. ASKA collects information and provides an answer within eight working hours. The company also monitors the satisfaction level of customers through phone surveys and encourages them to suggest service improvements. The 2009 survey showed a high level of customer satisfaction (around 80%).

In 2010 the First Ukrainian International Bank (FUIB) launched an internet and mobile banking service to complement its existing 24-hour telephone banking service. This innovation was driven by customer opinion through market research and feedback, which highlighted the importance not only of quality and usability of the new online banking, but also security, which the bank has made a priority. In 2009 the Ukrainian magazine Weekly.ua recognized FUIB as "the most comfortable bank" for deposits. This is all part of FUIB's strategy to be the bank of choice in Ukraine for personal customers.

In our media businesses, the Segodnya Multimedia Group and Ukraina television, our responsibility to our customers is not just to entertain, but also to maintain the highest standards of journalistic integrity. Segodnya's goal is to be a family-friendly newspaper and is guided in this by what the readers' want, which is why the paper eschews the scandals and crime stories that are the currency of much of the nation's print media. During the economic crisis, some of the paper's most successful editorial initiatives were to advise readers on finding a job or saving money.



Segodnya is also unique among newspapers in Ukraine by having a zero-tolerance policy on ‘hidden advertising’ – paid features that are presented as editorial content. The paper also dedicates a page every Thursday to investigative reporting to expose corruption and abuses of power. These initiatives are both an ethical position, but also part of the company’s business strategy to compete by being credible and trusted by readers.

Responsible journalism has also been a priority for TRK Ukraina, which in 2009 updated its editorial policy covering issues like balance, ethical sourcing of information and objectivity, for rollout in 2010.

Waldemar Dziki, Chief Executive Officer, TRK Ukraina: “Responsible journalism has always been a top priority for TRK Ukraina. We seek to ensure that our journalists follow the principles of objectivity, independence and impartiality. However, we should realize that the situation in this area can and must be improved continually. We monitor the feedback carefully including external comments. Although we realize that 100% of positive appraisal from viewers is impossible as we work for millions, we are proud of the feedback about our performance in specialist press. So many positive opinions in professional publications mean that TRK Ukraina is a leader in this segment of Ukraine’s market today.”

The company has launched the political discussion show “Vidkrytyy dostup” (Free Access), which is modelled on the BBC’s Question Time and was launched with help from BBC consultants. This show, which is broadcast from different locations around the country, gives ordinary citizens an opportunity to question politicians directly.

The channel also focuses on social issues through programmes like “Kriticheskaya Tochka” (Critical Point), which is linked to an online community that allows viewers to share ideas and questions.

TRK Ukraina is also building up a portfolio of regional TV channels based on interactive and participatory programming on local issues. TRK Donbass was launched in 2009 and broadcasts for the Eastern Ukraine. The regional channels will offer their audience interactive projects and programmes with guests in studio.

Our role in CSR in Ukraine

It is four years since SCM joined the United Nation's Global Compact to work together to promote CSR in Ukraine. We were among the first signatories to the Local Network of Global Compact, which has expanded from 34 to 142 members since April 2006. Also, SCM represents the Ukrainian business in the Global Compact Steering Committee. In 2009 we extended that agreement for a further two years to continue to champion the cause of CSR in Ukraine (see article by Rodion Kolyshko) and continue to support Ekspert magazine's annual international conference on CSR.

SCM companies are increasingly playing a leadership role in developing CSR in Ukraine.

DTEK has been a member of the Global Compact since 2007 and, in 2009, became a co-chair of the European Business Association's CSR Committee. DTEK also supported the First Eurasian Summit on CSR that was held in Kiev on 27 January 2009 and published its first Social Report in 2008.

Metinvest published its first sustainability report in 2009 and joined the Global Compact in 2010. Metinvest also participates in the World Steel Association's working group on sustainability.

In March 2009 the ASKA insurance company joined *the Charter of Social Responsibility and Business Reputation of Insurance Market Players*, an industry-led initiative to establish and monitor norms of responsible behaviour within the sector. In May 2010 ASKA was one of initiators of the Environmental Insurance Pool set up to coordinate actions of the Ukrainian insurers related to mandatory and volunteer insurance of risks that can have a negative environmental footprint.

Expert comment: CSR Evolution in Ukraine

CSR in Ukraine is relatively young. The launch of the United Nations Global Compact in Ukraine back in 2006 is generally agreed to be the start point for CSR development in our country. The concept of “corporate social responsibility” was well-known in Ukraine before but was mostly interpreted as inconsistent and largely charitable initiatives taken by companies.

Only with the UN Global Compact and its Secretariat as well as the established and developing Ukrainian network, the national business began to understand CSR in the global context.

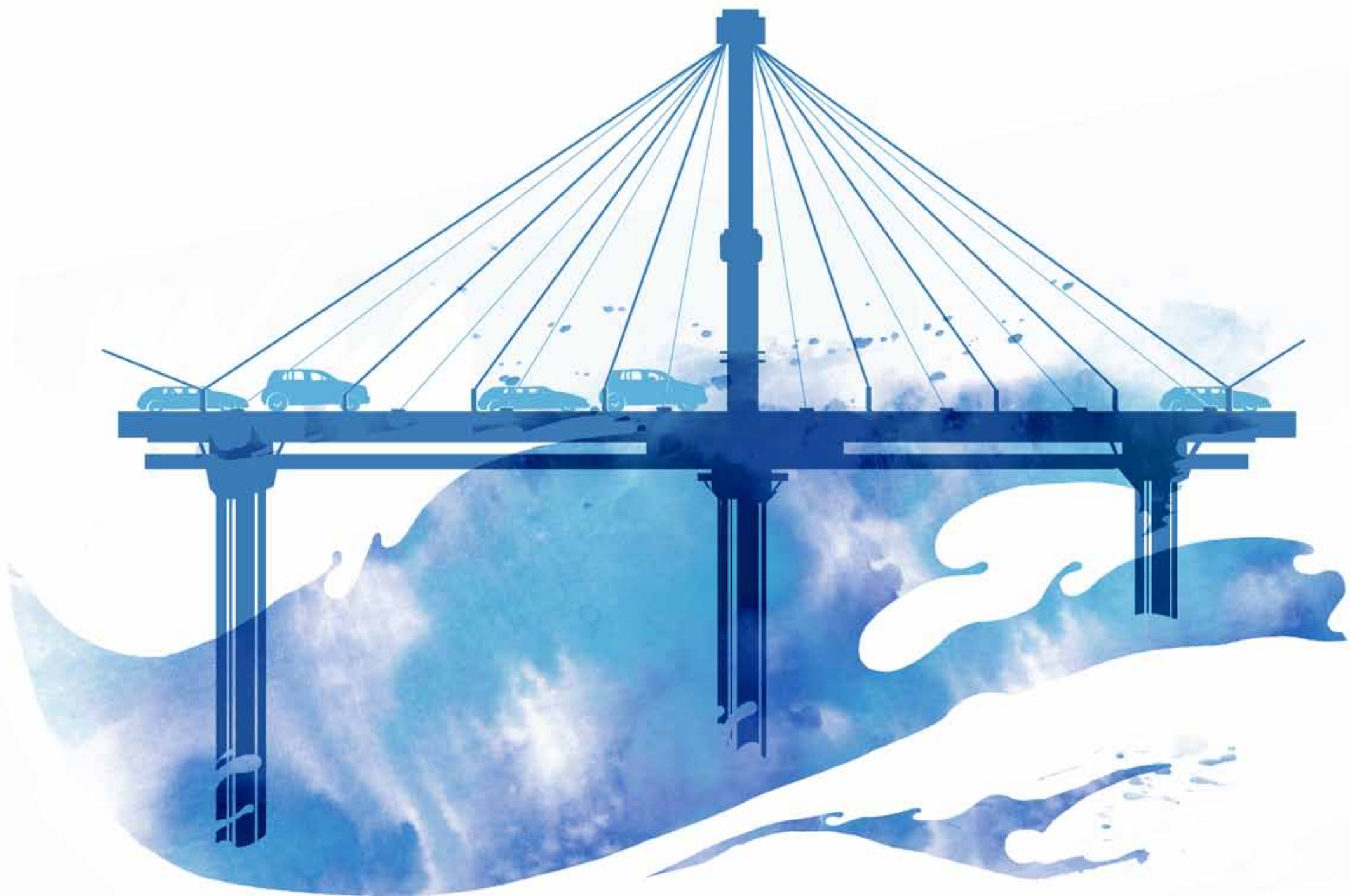
Annual international conferences organised by Expert magazine for businesses to share their expertise and learn about new CSR innovations certainly played an important role.

I would also mention Ukraine’s involvement in the discussion of international standard ISO 26000 “Guidance on Social Responsibility” approved in 2010. The National Mirror Committee coordinated the preparation of a draft version of the standard and represented all important stakeholders in this context. The business was a very active member of the committee.

Logically, these and other facts attracted attention of the government to the processes of CSR development in Ukraine. Particularly, the Verkhovna Rada Committee on Industrial and Regulatory Policy and Entrepreneurship organised hearings “Social responsibility of business: Ukrainian realities and outlooks”. As a result, an advisory board including today different stakeholders was established to design the National Concept of Corporate Social Responsibility Development.

The development of CSR in Ukraine firstly comes from stronger commitment and maturity of Ukrainian business flagships, which continue to follow the corporate social responsibility principles in their daily operations despite almost the total absence of favourable conditions.

Rodion Kolyshko, Fellow Secretary, Advisory Board for National Concept of Development of Corporate Responsibility in Ukraine



Our Future Plans

As a leader in corporate responsibility in Ukraine and the CIS region, SCM Group pioneers new approaches to environmental sustainability and social responsibility.

Our priority in environmental protection is to reduce the environmental footprint of our production cycles as much as possible. As a part of our priorities in the area of climate change we will continue to improve methodologies for measuring our performance on tackling green house gases, such as measuring the energy and carbon intensity of production. Over the next year our new environmental management systems, which were put in place at the Group's industrial businesses in 2009 and early 2010, will be further developed.

Our priority to our people remains health and safety. Next year we will report back on the impact of the new systems we have put in place to create a health and safety culture across all SCM Group businesses. Our companies will also continue to implement innovative strategies on personnel and training.

We will continue to strengthen the feedback loop to give more rigorous evidence on the impact of our social investment programmes to demonstrate how these activities benefit communities and the business. DTEK plans to establish a system to monitor results of its social impact projects.

About This Report

System Capital Management continues to inform its stakeholders about the sustainability performance and outlooks of the SCM Group's businesses. This is the third sustainability report of the SCM Group we have prepared to the international standards of non-financial reporting. The report has been developed for our employees, citizens of communities where the Group's enterprises operate, national and local governments, business partners, experts and other stakeholders.

Time scope

The report features the activities taken by the SCM Group in 2009 and the first half of 2010. The quantity indicators cover the period from January to December 2009. Some figures demonstrate the progress achieved over 2004-2009. The next report will be released in 2011 to cover performance in 2010 and first half of 2011.

Report structure

The report provides fundamental information about the economic, environmental and social aspects of the SCM Group's operations as well as gives more details, compared with the previous reports, on the way we work with our stakeholders. The report's structure reflects SCM's priorities in corporate responsibility. The chapters on the environment, climate change, energy efficiency, health and safety and development of local communities cover, mostly, the industrial businesses as they have the major impact in these areas. The information about corporate governance and human resources management is given for both industrial holdings and non-industrial businesses of the SCM Group.

Report scope

The report features the performance of SCM managing company, industrial holdings and non-industrial companies of the SCM Group with the information arranged into six areas of our business: mining and metals, energy, finance, telecommunications, media and real estate. The list of enterprises and companies included in the report is available on page 91.

The scope of the present report has changed compared with the previous period: for the first time we included the information about Inco&Co Chemical Company, which joined Metinvest in the middle of 2008. ESTA Holding managing company was also included in the report 2009 for the first time.

Hereinafter the terms Company, SCM, Group and SCM Group are used as synonyms.

Indicator calculations

The main indicator of overall economic performance (EC1) across the SCM Group has been taken from our financial reports prepared in compliance with International Financial Reporting Standards (IFRS). Health and safety and environmental indicators relate only to industrial holdings. The indicators on human resources management and development of local communities comprise the performance of the Group's industrial holdings and non-industrial businesses.

We corrected the calculation approach to some indicators with the detailed methodology and comments shown in Appendix "Indicator calculation method".

Completeness and materiality


The report features the most significant performance and all main business areas of the SCM Group in the reporting period.

Reporting Principles

The report complies with the Global Reporting Initiative G3 and the United Nations Global Compact principles. The SCM Group believes that the report qualifies for the GRI C+ level.

The information in the report meets the key GRI principles applied to determine the report's content and quality:

GRI application level

		2002 In Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared							
	Third Party Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured
Optional	GRI Checked							

Balance

The report reflects the information about achievements and problematic aspects in the SCM Group's activity.

Comparability

The report follows the international principles and approaches. A number of indicators demonstrate our performance over several years and thus can be compared with other businesses.

Accuracy

To prepare the report we used official materials and data audited by the appropriate departments at the Group's holdings and companies. In addition, we followed the SCM Group Social Reporting Protocol outlining the fundamental sustainability reporting principles for our businesses. The GRI compliance table is shown on page 94.

Assurance

Ernst&Young performed independent assurance of the report. The independent assurance statement is on page 93.

The SCM Group companies and production enterprises covered by the report

	1	System Capital Management (SCM)
Mining and metals business	2	METINVEST HOLDING managing company
		Coal and Coke Division
	3	Krasnodonugol
	4	Avdeyevka Coke and Chemicals Plant (AKHZ)
	5	Incor&Co Chemical Company
		Iron Ore Division
	6	Northern Ore Mining and Processing Plant (SevGOK)
	7	Central Ore Mining and Processing Plant (CGOK)
	8	Ingulets Ore Mining and Processing Plant (InGOK)
		Steel and Rolled Products Division
	9	Azovstal Steel Plant (Azovstal)
	10	Yenakiyevo Steel Plant and Joint Venture Metalen (YeMZ Group)
	11	Khartsyzsk Pipe Plant (KhTZ)
Energy business	12	DTEK managing company
		Coal production and enrichment
	13	Pavlogradugol
	14	Komsomolets Donbassa Mine
	15	Mospinskoye Coal Enrichment Plant
	16	Pavlogradska Coal Enrichment Plant
	17	Kurakhovskaya Coal Enrichment Plant
	18	Dobropolskaya Coal Enrichment Plant
	19	Oktyabrskaya Coal Enrichment Plant
		Electric power generation
	20	Vostokenergo (Zuyevskaya, Kurakhovskaya and Luganskaya thermal power plants)
		Electric power distribution
	21	Service-Invest
	22	Electric Networks Enterprise Energougol
		Social area
	23	Sotsis
	24	Sotsugol (branch of Pavlogradugol)
Financial Business	25	FUIB
	26	Dongorbank
	27	ASKA insurance company
	28	ASKA-Life insurance company
Media business	29	TRK Ukraina broadcasting company (Ukraina channel)
	30	Segodnya Multimedia publishing holding
Telecommunication business	31	Farlep-Invest (Vega telecommunications group)
Real Estate	32	ESTA Holding managing company
	33	Donbass Palace Hotel
	34	Opera Hotel

Indicator calculation method

Calculating data for 2009

The data for 2009 have been calculated according to the list of companies on page 89.

The list of businesses of industrial holdings and non-industrial companies within the SCM Group changed as compared with the report for 2008. Incor&Co Chemical Company, one of the largest producers of chemical products in the CIS and Europe was included in the report for the first time. This company joined Metinvest's Coal and Coke Division in the middle of 2008. ESTA Holding managing company was also included in the report for the first time.

The new companies and enterprises included into the report 2009 do not affect significantly the adequacy of the data compared with the previous periods as the share of these businesses does not exceed 5% in the total data for SCM Group's core businesses.

Currency rate. The amounts in U.S. dollars are given according to the official rate of the National Bank of Ukraine. The average rate in 2009 was \$1/UAH 7.79

The indicator "Training of Employees" shows data on actual training courses attended by SCM Group's employees in 2007-2009. In our next reports we hope to develop an approach to reflect the data on training according to international standards.

Indicator calculation method

In the report 2009 we corrected the calculation methods for a number of indicators:

- *Salary.* The method of average salary calculation was changed into a statistically correct approach. As a result, the average salary at enterprises of the SCM Group's industrial holdings in 2009 was calculated by the formula: the sum of payroll funds of all enterprises divided by the average number of full-time employees at all enterprises. We applied the same approach to calculate the average salary at financial and hospitality businesses — general indicators for these areas were calculated for four financial institutions and two hotels respectively. The average salary at industrial holdings in 2007-2008 was calculated as arithmetic mean value across all enterprises covered by the report. For the next reports we will use the corrected methodology to calculate the average salary at all companies.
- *Social benefits.* We corrected the approach to costs accounting. Particularly, the indicator "Financial Help" excludes the expenses on additional leaves and severance pays as the size of these payments complied with the law standards. Extra sick leave payments were excluded from "Financial Help" and included into "other payments" as they often include temporary disability payments provided in case of disease or injury. The indicator "Improving Living Conditions" excludes the expenses on transportation of employees to the place of work and around the territory of enterprises as well as compensation for the cost of travel tickets as the scope of these services complied with the law standards.

Recalculating the data for 2008

Since the calculation methods for some indicators had changed significantly we recalculated the indicators for 2008 to ensure adequate comparison of the statistics over 2008-2009:

Social benefits

Social benefits of the SCM Group's core businesses, 2008-2009, UAH million

	2008 (the same as in report 2008)	2008 (correct)	2009	difference 2008-2009, UAH million (correct)
Industrial holdings	261.8	251.0	236.1	-14.9
Non-industrial companies	4.8	4.6	6.9	2.3
Total	266.6	255.6	243.0	-12.6

Social investments

Social investments of the SCM Group's core businesses, 2008-2009, UAH million

	2008 (the same as in report 2008)	2008 (correct)	2009	difference 2008-2009, UAH million (correct)
Industrial holdings	95.2	58.5	42.2	-16.3
Non-industrial companies	9.5	9.5	8.3	-1.2
Total	104.7	68.0	50.5	-17.5

Independent Assurance Report on the 'Sustainability Report of "System Capital Management" for 2009-2010'

To the management of CJSC "System Capital Management"

Engagement

At the request of CJSC "System Capital Management" (hereinafter 'SCM' or 'Company') we have performed an assurance engagement. The subject matter of our engagement is the information disclosed in the 'Sustainability Report of "System Capital Management" for 2009-2010' (hereinafter 'the Report') except for the following matters:

- Any data relating to the prior years,
- Any forward-looking statements on events or planned activities of SCM,
- Application level of Sustainability Reporting Guidelines (version 3) issued by the Global Reporting Initiative in 2006 (hereinafter 'GRI G3 Guidelines'), and
- Correspondence between the Report and the UN Global Compact principles.

Our engagement is aimed to obtain a limited level of assurance that the information in the Report is, in all material aspects, a reliable and sufficient representation of sustainability policies, activities, events and performance of SCM during 2009 and six months ended 30 June 2010.

As defined in the *International Framework for Assurance Engagements* issued by International Federation of Accountants (hereinafter 'IFAC'), evidence-gathering procedures in order to obtain limited assurance are substantially less in scope than procedures to obtain reasonable assurance and consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

Criteria

We have assessed the Report against GRI G3 Guidelines and reporting principles stated in the Reporting Protocol of SCM, as indicated in section 'About this Report' on page 92 of the Report. We believe that these criteria are appropriate given the purpose of our assurance engagement.

Responsibility of the Management of SCM

The management of SCM is responsible for the preparation of the Report and the information therein.

This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of a sustainability report that is free of material misstatements, selecting and applying appropriate reporting principles and using measurement methods and estimates that are reasonable in the circumstances. The choices made by the management, the scope of the Report and the reporting principles, including any inherent limitations that could affect the reliability of information, are set out in section 'About this Report' on page 92 of the Report.

Our Responsibility

Our responsibility in performing this assurance engagement is to express a conclusion with regard to the information in the Report.

We have performed our engagement in accordance with International Standard on Assurance Engagements 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, issued by IFAC.

We have performed the procedures deemed necessary to provide a basis for our conclusion.

Our principal procedures were:

- Interviews with representatives of SCM's management responsible for its sustainability policies, activities, events, performance and relevant reporting,
- Analysis of key documents related to SCM's sustainability policies, activities, events, performance and relevant reporting,
- Benchmarking of the Report against sustainability reports of selected national and international peer companies,

- Review of a selection of publications with respect to SCM's sustainability policies, activities, events, and performance in 2009 and 2010,
- Identification of material issues based on the procedures described above and analysis of their reflection in the Report,
- Review of data samples for key indicators related to human resources, environment, health and safety, and social investment as well as data collection processes to assess whether these data have been collected, collated and reported appropriately at the central office level,
- Collection on a sample basis of evidence substantiating the qualitative and quantitative information included in the Report,
- Visits to 11 SCM entities to gather evidence supporting the assertions made in the Report on SCM's sustainability policies, activities, events, and performance. The following entities were visited: JSC "Farlep-Invest" (managing company), "ESTA Holding" LLC (managing company), CJSC "Ukrainian Joint-Stock Insurance Company ASKA", PJSC "First Ukrainian International Bank", CJSC "Segodnya Multimedia" (managing company), CJSC "TV-Radio Company Ukraine", "Vostokenergo" LLC (Luganskaya HPP), "Metinvest Holding" LLC (managing company), JSC "Inguletskiy GOK" (managing company), JSC "Khartsyzskiy Trubniy Zavod" (managing company), JSC "Krasnodonugol" (managing company), and
- Assessment of the sustainability reporting principles used by SCM.

Conclusion

Based on our work performed, nothing has come to our attention that causes us to believe that the information in the Report, in all material aspects does not provide reliable and sufficient representation of sustainability policies, activities, events and performance of the Company during 2009 and six months ended 30 June of 2010 in accordance with GRI G3 Guidelines and reporting principles stated in the Reporting Protocol of SCM.

[Ernst & Young LLC]

Kyiv
18 March 2011

 **ERNST & YOUNG**
Quality In Everything We Do

Table of compliance with GRI indicators and principles of the UN Global Compact

GRI Indicator	Indicator profile	Section of the Report	Page	Coverage	Principles of the Global Compact
1. Strategy and analysis					
1.1.	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy	CEO Statement	4	SCM Group	1,2,10
2. Organization profile					
2.1.	Name of the organization	Profile	6	SCM Group	
2.2.	Primary brands, products and/or services	Profile, Context	6-14	SCM Group	
2.3.	Operational structure of the organization	Context	9-14	SCM Group	
2.4.	Location of the organization's headquarters	Context	10	SCM Group	
2.5.	Number of countries where the organization operates	Context	9-14	SCM Group	
2.6.	Nature of ownership and legal form	Profile, list of enterprises	6-14, 91	SCM Group	
2.7.	Markets served	Context	9-14	SCM Group	
2.8.	Scale of the organization	Context	6-14	SCM Group	
2.9.	Significant changes during the reporting period regarding size, structure, or ownership	Context	14	SCM Group	
2.10.	Awards received in the reporting period	Context, Delivering on our commitments	15, 18, 77-84	SCM, Metinvest, DTEK, FUIB, Vega	
3. Report Profile					
3.1.	Reporting period	About this Report	90	SCM Group	
3.3.	Reporting cycle	About this Report	90	SCM Group	
3.4.	Contact point for questions regarding the report or its contents	cover page		SCM Group	
3.5.	Process for defining report content	About this Report	90	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, ASKA-Life, Segodnya Multimedia, TRK Ukraina, Vega, ESTA	
3.6.	Boundary of the report	About this Report	90	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, ASKA-Life, Segodnya Multimedia, TRK Ukraina, Vega, ESTA	
3.7.	Specific limitations on the scope or boundary of the report	About this Report	90	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, ASKA-Life, Segodnya Multimedia, TRK Ukraina, Vega, ESTA	
3.8.	Basis for reporting on entities that can significantly affect comparability from period to period	Context, About this Report	9-14, 90	SCM Group	
3.10.	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	Appendix. Indicator calculation method	92	SCM Group	
3.11.	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report	Appendix. Indicator calculation method	29	SCM Group	
3.12.	Table identifying the location of the Standard Disclosures in the report	Appendix. Table of compliance to GRI and UN Global Compact principles	94-96	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, ASKA-Life, Segodnya Multimedia, TRK Ukraina, Vega, ESTA	
3.13.	Policy and current practice with regard to seeking external assurance for the report	About this Report	90	SCM Group	

4. Stakeholder engagement					
4.1.	Governance structure of the organization	Context	15	SCM Group	
4.2.	Indicate whether the Chair of the highest governance body is also an executive officer	Context	15	SCM Group	10
4.3.	Number of members of the highest governance body that are independent and/or non-executive members	Context	15	SCM Group	
4.4.	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Investing in our people, Investing in our community, Delivering on our commitments	49, 73, 79	SCM Group	3
4.8.	Internally developed statements of mission or values, codes of conduct and principles relevant to economic, environmental, and social performance and the status of their implementation	Investing in our environment, Investing in our community, Delivering on our commitments	26-27, 54, 70, 75-85	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Segodnya Multimedia, TRK Ukraina, Vega	
4.12.	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or endorses	Context, Investing in our environment, Investing in our community, Delivering on our commitments	15, 25, 38, 59, 68, 70-71, 85-87	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Vega, ESTA	
4.13.	Memberships in associations and/or national/international advocacy organizations	Context, Delivering on our commitments	15, 85-87	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Vega, ESTA	
4.14.	List of stakeholder groups engaged by the organization	Delivering on our commitments	75-87	SCM Group	
4.15.	Basis for identification and selection of stakeholders with whom to engage	Delivering on our commitments	75-87	SCM Group	
4.16.	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Delivering on our commitments	75-87	SCM Group	
5. Management Approach and Performance Indicators					
Economic performance					
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Context	16-17	SCM Group	
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Investing in our people	52-53	SCM, Metinvest, DTEK, FUIB, Dongorbank, Vega, ESTA, ASKA, ASKA-Life, Segodnya Multimedia, TRK Ukraina	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Investing in our community	68-73	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Vega, ESTA	
Environmental performance					
EN3	Direct energy consumption by primary energy source	Investing in our environment	29	Metinvest, DTEK	7
EN5	Energy saved due to conservation and efficiency improvements	Investing in our environment	28	Metinvest, DTEK	
EN8	Total water withdrawal by source	Investing in our environment	37-38	Metinvest, DTEK	
EN10	Percentage and total volume of water recycled and reused	Investing in our environment	37	Metinvest, DTEK	
EN13	Habitats protected or restored	Investing in our environment	42	Metinvest	

EN16	Total direct and indirect greenhouse gas emissions by weight	Investing in our environment	32	Metinvest, DTEK	
EN18	Initiatives to reduce greenhouse gas emissions	Investing in our environment	27-34	Metinvest, DTEK	
EN20	NOx, SOx and other significant air emissions	Investing in our environment	30, 36	Metinvest, DTEK	7,8,9
EN21	Total water discharge by quality and destination	Investing in our environment	37-39	Metinvest, DTEK	
EN22	Total weight of waste by type and disposal method	Investing in our environment	40-41	Metinvest, DTEK	
EN30	Total environmental protection expenditures and investments by type	Investing in our environment	25-26	Metinvest, DTEK	7
Human rights					
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	Delivering on our commitments	86	SCM Group	1,2,5
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	Delivering on our commitments	86	SCM Group	1,2,4
Labor Practices and Decent Work					
LA1	Total workforce	Investing in our people	51	SCM, Metinvest, DTEK, FUIB, Dongorbank, Vega, ESTA, ASKA, ASKA-Life, Segodnya Multimedia, TRK Ukraina	
LA3	Benefits provided to full-time employees	Investing in our people	54-55	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Segodnya Multimedia, TRK Ukraina, Vega, ESTA	
LA5	Minimum notice period(s) regarding operational changes	Investing in our people	49-50	SCM, Metinvest, DTEK, FUIB, Dongorbank, Vega, ESTA, ASKA, ASKA-Life, Segodnya Multimedia, TRK Ukraina	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region.	Investing in our people	55-57	Metinvest, DTEK	
LA8	Education, training, counseling, prevention and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	Investing in our people	58-59	Metinvest, DTEK	
LA10	Average hours of training per year per employee (partially re-stated as the Group does not monitor the information required by this indicator)	Investing in our people	60-63	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Segodnya Multimedia, Vega, ESTA	
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Investing in our people	60-63	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Segodnya Multimedia, Vega, ESTA	
LA13	Staff composition of the organization	Investing in our people	48	SCM, Metinvest, DTEK, FUIB, Dongorbank, Vega, ESTA, ASKA, ASKA-Life, Segodnya Multimedia, TRK Ukraina	6
Society					
SO1	Nature, scope and effectiveness of any programs and practices that assess and manage the impacts of operations on communities	Investing in our community, Delivering on our commitments	73, 75-87	SCM Group	
Product Responsibility					
PR 5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Delivering on our commitments	80-85	Metinvest, DTEK, FUIB, ASKA, Segodnya Multimedia, TRK Ukraina, Vega, ESTA	