

COMMUNICATION ON PROGRESS

of implementing the principles of
the United Nations Global Compact in 2006



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Welcome to the first Communication on Progress of System Capital Management Group (SCM). This report describes the actions we have taken during 2006 to meet the ten principles of the United Nations Global Compact.

The year 2006 was truly a landmark for SCM in the area of Corporate Social Responsibility. In April we became one of the first signatories of the Global Compact in Ukraine when it was launched in the country. Later,

in October, we increased our commitment to the Global Compact by signing a two-year cooperation agreement with the United Nations in Kyiv to help fund the institutional development of the Compact and corporate responsibility in Ukraine.

During 2006, we also took a major step in the business to systemise the process of corporate social responsibility (CSR) by setting up a group-wide CSR Committee which developed a consistent framework for CSR policies for the SCM Group. We were one of the first Ukrainian companies to take a strategic approach to CSR and to begin the process of integrating it into the business.

This report is part of our commitment to corporate responsibility. We hope that the report and the information on CSR available at our website will help you learn what steps we are taking to contribute to development of our business and society.

Corporate responsibility is not a destination, it's an on-going process through which SCM is seeking to improve its performance in all other areas of our business and work to the best international standards. Having begun the reporting process, we plan to continue to produce reports in the future on our actions and plans in this area.

We hope you will enjoy reading the report and find it useful, and would welcome your feedback.

A stylized handwritten signature in black ink, consisting of a large loop followed by several smaller strokes.

Oleg Popov
Chief Executive Officer

SCOPE OF THE REPORT

This report features the socially responsible activities of the SCM Group in 2006 and covers the activities of the management company and major enterprises within the Group during the year.

The principles of corporate social responsibility in six areas are shown in the case studies from the Group's enterprises which have the largest impact on society and the environment. They are chiefly industrial businesses operating under SCM's sub-holdings, Metinvest and Donbass Fuel Energy Company (DTEK). Finance and telecommunications are also important areas for investment and future development for the company. Other business areas where SCM is active include: real estate, media, wholesale and retail fuel, heavy engineering, clay mining and retail.

Since the Group's social responsibility policy has been designed for all businesses, the report features case studies of those companies active across a range of sectors, but focuses primarily on those businesses in metals and mining and power generation.

In addition, the report covers social investments SCM made at a national level through its corporate Foundation for Development of Ukraine.

The social responsibility principles of SCM match the principles at the core of the UN Global Compact (GC). This report is the first Communication on Progress report of SCM that meets GC requirements. In December 2008, the company expects to produce the next report that will comply with the international Global Reporting Initiative (G3) guidelines and also meet the Communication on Progress requirements of the Global Compact.

System Capital Management (SCM) is Ukraine's leading professional investor and the country's largest managing company. In 2006 the company focused on six core business areas: mining and metals, energy, finance, telecoms, media, and real estate. In addition, SCM manages and controls assets in other sectors including: retail, clay mining, fuel retailing, heavy engineering, and football. SCM also has a truly international business perspective with operations in the European Union and Switzerland.

Established in 2000, SCM is headquartered in Donetsk. With over 100 companies under its control (including intermediate ownership) and over 160,000 employees, SCM is committed to the growth of Ukraine's economy and society's development. SCM has plans to invest over \$6 billion in the country over the next four years. SCM's strategic approach is to make long-term investments into its core business areas to deliver a long-term increase in the value in each area.

SCM Group consists of SCM Company, the professional investor, and all businesses the company invests in. SCM is 90% owned by Ukrainian businessman, Rinat Akhmetov.



Metinvest Group – Mining and Metals



DTEK – Electric Power



Financial Business



АОНІОБАНК



Telecommunications



Everything is possible

SCM Group Financial Performance 2006

Key consolidated figures for SCM Group performance in 2006 are:*	USD, bn
Assets	11.372
Gross revenue	6.719
Net profit	1.053
Taxes on Profit	0.349

* audited by PricewaterhouseCoopers

Core Business Areas

Metinvest Group – Mining and Metals

Mining and metal operations are at the heart of System Capital Management's business. SCM has been pursuing a long-term leadership strategy in the sector from the beginning of its activity. In the pursuit of this strategy, SCM has built a vertically-integrated mining and metals business – Metinvest Group. Metinvest Group is the largest private company in Ukraine and a key player in the world's iron and steel market. Metinvest companies produce 10.5 million tonnes of steel and over 38 million tonnes of iron ore annually. Metinvest not only satisfies its own raw material needs, but is also a key supplier for many other Ukrainian steel companies. The company's business includes the entire production chain starting from the extraction of iron ore and coal, through to the supply of rolled products and pipes to consumers globally. Metinvest Group is organised into three divisions:

- Iron Ore
- Coal and Coke
- Steel and Rolled Products

DTEK – Electric Power

Established in 2005, Donbass Fuel-Energy Company is the largest privately-owned, vertically integrated power generating company in Ukraine. DTEK combines companies from coal production and enrichment to electric power generation and distribution. DTEK has the country's largest producers of steam coal and the leading thermal power generating companies under its umbrella. There are three key production divisions in the company:

- Coal Production
- Power Generation
- Power Distribution

Financial Business

Being one of SCM Group's core businesses, financial business includes two banks:

- First Ukrainian International Bank
- Dongorbank

and two insurance companies:

- ASKA
- ASKA-Life

Telecommunications

SCM Group is active in both the mobile and fixed line communication sectors. In 2004, the SCM Group took a significant minority shareholding in Astelit, which operates under the brand name life:). This business has grown quickly to become the third largest mobile operator in Ukraine. In 2005-2006, the SCM Group expanded its presence in the telecommunications market by acquiring the Farlep and Optima Telecom groups. The combined Farlep and Optima Group is the largest private fixed-line provider in Ukraine and offers services including local, trunk and long-distance communication services, internet access, data transmission and leased lines.

Other Business Areas

Real estate and media are important business areas for the SCM Group. Other business areas include: wholesale and retail fuel, heavy engineering, clay mining, retail and football. As well as returning regular income to the company's shareholders, these businesses help create new jobs and implement important social projects in the regions they are present in and at a national level.



CORPORATE SOCIAL RESPONSIBILITY AT SCM

Social responsibility is a fundamental principle of SCM's operations. Prior to joining SCM, many of its businesses, particularly in mining and metals and power generation, were in state ownership and acted as a guarantor of economic stability for both employees and their local communities.

SCM has been committed to maintaining the tradition of caring for employees and supporting local communities where it is present. SCM believes a business can be successful only if employees are happy at work and their families live well in the areas where the companies operate. Thus, only a socially responsible business can be successful.

SCM set the goal of developing a corporate social responsibility strategy for the Group. To this end, the CSR Committee of SCM was established in June 2006 and included directors, representatives of the Group's industrial holdings, the Foundation for the Development of Ukraine, and the analytical centre BEST. The Committee was chaired by SCM's Director of Corporate Restructuring.

Through dialogue with stakeholders and the research of international best practices, the Committee chose six CSR areas relevant for SCM, where a number of fundamental principles could be developed:

- corporate governance
- employment
- environment
- cooperation with local communities
- social investments
- sponsorship and charity

The principles were published on the corporate website in August 2006. Their general nature ensures their adaptability to meet the needs of companies and enterprises of the Group active in various industries, from mining and metals through to telecommunications.

SCM launched a consultation exercise on the policies with employees in 2006, realising that their involvement was crucial to the process of development. Representatives of the management company and industrial holdings visited enterprises explaining the essence of "social responsibility", as well as the specific CSR principles of SCM. This enabled the enterprises to study and systemise their practices, therefore integrating them into the developing policies. These consultations were completed early in 2007.

Social responsibility for SCM is an everyday part of our business process. Employees in charge of CSR are in place at all levels in the corporate structure from enterprise through to the management company.



SCM's Business Values

At SCM we conduct our business relationships with integrity following a set of core values, which we apply when we do business. Our corporate values are:

- **Compliance** with legal and regulatory standards as a minimum standard
- **Responsibility** to our employees, business partners, investors, and to broader society and communities. We hold ourselves responsible and accountable to stakeholders for our actions
- **Professionalism** in the way in which we do business including investing in people, encouraging innovation and entrepreneurship
- **Excellence** in the standards we set, working to world standards of performance in each area of our operations
- **Honesty** and integrity in all of our business and corporate actions
- **Respect** for the rights and opinions of all stakeholders, treating all stakeholders as we ourselves would wish to be treated

The application of these values in each area of SCM Group's activities ensures that the business operates to the highest international standards of corporate governance and ethical behaviour, while being a responsible corporate citizen, which contributes to the development of Ukraine's economy and society.



EMPLOYMENT

The enterprises of SCM Group are committed to ensuring clean and safe workplaces for their employees and creating a corporate culture, where employees can apply and develop their talent effectively. They also use professional employee performance assessment methods to evaluate an employee's contribution to the overall business success.

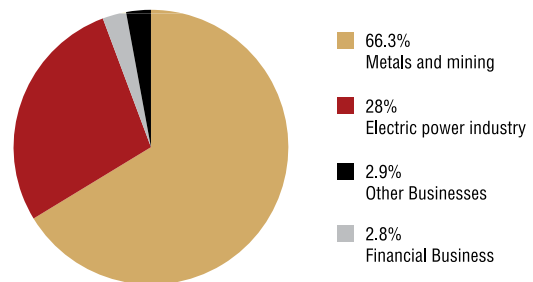
Health and Safety

The Group is committed to reducing occupational injury and sickness rates, as well as regularly upgrading workplaces to improve safety in the working environment. To ensure safe conditions, the Group enterprises carry out the following activities:

- implementing programmes of health and safety improvements
- providing employees with modern and effective individual and collective safety protection including personal safety equipment, work clothing, preventative health care and medical services
- training employees about health and safety rules and regulations
- introducing OHSAS 18000, international health and safety standard across our enterprises
- Creating a "safety first" culture across the Group

Enterprises of the SCM Group in Ukraine and internationally employ around 160,000 people.

**Total headcount of SCM Group
by business areas, 2006**



Health and Safety Improvement Programme at Krasnodonugol

All mines and colliery administrations of Krasnodonugol, part of Metinvest Group, are implementing a Comprehensive Health & Safety Programme to cut occupational injury and disease rates. To this end, Krasnodonugol has been allocating significant funding to a comprehensive programme including improved individual safety protection devices, control devices, and fire prevention measures; train, retrain, and certify employees in health and safety; certify workplaces and other activities. The company has focused its efforts on the control of methane emitted in the course of coal production, which is the source of greatest risk. Miners are equipped with individual mine methane monitoring devices and mine gas trackers are installed on mining and heading machines that automatically block equipment operation, should the methane exceed the acceptable level.

Health and safety issues are part of the core of the collective agreements with employees. The health and safety clause of the collective agreement signed at Krasnodonugol in 2006 requires a range of tasks to be implemented by the company.

Measures to Prevent Occupational Injuries and Diseases at Central Ore Mining and Processing Integrated Plant (Central GOK)

This Metinvest Group managed company has developed and approved 150 measures aimed at preventing occupational injuries and diseases and improving working conditions. In 2006, the company organized medical examinations to ensure the timely detection of occupational diseases and treated and rehabilitated employees working in hazardous conditions. In 2006, Central GOK investments in occupational medicine amounted to around \$24,000 (UAH 120,000).

Introduction of OHSAS 18001:1999 at GOKs

Metinvest Group has taken a number of steps to develop and implement a comprehensive health and safety management system, which meets the international standard OHSAS 18001 at all its enterprises. The OHSAS system helps create safe and healthy working conditions and allows the companies to identify and control health and safety risks, reduce accident risks, comply with the legal regulations and increase general performance efficiency. In 2006, Central GOK carried out three external audits to verify the compliance with

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In 2006, Krasnodonugol committed \$6.079m (UAH 30.7m) in order to implement the Comprehensive Health and Safety Improvement Programme. As a result, the number of accidents at Krasnodonugol in 2006 fell 9% compared with last year.

STATISTICS

In 2006, the investments of Metinvest companies into health and safety activities amounted to:

- Steel and Rolled Products Division – around \$17.3m (UAH87.3m)
- Coal and Coke Division – around \$6.9m (UAH 35.1m)
- Iron Ore Division – around \$7.4m (UAH 37.2m)

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the requirements of international standard OHSAS 18001:1999. In view of the audit results the plant was issued with a certificate confirming that Central GOK had implemented and used a Health and Safety Management System.

Health and Safety Innovations at Pavlogradugol

Coal mining business Pavlogradugol introduced the following innovations in the area of health and safety during 2006:

- a loudspeaker emergency communication system installed at Ternovskaya Mine
- a common telecommunication system of centralised control over health and safety parameters and accident prevention (UTAS) was introduced at Stepnaya Mine
- weekly radio broadcasting on the health and safety situation and the actions taken to improve it.
- in 2006, 860 engineering employees of Pavlogradugol received training in health and safety at the leading scientific and research institutions and other education institutions in Donetsk, Dnepropetrovsk and Kiev.

Strategic Plans in Health and Safety at DTEK

In order to realise the plan for the improvement of health and safety management system, DTEK developed and approved in 2006 health and safety related strategic goals for 2007–2012. As part of the plan the business sets the following goals

- by the end of 2008, to ensure the accident rate at the level 1.2 or less per 100 employees per year (in 2006, this rate was 3.69 at Pavlogradugol and 2.20 at Komsomolets Donbassa Mine)
- by the end of 2008 to develop and implement, and in the first quarter of 2009 to certify, the state-of-the-art corporate health and safety management system at its major business units: Pavlogradugol, Komsomolets Donbassa Mine and Vostokenergo, with the system to be based on the requirements of international standards OHSAS 18001.

To make this possible, the company developed and approved a plan for attaining its strategic goals in health and safety, which included setting up a Health Safety and Environmental Protection Department, developing a two-year programme implementing a modern corporate health and safety management system, and creating a corporate policy in the field of health and safety.

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In 2006, the investments of DTEK companies in health and safety activities amounted to:

- Vostokenergo - around \$1.1m (UAH 6m)
- Komsomolets Donbassa Mine – around \$1.5m (UAH 7.8m)
- Pavlogradugol – around \$9.2m (UAH 46.6m)

Human Rights and Behaviour at the Workplace

The Group supports the UN Declaration of Human Rights and respects and observes human rights without distinction of any kind, such as gender, race, nationality, language, age, religion and political opinion; prohibits any form of insult, threat, humiliation or discrimination at work; does not use children or forced labour. The Group's enterprises care for people with physical disabilities through the creation of jobs for them and gives assistance in rehabilitation.

Rehabilitation Workshop for People with Disabilities at Khartsyzsk Pipe Plant

Khartsyzsk Pipe Plant (KhTZ), which is part of Metinvest's Steel and Rolled Products Division, established a workshop for rehabilitation through work for people with disabilities. The workshop produces over 60 types of work wear and protective garments. All necessary conditions for disabled people are in place with personal rehabilitation plans developed for each person. The plant management monitors the salary levels, which have been rising steadily over recent years. People with disabilities enjoy the same benefits and rights as other KhTZ employees. As a result, the project created jobs in Khartsyzsk for vulnerable citizens and provided employees with high quality work wear and protective clothing. The acquisition of new equipment, certification of new workplaces and further training for disabled employees are the next steps in the plant's rehabilitation through work programme.

Remuneration

The core aspects of the Group's Human Resources policy are to encourage employees to develop professionally, pursue career growth and help achieve business goals. Material remuneration and career growth play a major role in the employee incentive system. We are committed to providing fair labour remuneration in accordance with the real contribution of the employees and rewarding them for special achievements. As a rule, the salary level at the Group's enterprises is above industry average and grows annually.

Salary Overview at Metinvest Group

Salaries paid by Metinvest enterprises in 2006:

- Steel and Rolled Products Division – UAH 1,760 on average (24.5% higher than in 2005)
- Coal and Coke Division – UAH 1,760 on average (26% higher than in 2005)
- Iron Ore Division – UAH 1,815 on average (17% higher than in 2005)

Salaries Overview at DTEK

Comparison of DTEK salaries and industry averages (coal production, power generation and distribution):

- coal industry: DTEK salaries were 15.6% higher (DTEK – UAH 1,917/person, industry average – UAH 1,658/person)
- power generation: DTEK salaries were 43.4% higher (DTEK – UAH 1,762/person; industry average in generation and distribution of electricity, gas and water – UAH 1,229/person)
- power distribution: DTEK salaries were 42.8% higher (DTEK – UAH 1,755/person; industry average in generation and distribution of electricity, gas and water – UAH 1,229/person)

SCM seeks to make the salary management system transparent and logical. Such a system helps take into account the contribution of each employee towards the overall result and encourages them to grow professionally.

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Social Policy for Employees

HAY Group Remuneration System at GOKs

In September 2006, Metinvest's Central GOK and Northern GOK launched a new project to create an effective remuneration system based on the advice of international human resources specialists, the Hay Group. The project covered all employees, from senior managers to manual workers. The method is unique as it helps assess any position in any area at any organisational level. It describes and assesses the position rather than a specific person according to three criteria: knowledge and skills (technical, managerial, and communications), problem solution (freedom of thinking, complexity of issues), and responsibility (freedom of actions, influence on final results, scope of activity). The method helps assess the contribution of each position to the overall success of the plant. The remuneration system benefits both employees and the plant. Each employee can realise whether he or she is able to offer additional skills and knowledge to the plant if necessary, and what salary he or she can qualify for. Senior management, in turn, gets a clear understanding of the responsibility involved in each position. This approach to job assessment, based on work complexity and the importance and responsibility of a particular job, is used to create a grade structure that will help develop training and career growth programmes.

Being a socially responsible employer, the Group ensures the social protection of employees through the provision of a package of social benefits and compensation according to the laws of Ukraine and collective agreements. The collective agreements of enterprises stipulate general remuneration conditions, labour guarantees and benefits for the employees, veterans of labour and pensioners, as well as the protection of labour, social, economic and professional rights, and the legitimate interests of employees. The Group also provides its employees with additional social benefits and guarantees.

Social Guarantees and Collective Agreement at Azovstal

The Metinvest Group managed Azovstal steel plant, based in Mariupol, provides employees with annual paid vacation consistent with the law as well as additional paid leave for family reasons. Given their work in heavy industry, the employees receive hot meals in the plant's canteens including healthy options. The collective agreement at Azovstal also provides for additional social benefits. For example, the plant supports Outpatient City Hospital No.2 in Mariupol through providing medicines for employees that undergo regular check-ups and for emergency assistance in the health unit. Azovstal also enables its employees and pensioners to have examinations in medical diagnostic centres and provides an opportunity for employees and their children to improve their health in dedicated centres. Azovstal also provides material assistance to its employees in other ways, for example by providing

STATISTICS

In 2006, Azovstal invested more than \$4m (around UAH 20.548m) in additional social benefits for employees.

child allowances and marriage grants; helps women on child care leave and supports pensioners who worked at the plant.

Additional Social Benefits for Krasnodonugol Employees

Krasnodonugol pays great attention to additional social benefits, in particular medical services and rest and recreation. Each employee is examined regularly in the dedicated treatment and diagnostic centre, Ultramed. Following the recommendations of its specialists, the employees improve their health in the Vostochny and Molodogvardeyskiy centres owned by Krasnodonugol. In 2006, 3,905 people improved their health in the plant's centres and 234 people in other Ukrainian centres. Through the enhanced healthcare of employees, in 2006 the plant cut the occupational sickness rate by 5.4% and the overall sickness rate by 5%.

Socis and Pavlogradugol's Subsidiary Sotsugol

The dedicated companies Socis and Sotsugol, a subsidiary of Pavlogradugol, are in charge of the effective management of social facilities at DTEK. Socis and Sotsugol run a number of social enterprises including: catering businesses, hostels, a hotel, recreation centres, children camps, sport facilities, cultural centres and health improvement centres.

In 2006, 8,500 workers and their families visited 11 different recreation facilities and health improvement centre run by Sotsugol, while 2,560 children spent their vacations in 5 children's camps; over 1,300 people improved their health in the recreation facilities of Socis, while 1,225 employees underwent treatment in the dedicated health centres owned by the company.

Additional Guarantees for FUIB Employees

The bank's social package includes both social payments required by law, and additional benefits and compensations. FUIB provides soft lending services to its staff offering mortgages, consumer loans and short-term loans at low interest rates.

Training and Professional Development of Employees

The Group creates the necessary conditions for knowledge improvement as well as the professional development and career growth of its employees. The Group's companies and enterprises have efficient staff training and development systems in place.

Azovstal's "School – Higher Education Institution – Plant" Project

Metinvest Group's Azovstal plant is implementing the "School - Higher Education Institution - Plant" project, whose objective is to attract future employees from schools, which are receiving support from the plant and students of Priazovskiy State Technical University. In 2006, Azovstal signed a 5-year strategic partnership agreement with Priazovskiy State Technical University as well as trilateral cooperation agreements with the university and schools.

According to the project, the schools organised special "Azovstal" classes with the advanced study of subjects required for students to pass the entry exams at Priazovskiy State Technical University. In addition, the plant provides the necessary training aids and computers, and pays additional remuneration to the teachers of specialised classes. In turn, Priazovskiy State Technical University admits the graduates from these classes on the basis of entrance exams to the state financed courses in the skills and expertise needed by the plant. Azovstal also provides theoretical and practical courses on metallurgy and gives work experience to students during summer vacations.

To raise awareness with students at Priazovskiy State and Technical University, Azovstal organised a Career Day and held a roundtable with the top management of the plant. In 2006, the investments into the project amounted to around \$30,000 (UAH 148,950).

AKHZ employees skills Training at Donetsk National Technical University

Avdeyevka Coke and Chemical Plant (AKHZ), which is part of Metinvest Group, has developed an employee

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excellence strategy and initiated a new express training system for its employees at Donetsk National Technical University. In 2004, specially for the needs of AKHZ, the Chemical Production Machines and Units Chair of Ecology of Chemical Technologies Department opened a division for the plant to give employees fast-track training. Since 2004, the number of AKHZ employees who have received in-service higher education has been constantly rising:

- 2004 - 238 people (including 14 receiving express training)
- 2005 – 463 people (including 36 receiving express training)
- 2006 – 469 people (including 45 receiving express training)

The express training programme is the result of close cooperation between the plant and the Donetsk National Technical University. This relationship with one of the best technical higher education institutions of Ukraine guarantees that employees receive high-quality education in the minimum time.

DTEK Staff Development Programme

DTEK provides equal opportunities to its employees in terms of effective professional development. For this purpose, in 2006 DTEK developed a performance management system. It contemplates a differentiated approach to employee incentives based on their contribution to the improvement of the company's KPIs. Performance management starts from selecting the most promising employees on the basis of assessment criteria. The staff management system consists of three key stages. The first stage is a comprehensive annual employee performance assessment on the basis of their competence and performance. Performance is based on attaining the KPIs, which are developed for each employee and based on the strategic objectives of the company. At the second stage the company has a Development Centre for the employees who attained the highest results. The Centre assesses the level of competence and potential of these

employees. The results of comprehensive assessment by the Development Centre help select employees for DTEK's management training programme and the preparation of individual development plans for them. The programme started in the managing company DTEK in 2006 and will be further adopted by all DTEK enterprises.

Training and Course Network at Pavlogradugol

DTEK's Pavlogradugol trains workers using its in-house training course network. During 2006 1,949 workers were trained in different professions, 3,078 employees took excellence courses and 5,626 mine workers took introductory training. Excellence courses for Pavlogradugol's management and specialists are carried out regularly in consistency with respective contracts. In 2006, 871 people took the excellence courses in different centres.

Staff Training and Development Programmes at First Ukrainian International Bank (FUIB)

FUIB pays great attention to staff training and professional development as highly skilled professionals create a competitive advantage for the bank. To this end, the bank developed various staff training and development programmes:

- An induction programme for new employees (seminars, awareness raising on the bank's activities, regulatory issues)
- business training held for bank employees to improve their skills and train them in special bank software and programmes;
- management programmes (including training in sales and marketing and customer service)

The bank's employees also have the chance to attend seminars, conferences and special exhibitions, and take internships both inside and outside Ukraine to expand their experience.

Relations with Trade Union Organisations

The Group respects the rights of its employees to form or join trade unions and other associations representing their labour, social and economic rights and interests. Employees are free to enter into and/or withdraw from trade unions as well as take part in their activities. The Group builds long-term partnership relationships with trade unions, employees, pensioners, companies' veterans and other stakeholders and organisations.

The labour relations at the companies of the Group are regulated in accordance with the current Labour Law of Ukraine. Protection of the labour rights of employees and professional organisations, improvement of employment conditions and the provision of social guarantees are regulated by collective agreements.

The collective agreements are concluded on an annual basis between the companies' administrations and employees represented by the chairmen of trade unions and ensure control over compliance with the rights and legitimate interests of employees, particularly relating to health and safety as well as providing social benefits and guarantees established by law.

Krasnodonugol's Trade Unions

At Metinvest Group's Krasnodonugol coal mining business the employees' interests are presented by three trade unions:

- The Trade Union of Coal Workers of Ukraine, representing 90.3 % of employees;
- The Independent Trade Union of Krasnodon Region Miners, representing 7.6% of employees;
- The Executive Bureau of Independent Trade Union of Barakova Miners, representing 2.1% of employees.

All three trade unions have equal rights outlined by the collective agreement, namely:

- to control proceeds from coal products sales allocated to the social needs of employees;
- to have free access for visiting and inspecting the workplaces of the employees who are members of the trade unions;
- to represent the interests of employees, pensioners and invalids if they are members of trade unions;
- to demand and receive from employers and other officials the corresponding documents and explanations in regard to the employment conditions and compliance with the labour law;
- to verify the work of social facilities provided by the company;
- to receive cash funds for cultural events, sport and health improvement events in the amount not exceeding 1.3% of the payroll fund.

Pavlogradugol's Trade Unions

DTEK's Pavlogradugol also has a collective agreement in place between the management and trade unions: the Dnepropetrovsk Territory Organisation of Trade Union of Miners and Oblast Association of Independent Trade Union of Miners. The collective agreement outlines the rights and guarantees of the company's employees in line with legal requirements.

The employees of the Group are members of the industrial trade union organisations: the Trade Union of Energy and Electrical Industry of Ukraine, the Trade Union of Workers of Coal Mining Industry, the Trade Union of Metal Workers and Miners, etc.

The Group's companies support employees in the creation of public organisations authorised to represent their interests.

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Corporate Culture

Building a strong corporate culture plays an important role in the sustainable development of the Group and its competitiveness. Activities, which build corporate culture, are an effective way to maintain valuable traditions in the Group's companies and to share and form new corporate values.

Corporate Culture at DTEK

Building the corporate identity of employees is an objective DTEK faced as the result of the consolidation of companies from different industries into one company. To this end, the company arranged a number of activities to develop internal communications. In summer 2006, the company held a children's contest "My native city and I" among young artists and writers, whose parents work for the company. The contest participants included children aged from 7 to 15. Out of 340 contest works submitted to the contest committee from Dnepropetrovsk, Donetsk and Lugansk oblasts, the jury determined 16 winners in two nominations: "The Best Picture" and "The Best Essay". The winners received presents and were awarded a 3-day trip to Kyiv.

Sport also unites people of all ages and professions across the business. In 2006, the company introduced one more tradition: annual sports and athletics competitions among teams representing different DTEK enterprises. For the first occasion the company chose a mini-football match, but in the future the list of sports activities will be expanded.

Corporate Culture at FUIB

The bank has a Corporate Employee Code in place. For its employees, the bank organises corporate celebrations and collective events, New Year parties, sports competitions and other contests, and provides New Year presents to employees' children. Internal communication constitutes an important element in the development of the corporate culture. This includes the internal corporate newspaper "Kapital", which also has an intranet version informing the bank's employee in real time of all the changes in the bank's life, its strategy and development.



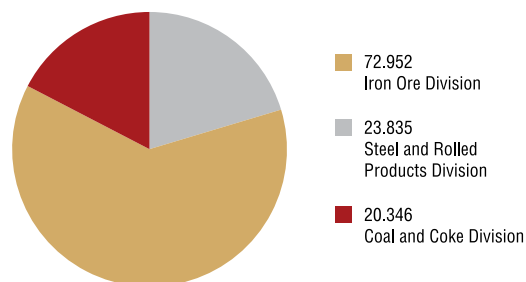
Investment in Environmental Protection

Caring for the environment and mitigating the environmental effects of business are important aspects of SCM's activity. We recognise the degree of impact our businesses have on the environment and are committed to improving their environmental performance, making investments in environmentally friendly technologies and using natural resources in a more sustainable manner.

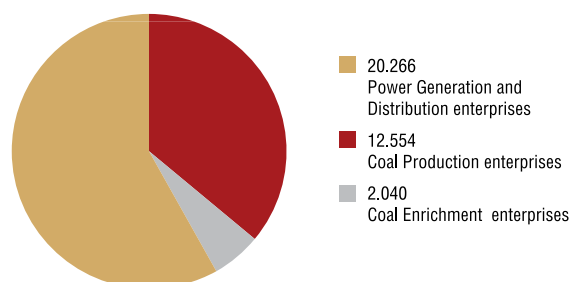
Metinvest Group and DTEK have the largest environmental footprint among SCM's businesses, therefore this section of the report focuses on environmental actions taken by the metals and mining and power generation enterprises of the SCM Group.

Breakdown of environmental spending:

Metinvest Group environment protection expenditures breakdown, 2006, million USD



DTEK environment protection expenditures breakdown, 2006, million USD



STATISTICS

The total investment of SCM Group enterprises in environment protection activities in 2006 amounted to around \$151.993m (UAH 767.566m).

Environment Protection Activities of the Group's Enterprises

Environmental policies are developed and realised by the Group's enterprises to ensure compliance with ecological legislation and environmental standards, to monitor emissions, and to improve environmental performance. Environmental protection programmes are developed annually by the enterprises and agreed on with local authorities and regional environmental inspectorates.

Environmental Programme at Azovstal

Environmental activities at Azovstal are a part of the Programme for Environmental Protection and Improvement of Mariupol for the period 1998-2012 that was developed by the city and approved by the Ministry for Environmental Protection of Ukraine. They are also a part of the Ecology section of the Programme for Social and Economic Development of Mariupol. The programme provides for investments to reduce emissions to the atmosphere of gases and dust particles, as well as activities to reduce other waste products and improve the environment in Mariupol in line with European standards.

Environment Protection Programme at Avdeyevka Coke and Chemical Plant

The Avdeyevka Coke and Chemical Plant agrees an annual Programme for Environment Protection with Avdeyevka Town Council. The programme covers the following areas: environment protection against contamination; sustainable use of natural resources; environmental monitoring; and environmental awareness and education. The activities within the Programme make up a part of the annual Avdeyevka Town and Donetsk Regional Environmental Programmes.

Major Areas of the Group's Environment Protection Activities

- prevention of air, water, and land contamination
- sustainable use of natural resources
- reclamation of disturbed lands
- protection and recovery of green plants in industrial areas
- industrial waste recycling
- investments in environmentally-friendly production technologies

STATISTICS

The expenditures of Azovstal on environmental activities in 2006 amounted to \$13.837m (UAH 69.876m)

STATISTICS

Actual expenditures of Avdeyevka Plant under Environmental Protection Programme in 2006 amounted to around \$18.101m (UAH 91.413m).

STATISTICS

Pavlogradugol spent \$1.389m (UAH 7.016m) in 2006 on environmental protection activities including:

- air protection – \$97,100 (UAH 490,360)
- water resources protection – \$352,277 (UAH 1.779m)
- land resources protection and waste recycling – \$940,198 (UAH 4.748m)

ENVIRONMENT

Air Protection

The Group's enterprises control harmful air emissions and work to cut air contamination.

Azovstal Performance to Cut Air Pollution

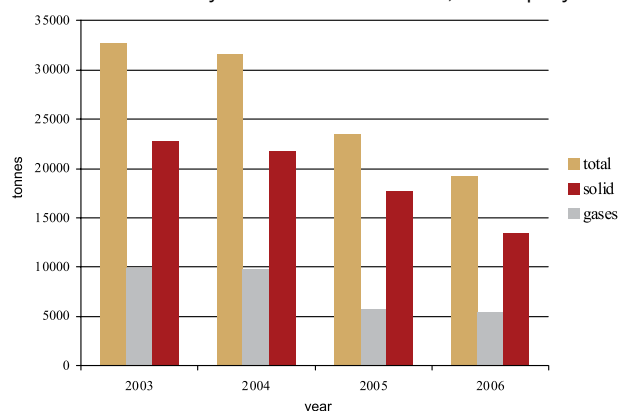
To upgrade coke and chemical facilities, Azovstal has put outdated coke battery No. 8 out of operation and commissioned a new battery No. 2 with a higher capacity and full set of gas purification systems. This will help reduce air emissions.

Blast furnaces used in the metal and steel industry are major air pollutants. Under the approved investment plan Azovstal installed a new aspiration system (electric filter) on blast furnace No.2 in 2006 that will help cut harmful emissions (dust) into the air by 600 tonnes annually, and its performance is in line with European emission standards.

Avdeyevka Coke and Chemical Plant Performance to Cut Air Emissions

The Avdeyevka Plant adopts the latest environmentally-friendly processes and procedures. GIPROKOKS Design Institute developed the Programme for the Reduction of Sulfurated Hydrogen in Coke Gas. Under the Programme the plant installed a clean closed-cycle cooling technology. The closed coke gas cycle cooling facility designed by Avdeyevka specialists excludes direct contact between gas and water in the production process, thus preventing emission of chemical elements into the air. The facility is based on a \$670,000 three-stage spiral refrigerator produced by Swedish firm, Alfa Laval. The process will help cut annual air emissions by 640 tonnes. This reconstruction was a part of the Technical Upgrade Programme, which runs till 2010 with the objective of raising environmental performance of the plant to international standards.

Air emissions at Avdeyevka Plant in 2003– 2006, tonnes per year



Environmental Performance of Yenakiyevo Metal Plant and Metalen JV

In 2000–2006, the biggest enterprises in Yenakiyevo – Yenakiyevo Metal Plant and Metalen – successfully realised a technical modernisation programme with due regard to European environment safety standards. The companies looked for environmental solutions in two areas:

- technological solutions related to the implementation of resource-saving and low-waste processes
- economic solutions for environment-friendly facilities and processes that catch and neutralise harmful emissions in air, discharges in water, as well as industrial and household waste

Environmental activities are based on the Prospective Plan of Environmental Protection Measures until 2010. Realisation of the plan started in 1999 with the construction of the first continuous casting machine with ladle-furnace facility. In 2004, the continuous caster No.2 was commissioned. The new continuous caster allowed the launch of a new high-quality method of steel billet production, increased output of finished products and significantly cut air emissions. The Prospective Plan includes activities to increase safety

STATISTICS

Azovstal invested around \$4.752m (UAH 24m) to install the aspiration system on blast furnace No.2.

STATISTICS

As a result of the environmental measures, Avdeyevka Plant emitted 19,314 tonnes of harmful substances into the air in 2006 that is 4,239 tonnes less than in 2005.

STATISTICS

In 2006, over UAH \$6.9m (UAH 34.93m) was spent on environmental activities at EMZ Group plant.

As a result, emissions were cut by 12.4% year on year in 2006.

and improve the efficiency of available environmental facilities: overhauls of sinter plants, gas purification units and gas pipelines of blast furnaces and current repairs of aspiration facilities are planned.

Activities to Cut Air Emissions at Northern GOK and Central GOK

To cut dust and gas emissions during blasting at open cast mining operations, the plants apply hydro-stemming of blast-holes. The method helps reduce dust emissions by over 53%. Also, the enterprises use trotyl-free explosives (emonite and ukrainite) and explosion initiation systems Prima-ERA and Nonel. This significantly cuts harmful air emissions and reduces seismic vibration during blasting.

Oasis Programme at GOKs

Northern GOK and Central GOK have been implementing the Oasis Programme for three years. The goal of the programme is to cover the territory and adjacent areas with green plants and grasses, which reduce air contamination. Over 7,200 trees and shrubs were planted in the period 2005-2007 in the Northern GOK area within the framework of the Programme, and 2006 saw the planting of 3,000 trees and shrubs at the industrial sites of the plant. This amounts to around two hectares of plants. The programme helped cut dust by 120 tonnes a year. The programme meets the environmental strategy of the city designed for 2000-2010 and approved by Krivoy Rog City Council. Krivoy Rog Botanical Garden is a major partner in the project.

Air Protection at the Power Generating Enterprises of DTEK

The power generating businesses of DTEK, which are the major sources of air pollutants, have prioritised the maintenance of gas purification facilities. In 2006, the Zuyevskaya Power Plant run by Vostokenergo completely overhauled their electric filters to bring the degree of purification to 96-99%. Luganskaya Thermal Power Plant tested and debugged its environment protection and gas purification facilities improving wet and dry dust catching units to reduce air emissions.

Waste Dump Quenching Project at Komsomolets Donbassa Mine

Burning waste coal dumps that occur in the process of coal production are the main air pollutant at the Komsomolets Donbassa Mine. In 2006, the enterprise implemented a project to quench the waste dumps, which stopped them burning and cut emissions of CO₂.

STATISTICS

Electric filters were upgraded at the power plants of Vostokenergo in 2003-2006 raising gas purification to 96-99% (compare to 89-91% before the upgrade). As a result, emissions fell by 19,600 tonnes.

STATISTICS

Komsomolets Donbassa Mine invested around \$535,000 (UAH 2.7m) in the project to quench the waste dump in 2006. As a result, gaseous emissions into the air went down by 1,215 tonnes.

ENVIRONMENT

Water Resources Protection

Water is an important resource and SCM Group's enterprises work hard to ensure that they reduce their demand for water and improve treatment and purification of waste water produced in industrial processes.

Watertight Screen (geomembrane) at Central GOK

To cut any negative impact on water reservoirs, Central GOK installed a watertight facility – a geomembrane (polyethylene film with micro-wedge prongs) that prevents the contamination of regional potable water reservoirs. The facility catches up to 800,000 m³ of waste water seepage a year.

Biological Purification of Domestic Sewage Water at Komsomolets Donbassa Mine

Komsomolets Donbassa Mine developed an investment project for the biological purification of waste water using innovative technologies. Implementation of this project will considerably decrease the content of harmful substances in the discharge waters.

Water Resources Protection at Vostokenergo

In the area of water resources protection, Vostokenergo regularly controls water discharges and the condition of underground waters with the help of monitor wells. In 2006, the Kurakhovskaya Thermal Power Plant designed a unit for sewage water purification and introduced a fish protection system.

Reclamation of Lands and Protection and Recovery of Green Plants in Industrial Areas

To mitigate the negative environmental footprint of its production operations, the Group enterprises reclaim disturbed lands to make the land suitable for agriculture, forestry, and water industries, as well as for civil and road construction purposes.

Reclamation of Disturbed Lands at Metinvest Group

The ore mining businesses of Metinvest carry out technical and biological reclamation of former industrial and mining sites that help improve the environment noticeably in the industrial region of Krivoy Rog Basin. Technical reclamation includes the levelling of dumps (the sites for overburden storage) and covering them with fertile soil, as well as compacting and planting reclaimed land. Biological reclamation is done after technical reclamation and includes restoring the fertility of disturbed lands through selecting the most suitable types of trees, shrubs and grasses for recultivation.

Northern GOK and Central GOK annually carry out the biological reclamation of dumps and exhausted land. In 2003-2006, Northern GOK carried out the biological reclamation of 30 hectares of disturbed land and planted over 25,000 trees.

STATISTICS

In total, Metinvest enterprises reclaimed over 300 hectares of land in 2006.

Reclamation of Disturbed Lands at Pavlogradugol Enterprises

Pavlogradugol enterprises have developed and are implementing a complex solution to utilise waste rock for the reclamation of land, which has suffered from subsidence and exhausted mine workings that have become flooded during the coal production process. This helps reduce the amounts of waste rock placed in dumps and thus cut rock dust emissions.

To this end, around 1.508m tonnes of waste rock were used in 2006. The area of reclaimed land in 2006 totalled 11.9 hectares, of which 9.1 hectares was transferred to Pavlograd Region's government to be used as pasture land.

Forests were planted on 10 hectares of land where subsidence had been eradicated, while a drainage system protecting 1,295 hectares of forests from flooding was put in place to lower the level of ground water using the waste rock.

Planting Trees and Shrubs

Pavlogradugol has also implemented a new method that uses wood waste, silt from waste water purification and soil cover to plant trees on waste dumps. The new approach helped plant conifer and deciduous trees on 5.5 hectares of waste dumps. A 49-hectare garden and park zone was created on the Company's territory and 19,884 trees and shrubs were planted.

ENVIRONMENT

Waste Management

SCM Group's enterprises meet environmental regulations, implement programmes for the efficient use and storage of waste and keep records of the produced, consumed and disposed waste according to the current legislation. Moreover, the enterprises develop and implement low-waste processes and waste recycling methods to make new products out of waste and reduce waste generation.

Waste Management at DTEK Enterprises

Within the scope of sustainable waste recycling and storage measures, the power generating enterprises of Vostokenergo continued constructing an ash dump to store wastes produced as a result of coal burning and expand and reconstruct dams in ash dumps. This includes the installation of impervious screens that prevent waste from contaminating the land as well as recycling ash and sludge waste. Over 450,000 tonnes of ash and sludge waste were recycled in 2006, and this was used to expand dams and reclaim disturbed lands.

Adoption of Environmental Standards

SCM Group encourages its enterprises to adopt an integrated environment management system in compliance with ISO 14001 environmental standards.

ISO 14001 at GOKs

Since 2005 Northern GOK and Central GOK have been successfully operating an environment control system that meets ISO 14001. Enterprises were awarded certificates ensuring that the environmental management system for the production of iron-ore concentrate, fluxed and non-fluxed pellets at the plants meets the requirements of the ISO 14001 standard. In 2006, the system was also checked for compliance with requirements of ISO 14001:2006. As a result, the plants were awarded new certificates for their environment management system.

ISO 14001 at DTEK Enterprises

DTEK realises the need to improve its environment management system when applying the best global practices – ISO 14000 international standards. To this goal, its enterprises assess their environmental footprint and identify applicable environment laws. At the management company level, common goals and objectives are set including the development of the environment protection strategic programme.



LOCAL COMMUNITIES

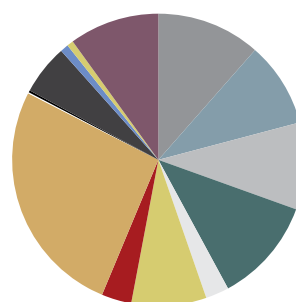
Many companies in the SCM Group are city forming enterprises, so strategic cooperation with the local authorities is very important. We understand that the welfare of the city and the living conditions of the employees' families will contribute to the creation of a healthy and constructive business. The quality of life has a direct impact on our industrial businesses' ability to attract staff and on the desire of people to live and work in their native city.

The activity of the Group in its relationships with local communities is based on partnership principles. This means that the Group provides material assistance for the social needs of the cities or other territories and solves the problems of the citizens in partnership with the representatives of the local communities, authorities and public organisations, and to an agreed development strategy.

SCM Group encourages the development of local communities by taking measures in the following areas:

- the support and development of social infrastructure
- the support of healthcare and education facilities
- the development of culture and sports
- the support of pensioners and veterans

Local population employed by Metinvest Group and DTEK enterprises, 2006, %



20.82	Vostokenergo
17.00	Komsomolets Donbassa Mine
17.43	Pavlogradugol
47.50	Krasnodonugol Coal Company
0.20	Krivoy Rog Central Mining Equipment Repair Plant
0.44	Krivbasvzryvprom Explosives Company
10.00	Novotroitskoye Ore Mining Group
1.67	Northern Iron Ore Mining and Preparation Works
1.27	Central Iron Ore Mining and Preparation Works
18.08	Khartsyzsk Tube Works
21.00	Avdeyevka Coke and Chemical Plant
4.72	Azovstal Steel Works
15.00	Dokuchayevsk Flux and Dolomite Works
6.00	Yenakiyevo Steel Works

STATISTICS

On average 11% of the inhabitants of the regions, where Metinvest Group operates, work at the Group's enterprises.

On average 18% of the inhabitants of the regions where DTEK operates work at the company's enterprises.

STATISTICS

In 2006, the total amount of investments made Metinvest and DTEK companies in to local communities amounted to around \$10.6m (UAH 53.5m)

Support and Development of Social Infrastructure

In addition to tax payments to local budgets, the companies of the Group assist local authorities in improving the cities' infrastructures. The companies of the Group cooperate with local authorities in the following three main areas:

- assisting in the improvement of the town or region
- participating in the implementation of programmes for social and economic development
- supporting educational institutions

In 2006, Metinvest and DTEK managed companies provided help to local authorities in preparing the local communities for the heating season in Ukraine. They modernised and repaired infrastructure facilities and provided help to city and regional utility and housing complexes and social facilities.

Azovstal's Assistance to Mariupol City

Azovstal provides social and material assistance to the city. Thanks to Azovstal the city has installed and repaired children's and sports playgrounds, organised lighting in the streets and avenues, arranged repairs of roads, schools and hospitals and provided material assistance to veterans and low-income people.

In January-February 2006, the plant carried out around \$60,000 (UAH 300,000) worth of repairs to pre-school institutions in the city and purchased sports equipment for them to an amount exceeding \$45,545 (UAH 230,000) as well as providing \$80,000

(UAH 400,000) for the construction of a gas boiler for comprehensive school No.51. Also, Azovstal opened gyms to play volleyball and organised hot meals for the students of city gymnasium No.1 during cold weather.

Participation of Azovstal in Implementation of Social and Economic Development Programmes

In April 2006, Azovstal financed the construction of an electric transformer substation for the inhabitants of Sartana Village in Mariupol. This allowed the village to regulate voltage in the local electrical network and provide the required volume of electricity for households. The plant allocated around \$7,000 (UAH 35,000) for the city to finance the project. In 2006, the plant purchased 10 transformer substations in total within the framework of the programme of social and economic development of Mariupol.

Azovstal is also implementing a number of social programmes aimed at improving the life of employees of the plant and Mariupol citizens. In taking care of citizens' health, Azovstal financed the construction of a branch of city hospital No.1 in the Ordzhonikidze district of Mariupol. The new medical facility is able to provide special medical services to 28,000 citizens of Vostochny district and renders better quality medical aid due to the wider range of services provided. The plant allocated about \$20,000 (over UAH 100,000) to equip the hospital, which was used to purchase modern diagnostic and treatment equipment and computers.

STATISTICS

In 2006, Azovstal investments in the social infrastructure of the plant and implementation of social actions in the city amounted to approximately \$7.6m (UAH 38.5m).

STATISTICS

In 2006, the companies of Iron Ore Division (Northern GOK and Central GOK) allocated around \$84,495 (UAH 426,700) for reconstructing, repairing and re-equipping the material and technical base of Krivoy Rog comprehensive schools and pre-school institutions.

LOCAL COMMUNITIES

Development of Culture and Sports

The Group pays attention to the development of physical culture and sports, organisation of leisure time and cultural development of citizens in the communities of presence. In many cities where they operate, Metinvest Group and DTEK provide help to sports institutions and cultural centres, which serve as the basis for dozens of sports and hobby groups so popular with thousands of citizens.

Support for Antratsit Club by Komsomolets Donbassa Mine

In 2006, Komsomolets Donbassa Mine provided financial and technical support to the local sports club Antratsit, which is known both inside and outside Ukraine and includes both football teams and motoball teams. The company finances the trips of these teams to the championships of regional and European League tournaments as well as providing funds to repair and purchase spare parts and fuel for motorcycles, uniforms and equipment for sportsmen.

Creation of FC Shakhtar's Fun Sections at Regional Schools

FC Shakhtar has a very active social and public profile, cultivates a love of sports in young people, promotes healthy lifestyles and helps develop children's and junior amateur football. FC Shakhtar has also created FC Shakhtar's fun sections at education institutions in the Donetsk oblast and provides the education institutions with materials for the physical and cultural

development of school children. From July to October 2006, the Club also implemented the programme Mobile Pitches for the Cities of the Donetsk Oblast, which covered 9 cities of the Donbass region giving children and youths access to football pitches even in highly populated urban areas.

Organization of Cultural Events at DTEK Enterprises

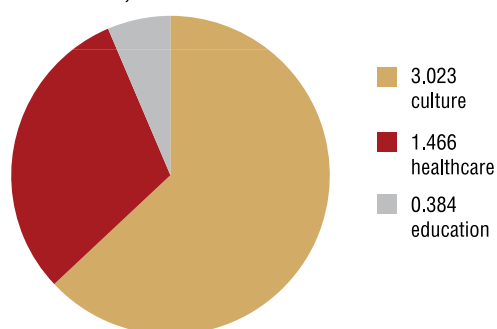
DTEK and its enterprises provide material assistance to city amateur art groups, finance the renovation of the book stock of city libraries and organise general public cultural events: Victory Day, Miner's Day, Power Worker's Day and City Day. In 2006, the Company developed a tradition to hold large-scale concert programmes with the participation of entertainment stars and local art teams on Miner's Day.



SOCIAL INVESTMENTS

SCM Group provides material and financial resources to implement nationwide social programmes. It reflects a philosophy of sustainable development and responsible business, and meets expectations regarding the importance and role of business in society. The corporate Foundation for the Development of Ukraine serves as an instrument for social investment. The Foundation was established in 2005 by SCM and FC Shakhtar. The Foundation is focused on the implementation of socially important projects in the field of healthcare, education and culture.

Breakdown of Social investments of the Foundation for Development of Ukraine, 2006, million USD



Healthcare

In the field of healthcare the Foundation is implementing a programme Health of the Nation. Its goal is to implement state-of-the-art technologies, strengthen institutional changes in healthcare and make Ukrainian citizens care more about their health.

Implementation of DOTS-Plus Strategy

On 22 November 2006, the Foundation launched DOTS-Plus – Ukraine's first project to fight against drug-resistant tuberculosis aimed at the detection, diagnosis and treatment of drug-resistant tuberculosis (DRTB). The Foundation's partners in the project are the European Bureau of the World Health Organisation (WHO), WHO Bureau in Ukraine and WHO Bureau in Donetsk.

The major cause of the TB epidemic in Ukraine is the lack of funds in the country to make proper diagnosis and treatment of the disease and the absence of a system to detect and treat acute forms of tuberculosis, i.e. drug-resistant tuberculosis. DOTS-Plus project was developed to address this problem. The Foundation is implementing the pilot project in the Donetsk Oblast on the basis of the DOTS strategy successfully

realised in 2001-2004. It includes equipment for four bacteriologic laboratories, the establishment of special hospitals for DRTB patients and training TB doctors. One of the priorities of the project is to attract public attention to the problem of tuberculosis in Ukraine. The project is expected to reduce TB incidence by 5% annually.

Contemporary Education

The Foundation contributes to the reorganisation of educational system in Ukraine. To this end, the Foundation participates in the Contemporary Education programme. Projects within this programme are focused on making systemic changes in higher, secondary and vocational education with due regard to the provisions of Ukraine's Education Development Strategy for 2006-2010. In 2006, the Foundation entered into a joint project with the Economics Education and Research Consortium within its Contemporary Education programme. The project's goal was to contribute to the development and operation of the Ukrainian economy through training and recruiting skilled domestic specialists in economics. The EERC Master's programme's activities are aimed at advanced training and support to the professional development of young specialists. To support the most talented and active students, the Foundation provides scholarships. In 2005-2006, the Foundation allocated

around \$300,000 (UAH 1.5m) to implement the project.

In October 2006, the Foundation for the Development of Ukraine in tandem with the Ukrainian-Canadian project Decentralization of control over professional education held a seminar on the adaptation of elements of the Canadian professional education model in Ukraine. The seminar reviewed practical models of strategic control over HR training involving different stakeholders: state and local authorities, employers, trade unions, experts, etc. Representatives of professional education, regional employment services (Donetsk, Dnepropetrovsk oblasts), and several of the biggest employers of Ukraine (DTEK, Azovstal, Central GOK) took part in the discussion. The seminar became a platform for best practices exchange and promoted the spread of best practice in professional education.

In November 2006, the Foundation for the Development of Ukraine held the roundtable Quality of training of professional staff for Ukraine's labour market, the first event held within the Professional Ukraine project. The roundtable formed a platform for effective public dialogue about professional education and the labour market problems of Ukraine. Leading experts in education, representatives of the Ministry of Education and Science, the Ministry of Labour and Social Policy, the Ministry of Economy, the State Employment Service, academic communities and associations of

SOCIAL INVESTMENTS

employers took part in the roundtable. The Foundation for the Development of Ukraine was the leader and moderator of the public dialogue. The roundtable resulted in an analytical report describing the ways to make the professional training system more effective.

Cultural Heritage

One of the priorities of the Foundation is the preservation and development of the country's cultural heritage through the preservation of cultural heritage and the development of modern Ukrainian culture. The reconstruction of the Metropolitan's Residence of Sofia Kyivska historical site was the first project in the field of culture. In October 2006, the Foundation for the Development of Ukraine held a presentation in Kyiv to mark the completion of the first stage of reconstruction of the Metropolitan's Residence of Sofia Kyivska and announced the opening of Ukraine's first Architecture Museum that would be part of Metropolitan's Residence. After reconstruction, the Metropolitan's Residence, a monument to the architecture of the 18th century, will be used as a place for official events and exhibitions. A graphics school will also be located in its premises. The photo exhibition Ukraine, the Country of Living Architecture was unveiled in the Architecture Museum. This featured a collection of photos for the exhibition provided by the Foundation, which were later published as reference book.





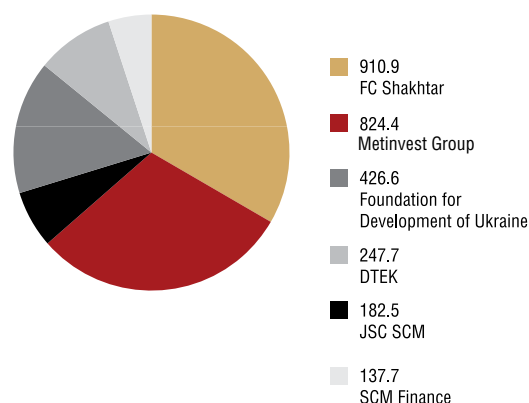
SPONSORSHIP

As a responsible corporate citizen SCM Group also allocates funds to sponsorships and charitable programmes which contribute to the solution of social problems. Our donations are serious contributions into social projects and campaigns and help to deliver financial resources to charitable organisations, which support communities and people in need.

SCM Group supports initiatives in the field of education, sports, healthcare and culture and provides targeted charitable donations aimed to support people, who find themselves in difficult circumstances. We provide this assistance through recognised charities and NGOs.

The picture below shows the breakdown of SCM Group sponsorships and donations in 2006.

Breakdown of SCM Group sponsorship and charitable donations, 2006, thou USD



STATISTICS

In 2006, SCM Group sponsorships and donations made were worth almost \$2.7m (UAH 13.785m).

Sponsorship

The key principles of SCM sponsorship activity are that:

- an institution or event, which the company plans to support, is a recognised and legitimate organisation and has a good reputation
- SCM Group should not sponsor events or activities, which are political or which provide support for political parties, organisations or politicians
- SCM Group should not sponsor institutions, events or activities, which support a specific religion or promotion of a religion
- SCM Group should not support organisations whose objective is primarily commercial and who seek to make a profit from SCM's sponsorship

European Youth Parliament

To help support the development of young people and encourage international cooperation, SCM sponsored the Ukrainian session of the European Youth Parliament (an international non-partisan organisation). The session was held in Kyiv in October 2006 and hosted over 250 delegates from 26 countries. During the session delegates worked in committees in a similar format to the European Parliament. The delegates discussed such problems as the fight against HIV/AIDS and the prevention of human trafficking amongst a number of subjects. The committees proposed resolutions which, after approval of the session's General Assembly, were submitted to the European Parliament and respective commissions of international organisations for their consideration.

Europe Days in Ukraine

The Group supports international initiatives targeting the promotion of principles of freedom, democracy, human rights and rule of law, with such principles being common for all EU members. In May 2006, SCM sponsored Europe Days in Ukraine. The celebration of Europe Days is an important public event related to Ukraine's integration into Europe.

Initiatives on Environment Protection

SCM Group supports Global Compact initiatives in Ukraine to promote greater environmental responsibility and encourages partnership relationships and cooperation between authorities, business and society to reach the UN's Millennium Development Goal – ensuring environmental sustainability – and supporting the formation of the national environmental strategy of Ukraine.

In 2006, SCM sponsored and took part in the International Environmental Conference "Open Dialogue: Government, Industry and Civil Society. Sustainable Environmental Development in Ukraine" held at the Mariupol State Humanitarian University. SCM's Director of Corporate Communications Department Jock Mendoza-Wilson spoke on the topic "Business and Environment in Transition" during the workshop on industry and environment. His report explained the need for business to work together with government and society on environmental issues and the desire for business to improve energy efficiency,

SPONSORSHIP

reduce environmental impact and meet international environment standards.

Supporting Development of Professional Business Journalism in Ukraine

DTEK was one of the partners of the Second International Contest “PRESSzvanie 2006” in the category “FES: Electric Power Industry”, where the best journalist was selected out of 19 leading Ukrainian journalists covering power industry issues in the electronic and print media. The project also contributed to setting up partnership relations between business and the media.

Supporting Culture and Arts

• World Ballet Stars Festival

First Ukrainian International Bank has been a partner of the World Ballet Stars Festival for 13 years. Providing support to the Festival is an opportunity to make contribution to development of Ukrainian ballet. In spring 2006, FUIB also was a partner of Grand Pa Children’s Ballet Contest.

• Salt Symphony Festival

The unique festival “Salt Symphony” held with the support of SCM in the salt mining town Soledar in the Donetsk region and was a significant event in Ukraine’s cultural life. Festival participants, including international conductors, musicians and opera singers performed for an audience of 400 guests in the natural theatre created in the vaults of a salt mine almost 300 meters underground.

• Other Events

In 2006, SCM’s insurance business, ASKA, sponsored arts events On the Seas of Svityaz (Lutsyk), Melpomena of Tavria (Kherson) and Lvov Ball (to mark Lvov’s 750th anniversary).

Support for Sports

• FC Shakhtar’s Children Academy

In 2006, FC Shakhtar established the Shakhtar Children’s Academy. The main Academy consists of children’s teams aged between 13 and 21, who live and train at Kirsha training campus and study at one school. In addition, the Academy has arranged a feeder network consisting of 19 schools in Donetsk region where about 700 children aged between 10 and 13 receive football coaching. It is important to ensure that students of the Academy are able to fulfil their potential not only in sports but also at school. Thus, the Academy also encourages and supports older football players wishing to continue studying at university. Shakhtar also has an education coordinator to monitor progress in studies and provides educational support its young football players.



CHARITY

We provide charitable donations targeted to support people who find themselves in difficult situations in their lives to help them through these challenges. We provide this assistance through recognised charities and NGOs. The areas where we are active in providing assistance are as follows:

- Support for society's most vulnerable groups, who need special attention and help (seriously ill children, orphans, veterans, and pensioners)
- Assistance to charity organisations
- Providing financial assistance to hospitals, orphanages, elderly care institutions, education and rehabilitation institutions

Supporting medical institutions

SCM Group provides financial support to medical institutions, which need additional funding to provide specialist drugs and modern medical equipment. In 2006, SCM Finance, which manages SCM Group's banking and insurance business, donated around \$10,000 (UAH 50,000) to Donetsk's Child Oncology and Haematology Centre at the Gusak Institute of Emergency and Reconstructive Surgery of the Academy of Medical Sciences of Ukraine. The funds were allocated to the development of a new technique for bone marrow transplantation and to buy equipment needed for a daily drug injection process.

Support for Child Care Institutions

Over the last 6 years FC Shakhtar has been running a charity programme "Shakhtar to Children". On Saint Nicholas Day (December 19, 2006), 83 orphanages and child care institutions in Donetsk region were presented with gifts, personal computers, medical equipment and new furniture in the total amount of

about \$1m (around UAH 5m). Within the framework of the event the President of FC Shakhtar and the president of the Foundation for the Development of Ukraine, Rinat Akhmetov, together with his friend, the Russian composer Igor Krutoy, visited three child care institutions in Makeyevka and Donetsk.

Support for Veterans and Pensioners

The companies of the Group help pensioners and veterans, support veterans' wards in city hospitals and contribute to the payment of housing and utility services. Dokuchayevsk Flux and Dolomite Plant (DFDK, part of Metinvest Group) is a good example of this, providing donations to pensioners (former employees of the plant). In 2006, DFDK allocated about \$157,623 (UAH 796,000), including \$126,733 (UAH 640,000) to support almost 2,000 pensioners. DFDK's partner in implementing the charitable programme was the charitable organisation Turbota.

Cooperating with Public Organisations in Charity Actions

The companies of the Group provide help to those on low-incomes and people in need through charities and public organisations. For example, donating to charity and providing sponsorship is long tradition at Avdeyevka Coke and Chemical Plant. In 2006, the plant supported Avdeyevka Labour and Social Protection Department, Chernobyl of Ukraine Union, Right from the Heart Foundation, Children of Donbass Foundation, Avdeyevka City Employment Centre, temples and churches. During the year, the plant provided support to city institutions in education, healthcare and culture, public and charity organizations to the amount of over \$1.1m (UAH 5.8m).

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10. Businesses should work against all forms of corruption, including extortion and bribery	Business and Corporate Ethics	10

FEEDBACK

Thank you for finding time to read the SCM's Communication on Progress for 2006. Our objective was to inform stakeholders of the Groups CSR activities and on our progress on implementing the ten principles of the UN Global Compact. We would be happy to hear your comment on the report

Please send your comments by e-mail (csr@scm.com.ua), fax: +38 062 3815017, or mail to the address: 117 Postysheva str., Donetsk 83000, Ukraine.

- What new information did you learn about SCM Group from the Report?
- Your opinion on the report content (completeness and importance of the information and style of writing)
- What additional information would you like to see in the next report?
- Other proposals, comments and wishes

In relation to SCM you are:

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