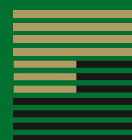




2010/2011

SCM

System Capital Management Sustainability Report
National Leadership



**SYSTEM
CAPITAL
MANAGEMENT**

The report that we happily present has been developed with the significant contribution of SCM Group's representatives. We wish to thank everyone, who gave interviews, prepared information and collected data, commented and expressed suggestions. The report is the result of our joint efforts and our common achievement.



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**SYSTEM CAPITAL MANAGEMENT
SUSTAINABILITY REPORT
2010 – 2011**

NATIONAL LEADERSHIP



CEO STATEMENT

2010 was a year of celebration for SCM, as we marked the company's 10th anniversary, reviewed our performance to date and approved new strategic plans that will carry us into the future. As Ukraine's economy began to recover from the global financial crisis, we improved our positions in the domestic market while significantly extending our international operations and redoubling our corporate social responsibility efforts.

The health and safety of our employees is SCM Group's number-one social responsibility priority. We are continually making the significant investments needed to improve equipment, to build a company-wide safety culture, and to improve workplace safety across all of our businesses. We emphasize in-service training as a way to build employee skills. Senior managers from our corporate headquarters and our industrial holdings are active participants in health and safety committees and health and safety audits. Their commitment demonstrates how important these issues are to the entire organization. Although the total number of accidents across SCM Group fell 17% in 2010 against 2009, we understand the danger of complacency, and work every day to improve our health and safety performance.

Despite our continued commitment to improving health and safety in all our companies, a deeply regrettable accident on 29 July 2011 cost 26 miners their lives. The incident occurred at a mine operated by the Krasnodonugol coal group, part of our mining and metals business. The accident is a stark reminder of the dangers inherent in mining and the consequent need to keep a sharp focus on our employees' safety.

In 2010, SCM Group boosted its investment in health and safety by more than 60%, to UAH 797.6 million. This report describes how we innovated across our companies, extending health and safety practices to everyone who works at our businesses, including contractors. Over the coming years, we will apply corporate health and safety systems management to the businesses which joined the Group's industrial holdings during 2010 and 2011.

We continue to prioritize energy efficiency and the environment – two critical areas of concern that had been largely neglected through the 1990s. It is inevitable that Ukraine will continue to adapt its environmental regulations to meet or exceed European standards as the nation moves toward EU economic integration. We are striving to improve our environmental performance, and our businesses are making significant progress: Metinvest is actively modernizing its steel plants, and DTEK has embarked upon an impressive wind power initiative.

The company's record investments in energy efficiency and environmental protection during 2010 totalled about UAH 3 billion, demonstrating our long-term commitment to operating sustainable businesses.

Moreover, we demonstrate our commitment to local communities by creating successful businesses that provide stable, well-paid jobs.

Our people are our most important asset, and I am proud to report that the salaries we pay exceed the average in every region in which we operate. In addition, we invest heavily in building and updating our employees' skills.

We offer active social investment programs in local communities, with targeted funding that improves living standards by improving infrastructure, upgrading public health and education services, and by sponsoring cultural and sporting events and programs. We also support the development of Ukrainian society as a whole through our national Contemporary Education program, which endeavours to reform the higher education system.

Accountability is one of our core values, and SCM is committed to being a transparent company. We continue to lead the way in Ukraine in terms of both our financial and non-financial reporting. Through a new corporate code adopted by the SCM Management Company and promotion of common corporate values across all of our businesses, I believe that we have a strong firewall in place against corruption at the Group.

Our ambition to be a leading global company means that we aspire to be world-class in sustainability and social responsibility. It was an honour that SCM was invited to be one of first signatories to the new UN Global Compact LEAD initiative. This program, launched by UN Secretary General Ban Ki Moon at the World Economic Forum in January 2011, involves the top global businesses championing social responsibility. As CEO, I welcomed the opportunity to reaffirm SCM's commitment to the principles of the Global Compact.



Oleg Popov

Chief Executive Officer, SCM

181.5
BILLION
UAH

CONSOLIDATED
ASSETS

scm

ABOUT SCM GROUP

System Capital Management is the largest diversified group of companies in Ukraine. It includes mining and metals, energy, finance, telecommunications, media and other businesses. The SCM Group comprises more than 100 businesses in Ukraine and internationally.

SCM GROUP IN NUMBERS (AS OF 2010)

MORE THAN

100

BUSINESSES

200,000

EMPLOYEES

181.5
billion
UAH

CONSOLIDATED ASSETS

4
billion
UAH

AROUND

INVESTMENTS IN STAFF TRAINING, HEALTH AND SAFETY,
ENVIRONMENT PROTECTION, ENERGY EFFICIENCY
AND COMMUNITY DEVELOPMENT

In 2010, System Capital Management celebrated its 10th anniversary. In just a decade, the company has experienced growth, diversification, and consolidation during the sharp 2009 recession. Today, the company is in a period of organic growth focused on creating long-term value. Over the last decade, sustainability goals and social responsibility principles have been deeply embedded into our businesses, with health and safety our number-one priority.

As economic conditions improved during 2010 and 2011, our scope of operations expanded. SCM's consolidated assets across more than 100 companies were \$22.8 billion and the Group employed more than 200,000 people. Our turnover increased 57% to \$12.8 billion and consolidated profits grew to \$850 million. Physical output rose as well: in 2010, we increased steel production by 24.3%, iron ore concentrate by 16%, coal by 11% and electricity output by 18%.

The majority of SCM Group's turnover is still generated by Metinvest, a vertically-integrated mining and metals company, and DTEK, Ukraine's largest private energy company. Yet our portfolio of investments across all sectors continues to expand, including finance, telecommunications, media, real estate, retail, clay production, filling stations, agriculture, pharmaceutical trading, heavy engineering, transportation and other businesses.

Improved financial and economic performance has made it possible for SCM to move ahead with investments in the most important aspects of corporate social responsibility: our environment, our people and our communities. We also strengthened our ability to manage our commitments to social responsibility and enhanced the quality of our non-financial reporting. Together, these measures help us to take our corporate social responsibility to the next level and increase the contributions to the sustainable development of society in the decade ahead.

We are determined to meet global best practices standards for the protection of the health and safety of the people who work in our industrial plants. During 2010, accidents declined by 17% and fatal accidents declined by 35% over the previous year. Because we believe that almost all accidents are preventable, we increased our investment in health and safety more than 60%, to UAH 797.6 million for the reporting period.

The environment is one of our toughest challenges and our investments in this area reached record levels in 2010 – over UAH 2.2 billion, or 46% more than in 2009. This report features our actions to cut emissions, improve water resource management and reduce waste. We continue to improve our environmental and energy management systems. This is especially important as Ukraine joined the European Energy Community in 2010.

We invested UAH 870 million in energy-saving programs and technologies. Despite significant increases in production by our industrial businesses in 2010, improved energy efficiency meant that energy consumption increased by only 14% and greenhouse gas emissions by just 10.6% in CO₂ equivalent. This will benefit our businesses through reductions of energy costs.

The improved economic climate allowed our businesses to increase their investments to support the development of Ukraine and the communities where we operate by 28%, to UAH 64.6 million.

Nationally, we have prioritised projects that support Ukraine's sustainable development. We promote corporate social responsibility to Ukrainian businesses: we support the government's and universities' efforts to reform and modernise the education system and encourage life-long learning. As part of a new initiative in 2011, Ukrainian Energy Index, we were raising awareness of the economic and environmental benefits of energy efficiency.

At a local level, our businesses have increased the number of partnership agreements reached with cities and towns, and deepened these partnerships to involve local stakeholders.

Increased investments in our people, our environment and our communities account for only one positive side of our performance during the reporting period. We also strengthened our corporate governance systems to better plan and deliver on sustainability and social responsibility. This report also describes the range of the initiatives we've undertaken to combat corruption.

Our companies worked to integrate sustainability into our wider risk management and strategic planning systems in 2010. DTEK's new long-term strategy to 2030 reflects the vision of a modern energy company and its place in social development. In its new strategy to 2020, Metinvest is focusing on improving all its business processes to make them more efficient and to enable them to achieve responsible business goals.

As a responsible investor, SCM makes long-term investments. We regard investment in our businesses as an effective factor of long-term value creation. We are predominantly focused on the organic growth of the Group's assets in a way that is mindful of our responsibilities to the environment and society.



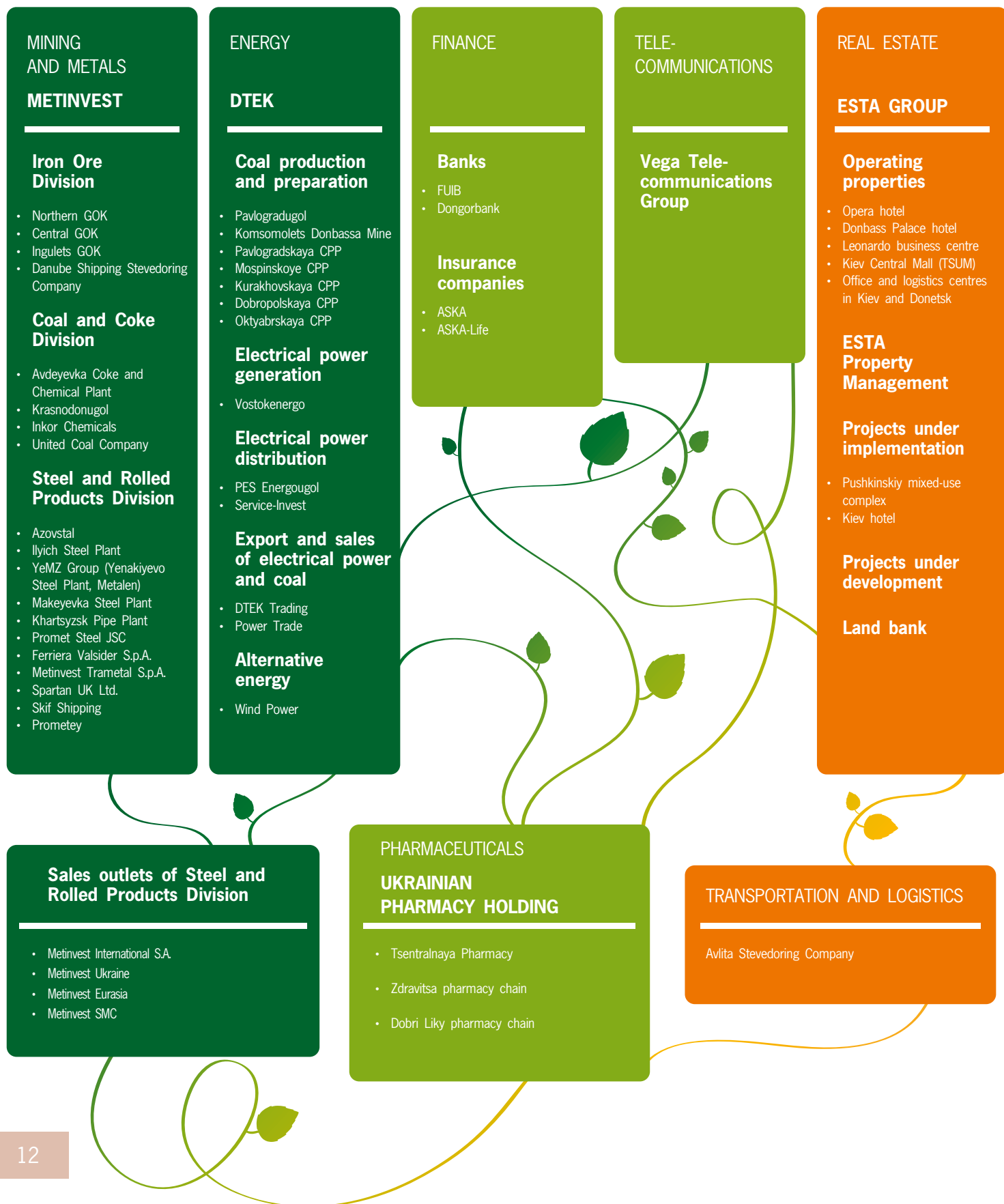
MORE THAN
200,000
EMPLOYEES

CONTEXT

System Capital Management is Ukraine's largest private domestic investor, with a long-term focus.

We create efficient businesses and manage them by applying the best international standards and practices. This ensures a long-term return on our investments and contributes to the development of the communities where we operate.

SCM GROUP STRUCTURE 2010



MEDIA

Ukraina Media Group

- Ukraina TV channel
- Futbol TV channel
- Donbass TV channel
- Mediapartnership
- Digital Ventures

Segodnya Multimedia publishing holding

CLAY PRODUCTION

UNITED MINERALS GROUP

- Vesko
- Druzhkovka Ore Mining Group
- Ogneupomerud
- Kerammekhanizatsiya
- Kapital-Servis

GROCERY RETAIL

UKRAINSKIY RETAIL

- Brusnytsya

PETROLIUM PRODUCTS RETAIL

- Parallel TM
- Gefest TM
- PitStop TM

HEAVY ENGINEERING

MINING MACHINES

- Druzhkovka Heavy Engineering Plant
- Gorlovsky Mashinostroitel Heavy Engineering Plant
- Donetskgormash Heavy Engineering Plant
- Donetsk Power Equipment Plant
- Kamensk Heavy Engineering Plant
- Sverdlovsky Heavy Engineering Plant
- Mining Machines Engineering and Technology Centre
- Mining Machines – Quality System

FOOTBALL

- FC Shakhtar
- Donbass Arena

ASSOCIATED COMPANIES*

MINING AND METALS:

- Zaporozhkoks
- Donetskkoks
- Dokuchayevsk Flux and Dolomite Plant
- Novotroitskoye Ore Mining
- Krivbassvzryvprom
- Kryvoy Rog Iron Ore Plant

ENERGY:

- Dneproenergo
- Donetskobleneiro
- Kievenoenergo
- Zapadenergo

TELECOMMUNICATIONS:

- Astelit
- MMDS Ukraine

OTHERS:

- Krasnopolyanskiy sandpit
- Dnepropetrovsk TV Service

* Associated companies are businesses in which SCM has invested and has influence (i.e. can take part in guiding their financial and operating policies) but not control.

SCM GROUP STRUCTURE AND AREAS OF OPERATION

SCM is the management company of Ukraine's leading financial and industrial group. It is focused on mining and metals, energy and finance, as well as telecommunications, media, real estate, retail, clay production, trading in petroleum and pharmaceutical products, agriculture, heavy engineering and transportation. SCM is wholly owned by Ukrainian businessman Rinat Akhmetov.

The company was founded in 2000. During its early years, SCM expanded rapidly, growing its investment portfolio. Our operations focused on mining and metals, power generation and distribution and finance.

Between 2004 and 2006, we developed a vertically integrated production structure and built a top-notch management team to ensure operations that meet international best practice standards. Under a corporate transformation programme, we established holdings in the mining and metals sector (Metinvest) and the energy sector (DTEK). We also invested widely in new areas, like media, real estate and telecommunications.

Between 2009 and 2011, we continued to invest in our existing assets and acquire new businesses. Over a decade, we have evolved into Ukraine's largest private investor. We continue to invest in the further organic growth of our businesses, expanding our operational reach and seeking to increase the value of our assets.



Principal Industrial Businesses: Metinvest and DTEK

Metinvest

Metinvest was established in 2006 as a vertically integrated mining and metals business. SCM Group (75%) and SMART Holding (25%) were major shareholders of the company in 2010. In 2011 the way that shares were distributed changed following the merger of Metinvest's assets with Ilyich Steel Plant: today, SCM Group owns 71.25% of Metinvest, Smart Holding owns a 23.75% interest and Clarendale Limited (Vladimir Boyko is the principal beneficiary) has 5% ownership.

Today, Metinvest is an international vertically integrated mining and metals company with 24 businesses in Ukraine, Europe and the United States. It controls every stage in the chain from ore and coal mining, and coke and steel production straight to making flat, long and rolled products, large-diameter pipes and other high value-added products.

In 2010, Metinvest Group enterprises substantially increased production to 8.7 million tonnes of steel, 10.1 million tonnes of coking coal and 35.7 million tonnes of iron ore concentrate. Principal sales markets include Ukraine (37%), Europe (24%), Southeast Asia (16%), the Commonwealth of Independent States (10%), the Middle East and North Africa (8%). Canada, the United States and other countries comprise just 5% of the market.

In 2010, Metinvest Group was organised into three divisions with the following businesses:

- Iron Ore Division: Northern Ore Mining and Processing Plant (SevGOK), Central Ore Mining and Processing Plant (CGOK), Ingulets Ore Mining and Processing Plant (InGOK), and Danube Shipping Stevedoring Company.
- Coke and Coal Division: Avdeyevka Coke and Chemical Plant (AKHZ), Krasnodonugol coal mining group, Inkor Chemicals, United Coal Company (USA).
- Steel and Rolled Products Division: Azovstal Steel Plant, Ilyich Steel Plant, Yenakiyevo Steel Plant (YeMZ) and Metalen (YeMZ Group), Makeyevka Steel Plant, Khartsyzsk Pipe Plant (KHTZ), Prometey, Skif-Shipping, Promet Steel JSC, Ferriera Valsider S.p.A, Metinvest Tramelal S.p.A., and Spartan UK Ltd.
- Sales service of the steel and rolled products division is provided by Metinvest International S.A., Metinvest Eurasia, Metinvest Ukraine, and Metinvest SMC.

In 2010, the World Steel Association ranked Metinvest the 26th largest steel producer in the world and the world's 9th largest iron ore producer.

More information about Metinvest is available on its website, www.metinvestholding.com.

DTEK

DTEK was established in 2005 and is wholly owned by SCM Group. It is Ukraine's largest vertically integrated energy business, with 24 businesses under ownership and management. In 2010, DTEK businesses operated in Donetsk, Dnepropetrovsk, Lugansk, Zaporozhye, Lvov, Ivano-Frankovsk, Vinnitsa and Kiev oblasts. That year, DTEK produced 19.2 million tonnes of coal (DTEK accounts for 25.5% of Ukraine's thermal coal production), generated 35.4 billion kWh of electricity¹ and purchased 32.8 billion kWh of electricity on the wholesale electricity market².

DTEK's principal businesses (as of end of 2010) are:

- Coal mining and preparation: Pavlogradugol mining group, Komsomolets Donbassa Mine, Mospinskoye, Pavlogradskaya, Kurakhovskaya, Dobropolskaya and Oktyabrskaya coal preparation plants (CPP).
- Power generation: Vostokenergo.
- Power distribution: Energougol ENE, Service-Invest.
- Trading: DTEK Trading (coal sales), DTEK Power Trade (electricity sales).
- Alternative energy: Wind Power.

DTEK also owns engineering and maintenance firms, as well as social facilities.

In 2010, DTEK improved its positions in the international market. Coal exports more than double 2009's results, with around 2 million tonnes delivered to Turkey, Bulgaria, Poland, Romania, India, the USA and Brazil. Also, since January 2010, DTEK has distributed electric power to Hungary, Slovakia, Romania, Moldova and Belarus. During 2010, the company exported 1.21 billion kWh of electrical power.

More information about DTEK is available on its website, www.dtek.com.

¹ Including Vostokenergo (DTEK owns 100%), Dneproenergo (DTEK owns 47.55%) and Kievenoenergo (DTEK owns 39.98%).

² Including Servis-Invest, DTEK Energougol ENE, Donetskoblenergo, and Kievenoenergo.

Core non-industrial businesses

Finance

Our financial business includes two banks (First Ukrainian International Bank and Dongorbank) and two insurance companies (ASKA and ASKA-Life).

First Ukrainian International Bank (FUIB) is one of Ukraine's biggest banks, offering a full range of services to corporate and individual clients. It was ranked Ukraine's 11th largest bank in terms of assets and 10th largest in equity in 2010.

Dongorbank is an important regional bank with a presence in the country's eastern regions and Kiev. It was ranked the nation's 20th largest bank by assets and 26th largest by equity by the Association of Ukrainian Banks in 2010.

ASKA is one of Ukraine's leading insurance companies. It was ranked 11th among Ukrainian insurers by premiums, 10th by equity and 14th by assets in 2010.

ASKA-Life is a Ukrainian market leader, with a broad selection of life insurance services. In 2010, it was ranked the sixth-largest Ukrainian life insurer in terms of premiums, 19th by equity and fifth-largest by assets.

More information about SCM Group's finance business is available on: www.pumb.ua, www.aska.com.ua and www.aska-life.com.ua.

Telecommunications

Vega Telecommunications Group (Vega) is one of Ukraine's largest private fixed-line operators.

In 2010, Vega provided services in 47 cities and 2 towns in 20 Ukrainian oblasts. Vega's full line of telecommunications services, including fixed-line telephone connection, broadband Internet access and data transfer are available in 38 cities and towns.

With around 650,000 lines, Vega Group was ranked Ukraine's second-largest fixed-line telephony company by subscribers in 2010, and it comprises five percent of the telephony market, according to the State Statistics Service. Vega serves over 127,000 broadband Internet access ports and is the country's fifth-largest Internet provider. The company serves five percent of the Ukrainian market, according to iKS-Consulting.

More information is on www.vegatele.com.

Media

SCM's media business includes Ukraine Media Group and Segodnya Multimedia publishing holding.

Ukraine Media Group includes:

- Ukraina is one of Ukraine's leading nationwide television channels, with informational, educational, children's, entertainment, feature and sports programming. Ukraina broadcasts day and night by air, cable and via satellite. In 2010, the channel was Ukraine's second most popular television channel, with an average share of 10.21% (audience aged 18 years and over, 50,000+ according to Gfk Ukraine). Ukraina is the most dynamic channel by audience growth among big national broadcasters. Since 2006 it has steadily increased its share, more than doubling over five years.
- Futbol is Ukraine's first specialized channel, dedicated exclusively to football. Its technical coverage through cable networks exceeds 90% of Ukrainian households (Gfk Ukraine).
- Donbass is a general-interest channel for viewers in Eastern Ukraine.
- Media Partnership is a sales house, which has the exclusive rights to sell advertising airtime on Ukraine Media Group's channels.
- Digital Ventures, an internet holding, is developing a large horizontal portal (www.tochka.net) characterized by a high number of unique users and its popularity. When developing its projects, Digital Ventures focuses on professional staff and unique content. By the end of 2011, tochka.net intends to achieve market leadership positions in Ukraine.

More information is on www.mgukraine.com.

Segodnya Multimedia publishing holding

SCM Group's publishing business is consolidated under the Segodnya Multimedia holding, which manages a range of print and online media. The holding's best-known publication is Segodnya, a national general-interest daily with regional editions in Kiev, Odessa, Kharkov, Donetsk, and Dnepropetrovsk. Regional newspapers include Donetskiye Novosti, a news and analysis weekly; Vecherniy Donetsk newspaper; Nedelya. Argumenty, Fakty, and Sobytiya weekly; Privet, Rebyata! a youth-oriented publication; Dom Sovetov, a newspaper featuring practical household advice; Priazovye Reklama advertising publication; Salon Dona i Basa, a business newspaper; Salon Million Obyavleniy advertising weekly; and RIO, a TV guide.

In December 2010, Segodnya was ranked the second most popular general interest newspaper in Ukraine (according to TNS Ukraine) with the audience of 1.075 million readers per issue. By the end of 2010, Segondya.ua had gained leadership among news websites (according to gemiusAudience internet research by GemiusUkraine).

More information: segodnya-multimedia.com.

Real Estate

ESTA Group is the holding company managing SCM's real estate assets and one of the largest players in Ukraine's real estate market. Among the Group's main business areas are commercial property, including business and retail centres and hotels. ESTA Holding is one of the biggest players in Ukraine's real estate market. In 2010, its assets were worth \$370 million.

More information is on www.estaholding.com.

Main changes in the structure of SCM Group in 2010

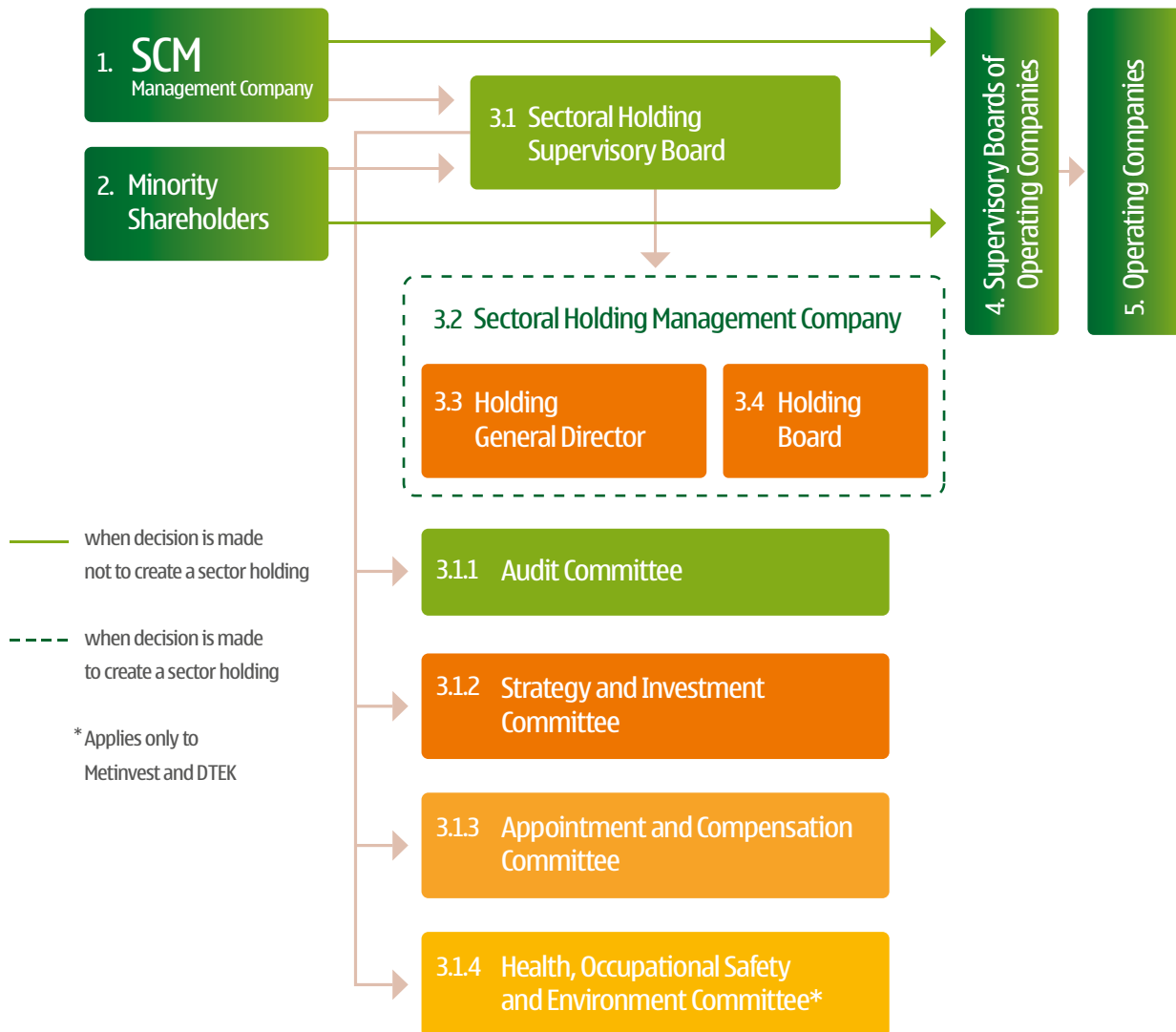
MINING AND METALS	Metinvest acquired the Ilyich Steel Plant in Mariupol and completed the process of integrating Makeyevka Steel Plant into its Steel and Rolled Products division.
ENERGY	DTEK and other SCM Group companies increased their stake in the statutory capital of Zapadenergo to 24.90% and in Kievenenergo's statutory capital to 39.98%.
FINANCE	In 2010, SCM decided to improve its standing in the Ukrainian financial market by merging First Ukrainian International Bank and Dongorbank. The process concluded in June 2011. The integrated bank operates under the First Ukrainian International Bank brand. Purchase of a 100% stake in Renaissance Capital Bank (Ukraine).
TELECOMMUNICATIONS	Farlep-Invest, the management company for Vega Group, was structured as owner of Vilcom, Farlep, Matritsa, PP-Sveton, BCTK, IP-Telecom, ORT-SOUTH, Telecom Ukraine, Optima Telecom-Crimea, and Altek.
REAL ESTATE	ESTA Group purchased Kiev's Central Department Store (TsUM) and a 50% stake in the Kiev Hotel in Donetsk.
MEDIA	Ukraina Media Group was created to manage the SCM Group's media assets in the television and Internet markets: Ukraina channel, Futbol channel, Donbass regional channel, Media Partnership sales house and Digital Ventures (www.tochka.net portal). The Group bought a 22% stake in the statutory capital of Dnepropetrovsk Television Service.

More information about changes in the structure is available in the SCM Public Report 2010 (www.scm.com.ua).

More information about the structure of the SCM Group as of the end of 2011 is available on www.scmholding.com.

Corporate Governance

SCM Group target corporate governance system



CORPORATE GOVERNANCE

SCM's corporate structure (see chart) gives holding companies substantial responsibility for devising and implementing their growth and development strategies. We believe that this corporate structure offers clear lines of responsibility to allow the open decision-making that complies with international best practices. The corporate governance structure is underpinned by our values of effectiveness, professionalism and responsibility.

SCM has adopted the continental corporate governance system, which clearly separates the functions of executive directors (executives) and the function of control (non-executives) between two individual bodies: the Board of Directors and the Supervisory Board. As the majority shareholder and main investor, SCM Group delegates representatives to sit on the supervisory boards of its sector holdings, alongside representatives of minority shareholders and external experts. The chair of each supervisory board is elected by the board's members.

Supervisory boards govern sector holdings. They determine the vision for the holdings' business development and standards; they approve and oversee the implementation of strategies, budgets and major transactions; and they appoint top managers, establish incentives and evaluate performance.

Members of the supervisory boards participate in specialized committees responsible for audit, strategy and investment, appointment and compensation and, where appropriate, health, occupational safety and environment. Independent experts are also appointed to sit alongside board members on these committees. The external experts engaged by the supervisory boards are high-profile specialists in their industries with strong international reputations. They provide expertise, involve additional management resources and establish business contacts. In particular, Metinvest's supervisory board includes two independent directors and an external legal expert. The DTEK supervisory board has three independent directors in place.

- The audit committee prepares recommendations for the sector holdings' supervisory boards regarding accounting policy and procedures for preparing financial reports; the depth and accuracy of financial reporting provided by each holding; the reliability and effectiveness of the internal auditing system; and internal oversight and risk management. They ensure the independence of internal and external audits and compliance with laws, regulations and best practices governing business ethics.
- The strategy and investment committee prepares and submits recommendations regarding investment projects as well as exit strategies for review by the supervisory boards. They also prepare recommendations regarding the strategic goals and objectives of the various holdings, as well as the implementation of agreements on mergers and acquisitions.

- The appointment and compensation committee recommend candidates for management positions in the sector holdings to the supervisory boards. The committee organizes interviews with applicants for specific positions and decides whom to recommend for those positions. The committees also prepare recommendations regarding the rotation of top managers within the sector holdings, propose ways to incentivize top managers, as well as participate in shaping the corporate culture and talent pool, and in determining the prospects for managers' personal development.
- The health, occupational safety and environment committees were created to institute the highest health and occupational safety standards across the Group, as well as to control the environmental impact of the Group's industrial enterprises. The committees develop strategy; prepare budgets to finance modernization of equipment; ensure the compliance of all enterprises with the approved health and safety standards and annually submit the Group enterprises' quarterly management reports to the supervisory board for review.

The general director of a sector holding is appointed by the supervisory board and is tasked with managing the holding's operations and taking an active part in the strategic planning of the holding's activities as a member of its supervisory board.

The executive council is the highest body in the operational management of the holding. The chairs of the executive councils are the general directors of the holdings.

The supervisory boards of operating companies within the Group's holding companies are responsible for their sustainable financial and economic growth, improved efficiency and increased competitiveness. They ensure that shareholder rights are upheld, make decisions regarding when to hold general shareholders' meetings, and establish the agenda for such meetings. They also draft corporate policies and other guidance. The members of the supervisory boards of operating companies are appointed by the executive council and approved by the supervisory board of the relevant sector holding.

For individual areas of business where there are not yet sector holdings, the system of corporate governance works through the immediate supervisory boards of the operating companies.

This corporate governance structure has been demonstrated to be effective, and SCM continues to improve it.

KEY FINANCIAL FIGURES OF SCM GROUP

In 2010, SCM Group had assets of \$22.8 billion and turnover of \$12.8 billion. We earned a net profit of \$850 million, all of which was reinvested to further develop and modernize our businesses.

Our businesses have benefitted significantly from the recovery of the national economy, markets and consumer demand for the products of our industrial holdings, Metinvest and DTEK, compared with 2009.

Key financial figures of SCM Group, U.S. \$, millions				
	2007	2008	2009	2010
Consolidated gross income	9,563	15,985	8,151	12,819
Operating expenditures	7,771	12,316	7,518	11,345
Salaries and bonuses, including employee pensions	1,040	1,513	1,082	1,320
Taxes, including profit tax and payroll taxes (without VAT)	912	1,244	654	1,170

Note: the numbers in the table show consolidated performance of the entire SCM Group, not only the entities covered in the report. The information is given to demonstrate the full scope of SCM Group.

During 2010 and 2011, the economy in Ukraine, SCM Group's principal market, saw some recovery. According to the International Monetary Fund, Ukraine's gross domestic product grew by 4.2% in 2010 (excluding inflation), following a deep recession in 2009. The government forecast that GDP would grow by as much as 5.2% in 2011.

The value of Ukraine's Hryvnia (UAH) was stable in 2010 trading, averaging UAH 7.93 against the U.S. dollar, according to the National Bank of Ukraine. The approval of a \$15.1 billion Stand-By Arrangement by the International Monetary Fund in August 2010 boosted investor confidence in Ukraine's economy, with the major rating agencies upgrading their assessments as a result.

Our businesses won favour with international financial markets. In May 2010, Metinvest issued Eurobonds valued at \$500 million in the European and U.S. financial markets. In April 2010, DTEK closed a \$500 million Eurobond issue that was voted one of the top three East European deals, in a poll of banks by Euroweek.


ACHIEVEMENTS AND AWARDS

In 2010–2011 our companies and senior executives received many awards that confirm public recognition of our success in both corporate social responsibility and business operations.

In 2010, for the fourth consecutive year, SCM topped Gvardiya's national ranking of socially responsible Ukrainian companies. We see this as proof of our leadership in promotion and the practical application of the principles of social responsibility and the UN Global Compact.

In 2011, SCM, Metinvest and DTEK ranked among the top five companies in a Transparency and Accountability Index developed by the Centre for Corporate Social Responsibility, with the international methodology of Beyond Business.

SCM was among the top three businesses ranked for non-financial reporting with its Sustainability Report 2009–2010 presented at CSR MarketPlace: The Social and Ecological Projects Exhibition.



SCM Group's social projects were recognized as the best in Ukraine by national CSR business case contests in 2010–2011 organized by the Centre for CSR Development:

- SCM took first place for its Contemporary Education social programme in 2011.
- DTEK's project to set up a corporate university, the DTEK Academy, won the national CSR business case contest in the Labour Relations category in 2010.
- Metinvest's business case on training internal health, safety and environment coaches was called the best in the Labour Relations category in 2011.



In 2010, Metinvest placed ninth among the 500 biggest companies by revenue in Central and Eastern Europe, according to Deloitte's Top 500 Ranking 2009. The holding also topped national rankings:

- Top 100 Ukrainian Business Leaders rating compiled by InvestGazeta with the independent Credit Rating agency;
- Top 100 Companies in Ukraine by Ekonomika publishing house.

In 2010 the Centre for CSR Development organized CSR Marketplace, the first corporate social responsibility exhibition in Ukraine. DTEK won in the Best Non-Financial Report category for its sustainability report, and in the Best Project category for its long-term cooperation programme with local communities. In 2011, DTEK was included in the listing of the most reputable employers of 2010 organised by HeadHunter and backed by Forbes magazine.

2010 was also an award-winning year for our non-industrial businesses:

- ASKA was ranked among the top five insurers in Ukraine by Focus magazine and came in the top 20 of the Most Reputable Companies in Ukraine.
- Vega Group won in the Best Corporate Electronic Newspaper category at the corporate media awards.
- FUIB entered The Banker ranking of the Top 1,000 Banks in the World, one of the first Ukrainian banks to do so, debuting at position 905.
- FUIB also:
 - came second in the Delo ranking of most trusted banks;
 - took second place in Ukraine for transparency and disclosure, according to Standard and Poor's, an international rating agency; and
 - topped bank rankings of Companion, Delo and Weekly.ua for a range of innovative products and services.

In 2011, senior SCM Group managers received individual prizes for professionalism and ensuring the strong performance of their businesses:

- Three of our senior managers were ranked in the top ten of the Top 100 Senior Managers in Ukraine ranking compiled by Ekonomika publishing house:
 - SCM's Chief Executive Officer, Oleg Popov, took first place in the Financial and Industrial Holdings, Strategist and Investment Management category;
 - Igor Syry, CEO of Metinvest Holding, won in the Best Manager - Team Leader and Best Anti-Crisis Manager categories; and
 - DTEK CEO Maxim Timchenko won in the Best Change Manager category.
- SCM Business Development Director Ilya Arkhipov was rated the best manager responsible for individual business areas in diversified holdings in the Best Senior Managers in Ukraine: Tactics and Strategy ranking developed by Rating Top 100 research centre. SCM New Business Development Director Nikolay Nesterenko, Energy Business Development Director Sergey Korovin and Mining & Metals Business Development Director Amir Aisautov were among the top ten winners in the same category.
- ESTA Holding CEO Nikolay Nesterenko was listed among the top ten most effective senior managers in real estate by Building Business, Ukraine's biggest real estate and construction magazine.
- ASKA CEO Andrey Shukatko took second place in the Gvardiya ranking of managers.

Investments in staff training, health and safety,
environment protection, energy efficiency
and community development

around **4** billion
UAH



OUR APPROACH

Corporate social responsibility is a fundamental element of the SCM Group's development strategy. We take a responsible approach to the issues that have importance for SCM and society: health and safety, environment, staff development and the welfare of local communities where SCM Group has operations. Our actions are driven by long-term goals, which we will achieve through extensive investment and social programmes. SCM maintains an active dialogue with stakeholders about CSR to make this activity more efficient and contribute to building a prosperous society, both locally and nationally.

OUR STRATEGY

“The need for responsibility and leadership has never been greater. As the world is working to restore trust and confidence in the markets, we must heed the lessons of the recent financial crisis. First, business, civil society and governments will be increasingly called upon to build markets that provide better access for the poor. Second, a shift from short-term profit maximization to long-term sustainable value creation is necessary,” says United Nations Secretary General Ban Ki Moon.

Our goal is to be Ukraine’s leading global business; one that respects the highest international standards of social and environmental responsibility, invests in its people and contributes to the social and economic development of our country and the communities where we operate.

SCM’s business strategy is founded on the principle of long-term value creation. SCM is a strategic investor. We do not aim to receive ‘quick’ profits and regard investment in our businesses as an effective factor for their organic growth and long-term value creation.

In the 21st century, businesses that want to succeed over the long term cannot be oblivious to the environmental and social impact of their commercial decisions. Our approach to sustainability and social responsibility is underpinned by our understanding of what SCM needs to actively monitor and manage risks and seek out opportunities. This is why we attach such great importance to corporate social responsibility.


SCM was proud to become a signatory to the UN Global Compact in 2006. At the beginning of 2011, we took this commitment to another level when SCM became one of the first 54 signatories to the new UN Global Compact LEAD initiative of top global businesses championing social responsibility. The LEAD initiative was launched by UN Secretary General Ban Ki Moon at the World Economic Forum in January 2011. We see this step as a commitment to bringing our corporate responsibility to a new level.

SCM is consistent in promoting new mechanisms and procedures to advance corporate responsibility at the management company and at our holdings.

We demonstrated our commitment to transparency for the first time when we produced our consolidated financial statements that had been audited to meet international standards in 2004. This was a pioneering initiative for Ukraine. SCM also has led the way in reporting on sustainability and corporate responsibility. We were the first Ukrainian financial and industrial group to report against the internationally recognised GRI standard, C+ application level, in 2007, and the first to have this non-financial reporting externally audited. In 2010, we stepped-up our commitment to transparent reporting: this year our Sustainability Report has been prepared and audited to GRI Level B+.

In June 2010, a new SCM Corporate Code was introduced as a guide to all employees of the SCM holding company. The code sets forth our corporate values and reminds employees of their personal responsibility to uphold these standards of conduct. It shapes relationships inside our teams, with business partners, competitors, public bodies and the wider society, and will help us avoid potential conflicts both inside the company and with third parties. The code is an important tool to protect the interests of SCM's shareholders, employees and business partners.

We are committed to managing our investment risks responsibly. In our investment projects, we are guided by the precautionary principle that requires us to analyse the environmental consequences of those projects.



Values and structures of social responsibility apply to all companies, sector holdings and enterprises of SCM Group:

- DTEK became a signatory to the UN Global Compact in 2007. In 2010, Metinvest also became a signatory. Both companies now produce their own sustainability reports.
- The health, occupational safety and environment committees of the supervisory boards of our industrial businesses demonstrate the priority we give to these issues in our management systems.
- Most of our businesses have their own corporate codes of conduct in place developed in line with SCM's principles.

All our companies are considerate towards their responsibility for managing environmental, human resources and reputational risks that are important to their long-term success.

Metinvest, for example, has an internal control and risk management system in line with the best global practice, such as Enterprise Risk Management – Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The internal control and risk management department supports the process of introducing this system in the holding company and most of the industrial businesses within Metinvest.

DTEK, too, has risk management processes in place at the management company level and at the enterprise level, covering strategic and one-off project risks. The risk committee makes recommendations to the board on key decisions, using quantitative and qualitative tools.

Social responsibility and sustainability are important considerations in our businesses' planning processes at SCM Group (see case: "Mainstreaming Social Responsibility at SCM Group Industrial Holdings").

In May 2011, DTEK presented its strategy for the next 20 years. It focused on the vision of a modern energy company and its input to the development of society. Such thinking is especially essential in the power sector, which requires large capital investments over long periods of time. DTEK actively engaged staff in the development of the strategy. The document covers six strategic development directions for the next 20 years: energy, society, people, efficiency, “Ukraine plus,” and customers.

Metinvest approved a new strategy to 2020 focused on increased efficiency and the continued improvement of all business processes. Every declared strategic goal contains objectives for doing business responsibly.

Policies and strategies have been adopted or are being developed at Metinvest to establish principles and performance indicators in most key areas of corporate responsibility management: health and safety, environment protection, HR management and social investment. For example, to manage health, safety and environmental issues, Metinvest adopted a health, safety and environment strategy. Also, in 2010 the company developed and began to introduce an integrated strategy to develop health and safety system at Metinvest Group. Additionally, the company started to devise HR management strategy. In the area of social investment, Metinvest developed and approved a “Strategy for Increasing the Efficiency of Social Investments to 2015”.

To assess how well senior managers of the Group’s industrial holdings perform, we set key performance indicators related to sustainability as well. The remuneration of senior managers is directly linked to achieving those KPIs.



**Mainstreaming
social
responsibility
at SCM Group
industrial
holdings**

ANTI-CORRUPTION

Corruption is bad for business because it undermines property rights and deters investors. In a survey of businesses conducted for the World Economic Forum's Global Competitiveness Report 2010–2011, 13.9% of respondents ranked corruption as a major problem in the Ukrainian economy. We believe that fair competition in transparent markets is the only way to grow our businesses sustainably.

Government must take the primary responsibility for tackling the problem. For example, removing opportunities for corruption created by Ukraine's inefficient regulatory system would make a significant difference.

Business can also play a part, and since 2009, when International and Investor Relations Director Jock Mendoza-Wilson joined the UN Global Compact working group on anti-corruption, SCM has played a leadership role in the private sector to tackle this problem.

We continued this engagement in 2010 by participating in the European Business Association's European Anti-Corruption Practices and Public Administration Reform in Ukraine conference. In May 2011, SCM participated in a meeting of the UN Global Compact working group on anti-corruption.

Our industrial holdings also work to combat corruption in their industries. So, DTEK and Metinvest launched hotlines for employees to report any suspected violation of the company's legal, ethical and moral standards. All reports are investigated by its compliance department.

At Metinvest, conflicts of interest are avoided through procedures laid down in the Conflict of Interest Manual, where Metinvest has defined types of transaction susceptible to conflicts. These transactions undergo mandatory scrutiny by the supervisory boards of the enterprises and the management company.

FUIB has reinforced its internal control system and created a new safety department to build an integrated safety system and ensure its efficiency. To prevent fraud, the department launched an employee reporting hotline. The bank is preparing a new corporate code to address issues such as conflicts of interest.

STAKEHOLDER ENGAGEMENT

SCM believes that it needs to be proactive in reaching out to stakeholders. Our businesses seek out feedback from stakeholders through surveys and a variety of other tools. For example, in 2010 Metinvest commissioned a reputation audit, an independent assessment of how well key audiences are informed about its operations. The results were discussed at board level and will be used to shape the holding's communication strategy.

In 2011–2012, the SCM Management Company plans to refine its approach to stakeholder engagement significantly by mapping outreach strategy and improve effective dialogue with them as well as raise efficiency of CSR programmes in general.



The stakeholders for SCM Management Company are:

- Employees;
- Government and regulators;
- Local communities;
- International organizations;
- NGOs;
- The academic and scientific communities;
- Experts and think tanks;
- Investors and financial institutions;
- Suppliers and partners;
- Customers;
- Local communities;
- Media; and
- Business.

Employees

A dialogue with staff is crucial for any company, as employees are a pivotal factor in our success. The SCM Group employs around 200,000 people, which determines the depth of responsibility of our businesses. We conduct annual opinion surveys of staff that are discussed by our senior management teams and supplement informal feedback gathered during meetings and through the management chain.

Our industrial and non-industrial businesses use tools including corporate media, internal web portals, in-house radio and video channels, information boards and billboards to ensure that staff are informed about what is happening within their companies. Regular meetings between the companies' senior managers and employees and consultations with trade unions provide effective channels for staff feedback.

Metinvest and DTEK carry out anonymous staff surveys on different aspects of employer – employee relations. The results are used to make management decisions and change the way that programmes and strategies are shaped. Metinvest, for example, conducted an employee engagement survey in 2010 and used its results to develop HR management strategy. Another advantage of the research is that it helps to build a common corporate culture in the company.

Our non-industrial companies are also pioneering ways to use employee engagement to shape business strategy (See case: “Employees Shape the Future of Vega”).



**Employees
Shape the Future
of Vega**

The Vega Group was created in 2009 through the merger of nine separate telecommunications companies. The executive team has made extensive use of staff surveys to support this structural change process. The 2009 survey showed that staff did not always feel informed about or involved in the changes at the company. As a result, Vega has developed an internal communications system, including a corporate portal covering all news and changes in the company, a monthly corporate magazine containing corporate news and human interest stories about employees, and regular staff meetings.

In 2010 Vega launched its Ideas Centre as a way to collect suggestions from staff on how to improve the business. Over the course of the year, 164 ideas were submitted and sent to the company's innovation committee for consideration, 33 of which were approved for implementation. Initiatives included the Everybody Sells project, which involves staff outside the marketing department in promoting the company and its products, and introducing web chats as a way for customers to engage with the company.

The 2010 staff survey, carried out by an independent company, showed that these initiatives had successfully improved internal communication issues.

Trade unions

Trade unions, which represent employee interests, are important stakeholders in our industrial businesses. The trade unions have legitimate concerns for the interests of their members when enterprises are restructured and when new pay and social protection systems are introduced (see: “Investing in Our People” for further information). Although this relationship has not always been easy, we seek a constructive dialogue with these organizations and compromise on emerging issues. We believe that SCM companies must be transparent and open in their relationships with stakeholders in order to encourage constructive resolution.

Our businesses also cooperate with trade unions in other ways, such as the Zabota project, which has been running at DTEK’s Pavlogradugol since 2007. It provides assistance to large families, as well as to current and former employees disabled by occupational injuries, the families of employees killed in industrial accidents, and other families in need. In 2010, a joint committee of company and trade union representatives allocated assistance valued at UAH 225,000 to pensioners, large families and people with disabilities.



Local communities

We believe that disclosing business approaches and standards in CSR to the public are important and realize that SCM's initiatives in this area are significant.

We are committed to being up-to-date in applying new communication instruments. In 2010, our senior managers began to blog on themes of wider public interest, such as energy efficiency, education, and investment (See: blog.scm.com.ua).

SCM Group industrial enterprises have a close relationship with the local communities where they operate. It is particularly important in areas where our mines, steel plants and power plants are a main employer. Our managers engage in frequent dialogue with local governments, environmental agencies and community groups to set priorities and determine areas of social investment. Partnership is vital for successful cooperation focused on improving the welfare of cities and towns where we have operations.

Declarations on Social Partnership have been DTEK's main social investment tool since 2008. The declarations specify the principles, forms and methods for long-term social partnerships in contemporary education, health, energy efficiency in the public utilities sector, development of the business environment, cultural heritage, and sport. As of the end of 2010, declarations have been signed in 14 towns and 3 districts in Dnepropetrovsk, Donetsk, Zaporozhye and Lugansk oblasts. Annually, they are used to develop and implement social partnership programmes outlining specific investment projects.

In 2010, Metinvest developed and approved its "Strategy for Increasing the Efficiency of Social Investments to 2015", built a portfolio of corporate social programmes and launched projects in partnership with international organizations. For example, it created initiatives to assist city authorities with strategic planning to improve the investment appeal of their communities.

The strategy will ensure a single approach to social investment at all Metinvest enterprises, shape social investments into programmes focused on long-term results and quality, as well as to move from one-off initiatives and short-term projects to a consistent activity using transparent and understandable mechanisms. It will also build partnerships with communities on the principles of mutual obligations and responsibility, as well as involve employees in the company's social activity.

Our businesses' interaction with local communities is discussed further in the "Investing in Our Community chapter".

Business community and international organizations

SCM actively promotes the best global practices and conduct standards, particularly corporate governance and social responsibility, among Ukraine's businesses.

The SCM Management Company is a member of the advisory group of the EU-Ukraine Business Council established to develop economic cooperation between the European Union and Ukraine and to improve the investment climate in the country. SCM is also a member of the European Business Association, the U.S.-Ukraine Business Council and the American Chamber of Commerce in Ukraine. Since 2008, SCM's representative has chaired the steering committee of the UN Global Compact in Ukraine, a multi-stakeholder group that includes business, trade unions and non-governmental organisations.

Our companies participate in a wide range of sector and trade associations, business associations and other NGOs. Metinvest, DTEK and Segodnya Multimedia are members of the American Chamber of Commerce and the European Business Association. Metinvest joined the World Steel Association in 2009. DTEK became a member of the European Association for Coal and Lignite (EURACOAL) and Union of the Electricity Industry (EURELECTRIC) trade associations in 2010. Our publishing holding is a member of Ukrainian and international associations promoting freedom and economic independence of the press, including the Ukrainian Association of Press Publishers, the International Newsmedia Marketing Association, and the World Association of Newspapers and News Publishers. Finance businesses engage with bank associations representing the interests of banks and promoting the development of the banking system.

Investors and financial institutions

Investors are increasingly looking for companies that are not just commercially viable but also adhere to social and environmental standards as a result of initiatives such as the Equator Principles. SCM's robust and transparent systems for financial and sustainability reporting, we believe, provide investors with the assurance they need that our businesses are environmentally and socially sustainable.

The SCM Investor and International Relations department participates in a wide range of international conferences each year to explain our operations. We also produce a quarterly newsletter distributed to investors and international financial institutions.

In 2010, we used the 10th anniversary of SCM's founding as an opportunity to explain our long-term plans through speeches by senior managers, events and presentations.

Government and regulators

Government and regulatory agencies are key stakeholders for the Group as they determine the regulatory environment where our companies operate.

DTEK has played a role in policy discussions with government about the future of the electricity market in Ukraine. The company's experts have advised task groups of the Fuel and Energy Ministry, the parliamentary Committee on Fuel and Energy, and the National Electricity Regulation Commission, and have contributed to the work of Ukraine's Energy Market Reform Commission. DTEK believes that environmental issues need to be addressed in the policy debate about the electricity market. The company campaigned successfully for an environmental section to be included in Ukraine's long-term energy strategy 2030.

Vega has a strong interest in an open dialogue with the government about market regulation. As a member of Telas, an independent voluntary association of Ukrainian telecom companies, Vega makes recommendations to legislative and executive governments.

Customers

Our businesses understand that the quality of their products and services is of vital importance to customers. Therefore, they focus significant efforts on managing quality by introducing modern approaches to quality management, engaging widely with customers and partners and streamlining production processes to meet new demands and applying innovations to improve the quality of services.

Various industries in the European Union use Metinvest products, so meeting EU product quality and safety standards is a priority for Metinvest. In 2010, Metinvest registered compliance of its products with the European Chemicals Agency, in accordance with the new REACH regulation.

Big steel mills, coal mines and heavy engineering plants, as well as the people of Ukraine, are the primary consumers of electric power supplied by DTEK. The company seeks to ensure electricity supplies to end users at a guaranteed level of reliability and quality, as well as to improve customer care. For example, Energougol ENE, part of DTEK responsible for electricity supplies, established a call centre and an engineering unit at its information centre in Donetsk. It ensures that the company responds to customer requests quickly. In 2010, to save the time spent on reconciliation, billing and payments, the company launched an Internet-based store – one of the first of its kind in Ukraine, that gives industrial customers remote online access to their accounts.

Our non-industrial businesses serving the mass market developed a range of tools, including social media, to improve communication with customers.

FUIB launched a Customer Scope project to examine and regularly improve its customer experience. This initiative is in addition to the new customer service standards rolled out in 2010 and which are monitored by 'mystery shoppers' and 'mystery callers'. FUIB also commissioned a banking service quality survey by PriceWaterhouseCoopers. In December 2010, based on customer feedback, FUIB introduced a new online deposit management system – a first in Ukraine – which includes around 3,000 deposit options and lets clients customize their deposit conditions.

ASKA launched a corporate blog on the Live Journal blog platform that is particularly popular in Ukraine. ASKA is using this tool to respond to complaints and criticisms, as well as to build an informal relationship with its customers.



Vega Group's growth strategy is based on its commitment to being a 'client-centred company' and applies various feedback forms. For example, Vega established Quality Line, a telephone and electronic communications channel built on Vega's contract centre, where subscribers can leave a message on how to improve the quality of Vega's services. Vega launched its award-winning corporate blog in 2009 to strengthen communication with customers. The company also runs opinion polls on its corporate website and monitors external media for customer opinions about the company. As the result of customer feedback, in 2010 Vega extended its range of payment options and gave customers more control over their internet accounts online, rather than through the Vega call centre.

In September 2010, the Ukraina TV channel introduced People's Monitoring, which lets viewers call a hotline to report technical problems. During the course of the year, the company also extended its social media presence on sites like Facebook to interact more effectively with viewers.

The Opera and Donbass Palace hotels (ESTA Holding) are members of the internationally-recognised Leading Hotels of The World association and guarantee international standards of accommodation and service. The Association regularly checks the service quality through anonymous inspections and their results regularly confirm top service at member hotels.



FUTURE PLANS

In 2011 and the short-term, the SCM Management Company and the Group's holdings plan to realize the following programmes, projects and activities.



SCM Management Company:

- Stakeholder engagement project to start mid-2011 and continue in 2012.

The project will study the best international practice of stakeholder engagement by major international companies, make an SCM stakeholder map and hold discussion panels with stakeholders to debate SCM's priorities and possible cooperation mechanisms. These actions will result in approaches to stakeholder engagement that will help to consolidate the efforts of SCM and stakeholders in order to address important social, economic and environmental issues.

- Next steps on LEAD initiative:

As a part of the UN Global Compact's LEAD initiative, SCM will continue to demonstrate international leadership by taking an active role in the Global Compact anti-corruption working group. We also show national leadership by chairing the UN Global Compact Steering Committee in Ukraine.

As a member of LEAD, SCM signed the Blueprint for Corporate Sustainability Leadership in 2011. The blueprint sets the concept and procedures for existing and new leadership practices, shows how to improve responsible business practices and where to look for new opportunities that come from the responsibilities, used by members of the UN Global Compact and LEAD.

Industrial companies

METINVEST:

- Launch of Strategy 2020.
- Launch customer care and after-sales services.
- Create a management training centre.
- Continue to register products to be delivered to the EU in line with REACH.

DTEK:

- Launch of Strategy 2030.
- Further strengthening of risk management to include reputational and HR risks.
- Adoption and launch of a new compliance policy that would serve as basis for a staff outreach campaign.
- Continue promoting transparent and fair rules for the wholesale electricity market in Ukraine.

Non-industrial businesses:

- FUIB to develop and launch new CSR management plan, under leadership of departments for Human Resources and Strategic Marketing.
- FUIB plans to launch new corporate code.
- To approve a new five year-strategic plan for Segodnya Multimedia.
- Vega Telecommunications Group to launch new corporate code in 2011.
- ESTA hotel businesses will carry out first staff survey in 2011.



Investments
in environment protection
and energy efficiency

around **3** billion
UAH

INVESTING IN OUR ENVIRONMENT

Preserving the environment and using resources sustainably, especially non-renewable resources, is at the top of the global agenda. This objective is of particular importance to Ukraine, where mineral deposits are limited and have been used for a long time. Radical modernization of SCM Group's businesses, modern management approaches and changing employee and citizen attitudes toward the environment should improve the present situation dramatically. To meet these objectives, we develop programmes that deliver positive results.

OUR STRATEGY

Today, our stakeholders recognize the interdependence of the economy and the environment. Further economic growth is impossible without managing mankind's environmental footprint. Regulators and publics across the globe demand that industrial companies reduce their negative environmental impact, requiring investments in new technologies and changes in attitudes, particularly among professionals.

We face considerable environmental challenges due to the legacy of underinvestment during the Soviet era. Today, SCM needs to focus closer on this issue in order to meet strict European and international regulations.

Ukraine's membership in the European Energy Community and commitment to meeting European standards for air emissions of particulate matter, sulphur and nitrogen oxide by 2018 means that a company like DTEK would have to achieve in eight years what other EEC countries achieved in 20 to 25 years. For DTEK alone, meeting these standards will require investment of \$3 billion.

SCM applies the precautionary principle that, in the absence of conclusive evidence on whether an activity is harmful or not, we will act in a way that minimises risk. Our Strategy and Investment committees scrutinise all new projects for their environmental impacts.

This is in addition to our businesses' own environmental controls, such as Metinvest's procedure for Health and Safety and Environmental Management in Investment Projects, which screens all planned investments to ensure compliance with both Ukrainian law and the requirements of international investors (if projects require external borrowing). Metinvest adopted the standard in 2011.

In 2010, we invested more than UAH 2.2 billion in projects to reduce our impact on the environment.

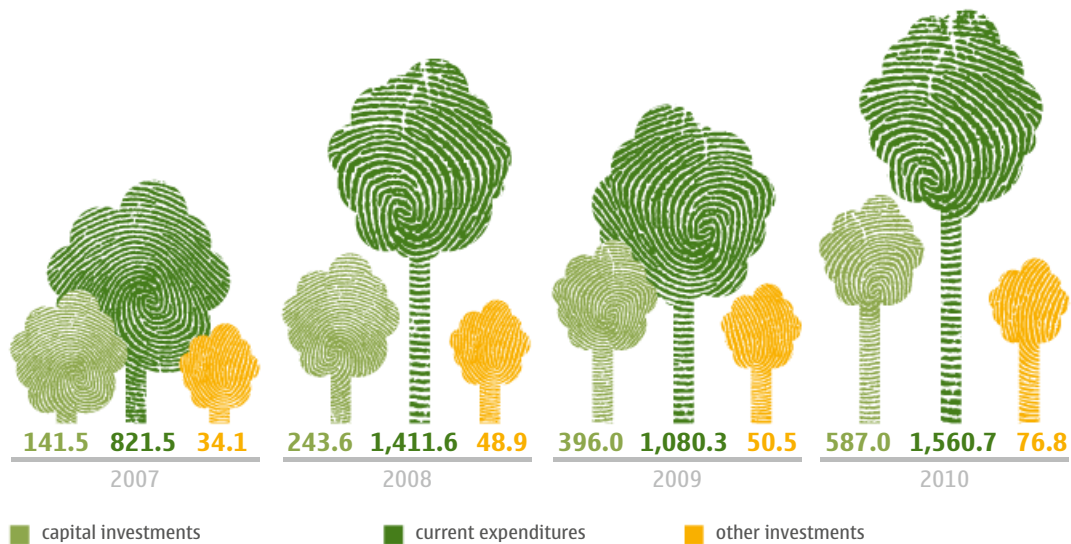
Our holdings and businesses also develop cleaner technology, providing new business opportunities (See case: "Blowing with the Winds of Change").

In 2009, DTEK began to develop green energy in Ukraine and chose wind energy as a promising area. DTEK's wind energy portfolio generates around 1,200 MW, with onshore wind farms to be built in Donetsk and Zaporozhye oblasts. The company decided to realize a pilot project of 200 MW in Botiyevo village (Zaporozhye Oblast). In 2009-2010, DTEK invested UAH 9.4 million to conduct feasibility studies, hold local hearings to ensure public support for the project, and start designing.



**Blowing with the
Winds of Change**

Environmental investment of SCM Group industrial holdings, 2007–2010, million UAH



Our companies are consistent in their drive to develop environmental management systems.

DTEK carried out an environmental risk audit across the whole group and completed implementation of the ISO 14001:2004 environmental risk management system at all enterprises.

Metinvest adopted a health, safety and environment strategy and is building an integrated management system at the management company and operating businesses. By the end of 2010, the environmental management system was certified with ISO 14001 at all plants of the iron ore division, at YeMZ and KhTZ and Inkor and Co.

Our non-industrial businesses have a much smaller environmental footprint, but play their part in sustainable development:

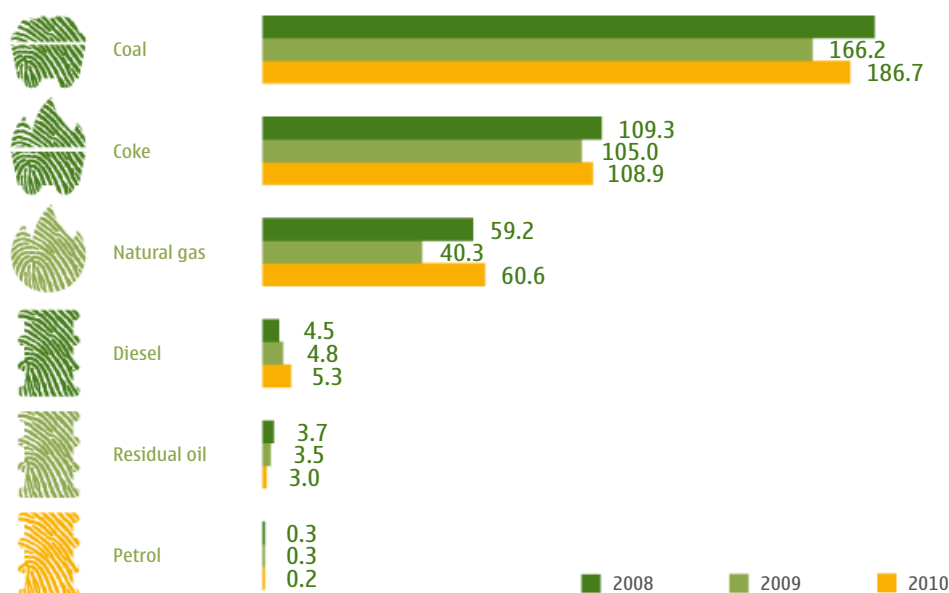
- In 2010, the SCM Management Company launched a “Green Office” project to reduce consumption of energy and natural resources for office maintenance and raise employees’ awareness of environmental issues. Today, we organize more videoconferences instead of travel and utilize an electronic document management system to reduce paper waste. Further measures are planned for next year.
- ESTA Holding is applying clean and resource-saving technologies in its projects.
- Segodnya Multimedia collects waste at its print house and has it recycled or disposed of by specialist companies.

ENERGY EFFICIENCY AND OUR CONTRIBUTION TO FIGHTING CLIMATE CHANGE

Our industrial businesses are highly energy intensive. Although the substantial increase in production achieved in 2010 resulted in higher energy consumption than in 2009, SCM businesses achieved significant improvements in the energy intensity of production. The increase in energy consumption by 14%, to 364.8 million GJ, by our industrial businesses in 2010 was lower than the growth in production of steel (24.3%) and electricity distribution (18%). Greenhouse gas emissions by SCM Group's production companies went up 10.6% in 2010.



Energy consumption by SCM Group industrial holdings, 2008–2010, million GJ



The improved energy intensity of production has been achieved through operational increases in efficiency through continuous improvement and through a UAH 870 million investment programme in energy saving and efficiency. Along with energy saving, these activities deliver an economic effect as well. In 2010 alone, energy-saving initiatives saved SCM industrial businesses energy worth more than UAH 200 million. The focus of this action depends on the production conditions and applied technology.

Energy saved by SCM Group Industrial Holdings, 2008–2010

	2008	2009	2010
Electrical energy, million kW-h	120.2	40.1	98.0
Thermal energy million GJ	426.809	0.297	0.069
Fuel, million GJ	3.1	1.8	3.0
Economic effect, million UAH	141.4	74.4	204.2

The big difference in thermal energy savings between 2008–2010 comes from extensive activities at Azovstal in 2008–2009, which resulted in significant saving of thermal energy.

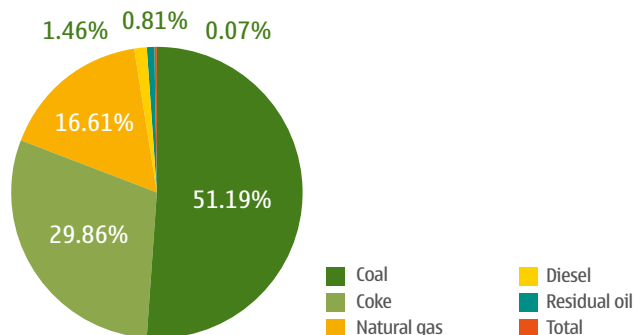
In 2010, Metinvest continued to improve its energy efficiency management in steel production. Its Steel and Rolled Products division piloted a new methodology to assess energy consumption and tested it at the Yenakiyev Steel Plant. The purpose of this methodology, based on EU best practices, is to determine at which stages of production energy is lost and the best opportunities for energy saving. The overall modernization of steel production remains a priority. Metinvest expects to reduce energy usage on average by 4-6 GJ per tonne of steel through upgrade projects.

Between 2010 and 2011, DTEK continued its programme to upgrade power generation units at Vostokenergo, which was expected to cut fuel consumption per production unit. In turn, this will help to reduce greenhouse gas emissions and result in cleaner electricity generation.

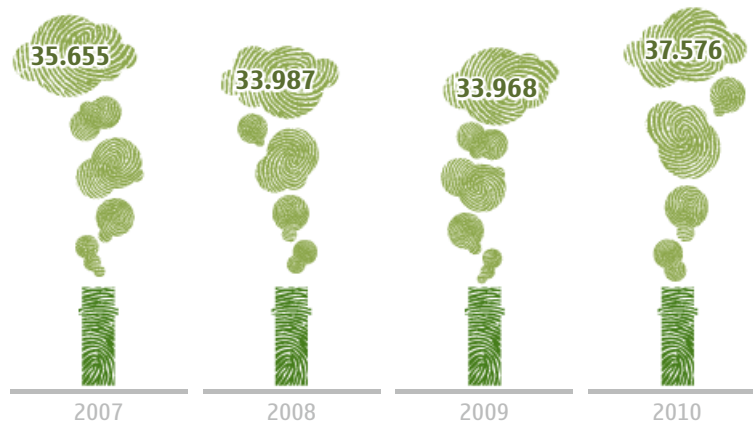
Energy saving projects launched in 2010 include:

- Metinvest's Krasnodonugol mining group introduced an automated electricity metering system to optimise energy consumption at peak and off-peak hours. This investment has saved over UAH 10 million.
- In 2010, Blagodatnaya Mine, part of the DTEK Pavlogradugol coal mining group, installed new heat pumps at a cost of UAH 3.9 million to use mine water to heat mine shafts, replacing coal-fired boilers. It is estimated that this investment will pay for itself in less than seven years. A similar investment is now being explored at the Komsomolets Donbassa Mine.

Energy consumption by SCM Group industrial holdings, 2010



Greenhouse gas emissions by SCM Group industrial holdings in CO₂ equivalent, 2007–2010, million tonnes



Reducing greenhouse gas emissions by our industrial businesses is a primary focus for SCM Group with Joint Implementation projects within the Kyoto Protocol being one of the effective instruments.

Our industrial holdings, Metinvest and DTEK, have 14 Joint Implementation projects and lead Ukrainian business in this area. Metinvest has 10 projects, including coal mine methane recovery at Krasnodonugol, modernization of blast furnace and converter shops and making production more energy efficient at Azovstal and Yenakiyevo steel plants. Between 2003 and 2010, Metinvest has invested more than €620 million in JI projects and confirmed reduction of greenhouse gas emissions at metallurgical enterprises amounted to 8.6 million tonnes of CO₂ equivalent as of the beginning of 2010. Metinvest expects to invest €100 million in JI projects.

DTEK has four projects, including coal mine methane recovery at Komsomolets Donbassa Mine and reconstruction of the power equipment at three plants of Vostokenergo power generation group. The total investment in these projects is UAH 1.5 million between 2006 and 2010, with accredited greenhouse gas savings of 2.026 million tonnes of CO₂ equivalent over the period 2008 to 2010, and an emission reduction unit value of 219 million.

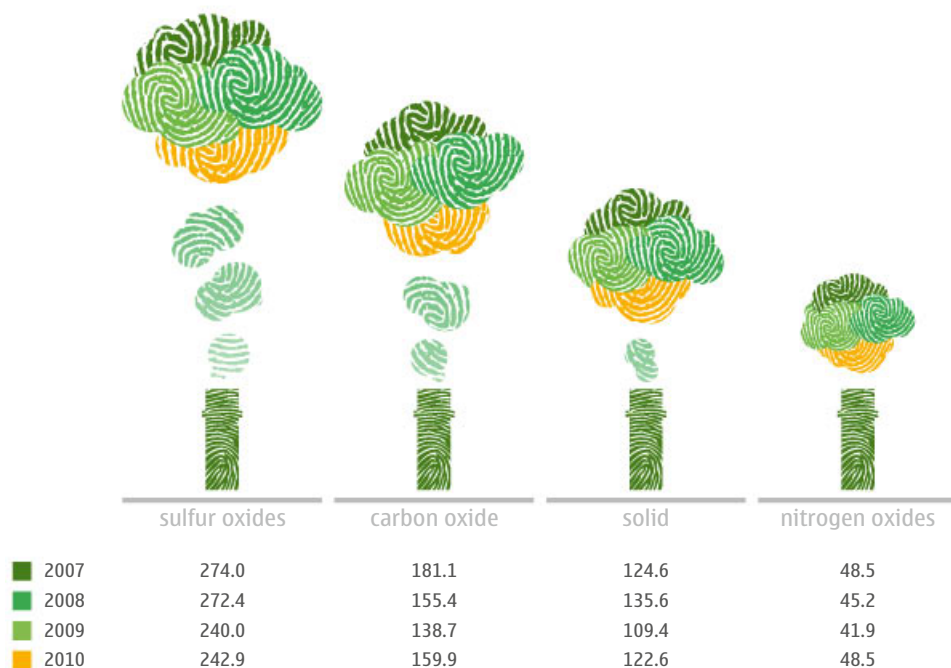
AIR EMISSIONS

SCM's industrial holdings work to reduce polluting air emissions.

Metinvest continued its programme to modernise steel mills. During the reporting period, we made progress toward addressing a serious source of particulate pollution: the open-hearth furnaces at Azovstal. In 2011, we closed the last of 12 open-hearth furnaces.

Vostokenergo (DTEK) continued its environmental protection programme to 2018 that expects its power generation plants to comply fully with EU 2001/80/EC. Projects under this initiative target at cleaning of flue gas from dust, sulphur and nitrogen oxides.

Gross air emissions of major pollutants into air by SCM Group industrial holdings, 2007–2010, thousand tonnes



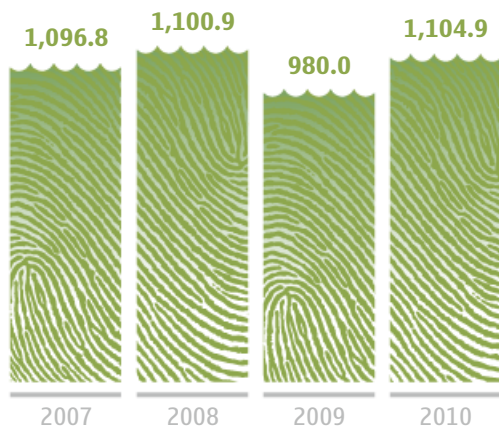
The value of some environmental indicators increased in 2010 versus 2009 due to a decline in output in 2009 and its recovery in 2010.

WATER

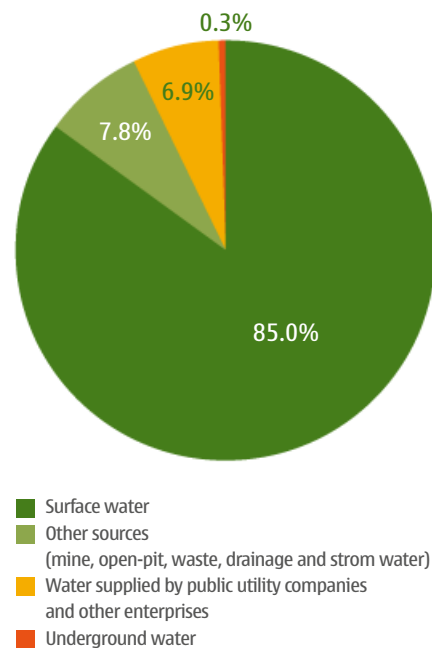
In 2010, SCM industrial companies withdrew just over 1 billion m³ of water, an increase of 13% on last year. However, we also increased the volume of water recycled and reused from 5.1 billion m³ to 5.8 billion m³, an increase of 14%.

Water discharge into the environment increased 13% to 0.9 billion m³ in 2010.

Total water withdrawn by SCM Group industrial holdings, 2007–2010, million cubic meters



Total water withdrawn by SCM Group industrial holdings, 2010



Much of the improvement in water usage has come from the continuous improvement of production processes. For example, DTEK's Vostokenergo reduced drinking water use by 20.5% (from 1.8 million m³ in 2009 to 1.4 million m³ in 2010) and cut wastewater discharges by 48% by carrying out work to overhaul and replace water pipes and through reorganisation of the production processes.

Azovstal Steel Plant, which was designed in the Soviet era to use water from the Azov Sea for cooling purposes, faces serious challenges in water management. This is a long-term initiative to which there are no easy solutions, but we seek to ameliorate the environmental impact on the Azov Sea by improving production processes throughout the plant (See case: “Going Upstream at Azovstal”).

Metinvest is taking action to minimise the environmental impact of Azovstal, and looks at ways to reduce water use throughout the production process. In 2010, the steel mill ceased the use of seawater to cool its blast furnaces, optimized seawater consumption by gas cleaners of blast furnaces, and switched some facilities to use processed water.

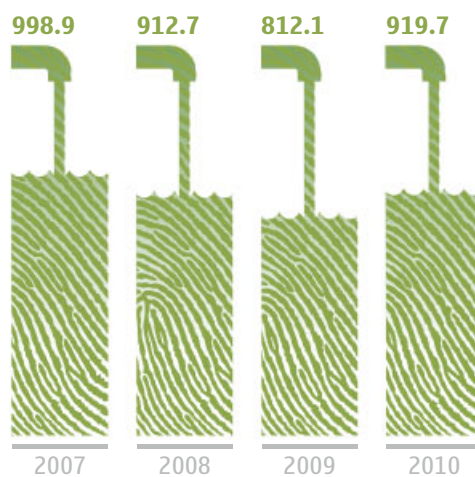
For the mechanical treatment of wastewater, the plant has a sludge dump, which removes suspended substances and oil products through settlement, as well as clarifies and performs post-treatment of wastewater from the sinter, converter and rolling plants. The settled sludge can be taken from the dump and used as a secondary source of iron-ore in steel production. Until 2010, the volume of iron-based sludge in the Azovstal dump exceeded the enterprise’s capacity to use this raw material. Metinvest’s acquisition of the nearby Ilyich Steel Plant creates new demand for the iron ore recycled from sludge. Accordingly, we were able to significantly increase the extraction of iron sludge at Azovstal and improve wastewater quality.



**Going upstream
at Azovstal**



Total waste water discharge by SCM Group industrial holdings, 2007–2010, million cubic meters



Content of contaminants in waste water of SCM Group industrial holdings, 2008–2010, tonnes

	Biochemical oxygen demand	Oil products	Suspended matter	Chlorides	Sulphates	Ammonia nitrogen	General iron	Nitrates
2008	356.6	17.1	1,520.5	67,563.6	26,138.7	118.6	105.1	562.9
2009	436.5	17.0	1,815.3	86,601.2	30,000.8	105.0	41.2	469.9
2010	211.3	13.6	768.3	51,280.1	28,949.4	106.3	21.8	289.1

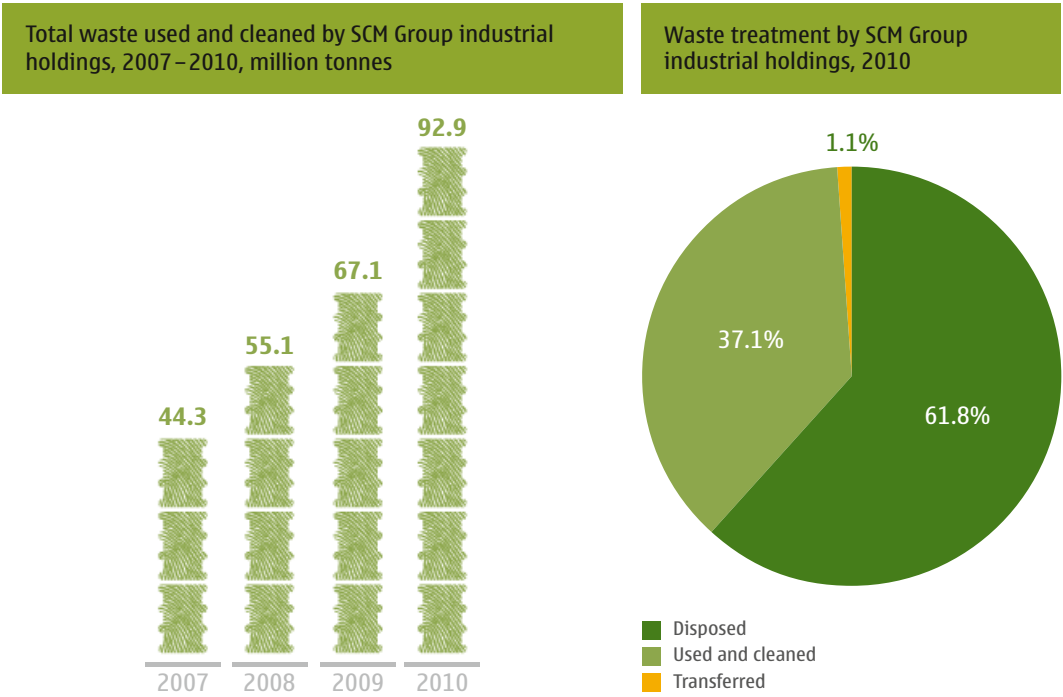
WASTE MANAGEMENT AND LAND RECLAMATION

The amount of solid waste generated by SCM Group increased by 21% to 249.5 million tonnes in 2010. Most of this (99%) is non-hazardous mine waste. The increase in rock waste is largely a result of higher output by Metinvest's iron ore mining businesses.

Waste generation and treatment by SCM Group industrial holdings, 2007–2010, million tonnes


	2007	2008	2009	2010
Waste generated	163.4	193.4	205.9	249.5
Waste disposed	117.9	136.7	137.7	154.6
Waste used and cleaned	44.3	55.1	67.1	92.9
Waste transferred to outside organizations	1.6	3.4	2.2	2.7





In 2010, 93 million tonnes - more than one-third of the waste generated - was cleaned or reused by SCM Group, 38% more than during 2009. In 2010, we also increased the volume of waste transferred to third parties by 23%, to 2.7 million tonnes.





Waste is reused by Metinvest and DTEK industrial enterprises, as well as by related industries:

- Some waste materials are recycled for use by our own businesses. Improvements to the sludge system at Pavlogradskaya Coal Preparation Plant, for example, has allowed DTEK to recover coal components from settlement tanks for reuse. Earlier, those components would have been wasted. Metinvest's plans to use iron sludge from Azovstal as a raw material at the newly-acquired Ilyich Steel Plant is a new case study in this area.
- Some production waste from our steel and energy businesses can be used in construction as aggregate, ballast, insulation or in the manufacture of concrete. In 2010, Metinvest started the Montis project to liquidate stored dump waste and optimize the processing and recycling of hot slag. DTEK's Vostokenergo power company sold more than 60,000 tonnes of waste ash and slag from its boilers for use in construction.
- Rock waste from mines is used to reclaim land where mining operations have ceased. Pavlogradugol (DTEK) uses mine rock to reclaim disturbed land.

Our industrial businesses store about 60% of their waste in dumps. Most is waste rock produced by Metinvest ore plants that deal with open-cast mining. They have undertaken long-term programmes to rehabilitate the disturbed land surface and reduce the area allocated to disposal dumps. In 2010, CGOK stored 1.24 million m³ of rock waste from the Gleyevatskiy open pit at mined-out pit No. 2, saving 140 hectares of land that would have been needed to store this much waste.

Our companies reclaim land disturbed in the course of mining, planting trees and shrubs. These activities cover land disturbed by existing mining operations and, although it is not our businesses' legal responsibility, the land disturbed by past activities under previous owners.

In 2010, Metinvest reclaimed 13.5 hectares of land in Krivoy Rog and Krasnodon. DTEK reclaimed 10 hectares of land in Pavlograd, using 1.6 million tonnes of rock, and planted 5.3 hectares of forest at a cost of UAH 5.3 million.

FUTURE PLANS

METINVEST:

- To continue environmental programmes;
- To implement the standard for HSE management in investment projects;
- To launch Montis, a pilot project that focuses on processing steel slug;
- To continue current and initiate new Joint Implementation projects under the Kyoto Protocol; and
- To take part in mechanisms for reduction of greenhouse gas emissions to be determined for the post-Kyoto period.

DTEK:

- To continue the environmental programme at Vostokenergo and meet Directive 2001/80/EC;
- To continue current Joint Implementation projects under the Kyoto Protocol; and
- To develop a Joint Implementation methane project at Stepnaya Mine (Pavlogradugol) to power the boiler house with methane instead of coal, to install a container power plant, and to flare methane in 2011.

NON-INDUSTRIAL BUSINESSES:

- SCM Green Office will be developed and implemented, including an audit of Green Office policies, an information campaign for staff, creation of a green team as internal champions, a staff contest on green ideas, and green master classes for employees; and
- Energy surveys to produce energy saving plans at ESTA hotels during 2011.



Investing
in Health and Safety
of our employees

797.6 million
UAH

INVESTING IN OUR PEOPLE

The global economy attaches increasing value to man as producer of modern products and services. Our companies see their first priority in ensuring the health and safety of our employees, and address this issue from all perspectives. Modern production approaches, changes in employee attitude toward safety, and better medical support are the keys to success. At SCM, we believe that training programmes for our staff are necessary if we are to remain competitive in the labour market and if our employees are to grow professionally. SCM Group's businesses care for the social protection of their employees, combining the latest methods and best practices.

OUR STRATEGY

SCM's competitive advantage comes from the skills and professionalism of our staff. Our intention is to attract the most talented and competent staff, to develop their skills and to retain highly-qualified employees by providing them with good working conditions.

In the reporting period, our human resources objectives were to develop and introduce common HR management approaches, to develop our corporate culture, to create a talent pool, and to increase staff motivation and training. Across our businesses, we have strengthened human resources policies and ensured that they are tied directly to our business goals through mechanisms like DTEK's Strategy 20+ process and Metinvest's HR Management System.

In our industrial businesses, we are particularly focused on keeping our employees safe and healthy. Metinvest and DTEK take a strategic approach to manage safety, adopting modern technologies and fostering a safety-first culture.

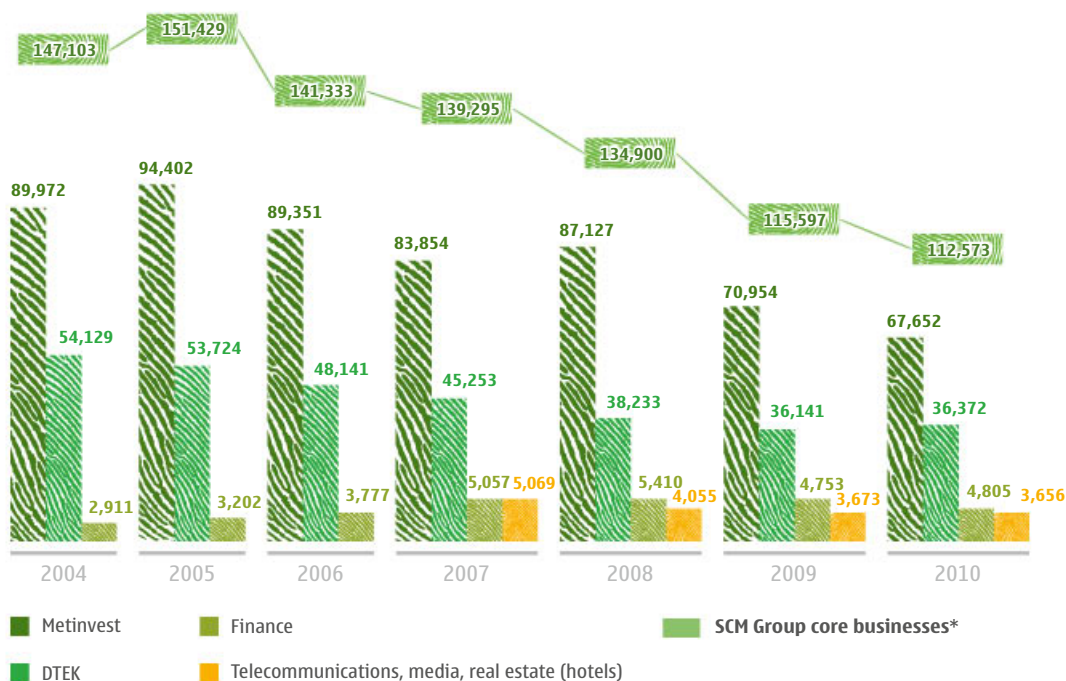


EMPLOYEES

Overall, SCM Group employs around 200,000 people.

The total number of employees in the core businesses covered in this report was 112,573 in 2010.

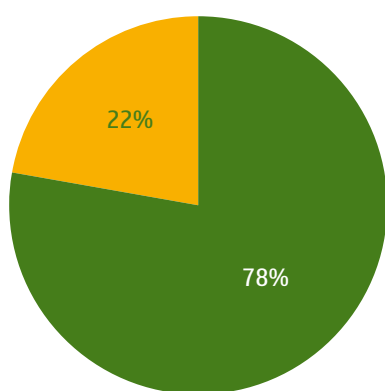
Headcount in SCM Group core businesses, 2004–2010, people



*including SCM Management Company: 2004 – 91, 2005 – 101, 2006 – 64, 2007 – 62, 2008 – 75, 2009 – 76, 2010 – 88 people.

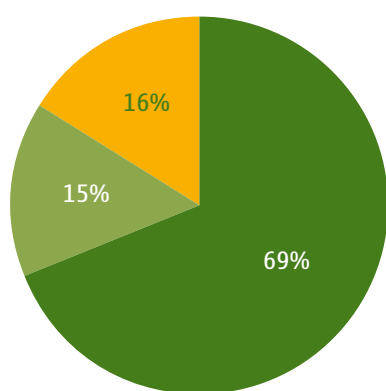
Staff composition of SCM Group, 2010

Categories of personnel
(industrial holdings)



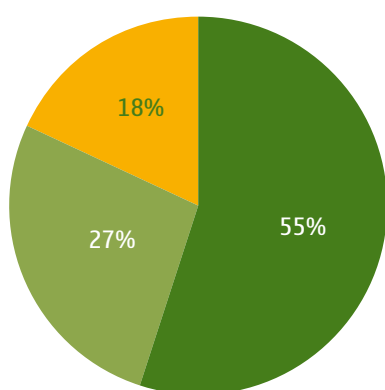
■ Workers
■ MPSM*

Categories of personnel
(non-industrial companies)



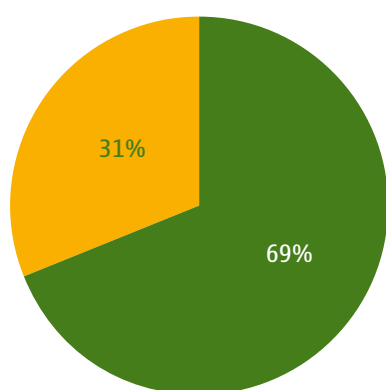
■ Specialists
■ Managers
■ Administrative staff

Age



■ 30-50 years
■ under 30 years
■ over 50 years

Gender



■ male
■ female

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

FUTURE PLANS

Health and Safety: DTEK and DTEK continued the restructuring process at their businesses in compliance with industrial and collective agreements and the law.

- Metinvest's short-term plans: to implement corporate health and safety standards, conduct targeted safety audits, implement the Strategy for Developing the Healthcare System at Group enterprises, process covered around 5% of employees in cleaning, medical, security, catering and maintenance services. DTEK outsourced a total of 148 posts in functions such as IT, cleaning and bookkeeping to reduce occupational accidents at its coal businesses by 30% by 2013; and

● Both DTEK plans took every effort to make offering transparent and consider the interests of all parties. Outsourcing was selected through tenders and employees' occupational medicine and sustained the job profile, standard, salary and other benefits. Occupational health also, DTEK plans for at least a year, to see a degree of personal between its enterprises and outsourcers.

Some of our businesses developed additional mechanisms to help employees: SevGOK and CGOK, Metinvest's iron ore businesses, established public coordinating councils in partnership with their trade unions so that issues and concerns raised by staff could be addressed. DTEK's Pavlogradugol has a dedicated Adaptation Centre to support staff facing layoffs. The centre's specialists help employees take retraining courses, and advise about vacancies in their communities. Also, Metinvest and DTEK support organizations performing non-core functions after the outsourcer tender by securing them

- SCM Management Company will develop a talent management system during 2011-2012 to identify high-performing individuals with high potential to fill senior positions as the SCM Group expands;

Our financial business also had to restructure due to the consolidation of FUIB and Dongorbank that began in late 2010 and ended in June 2011. To ensure the best process for employees of both banks, we brought in outside consultants to allocate posts in the merged business and to support staff facing redundancy. We also invested significantly in developing our employees' professional skills and in building a common corporate culture in the integrated bank. More details about the merger will be available in our next report.

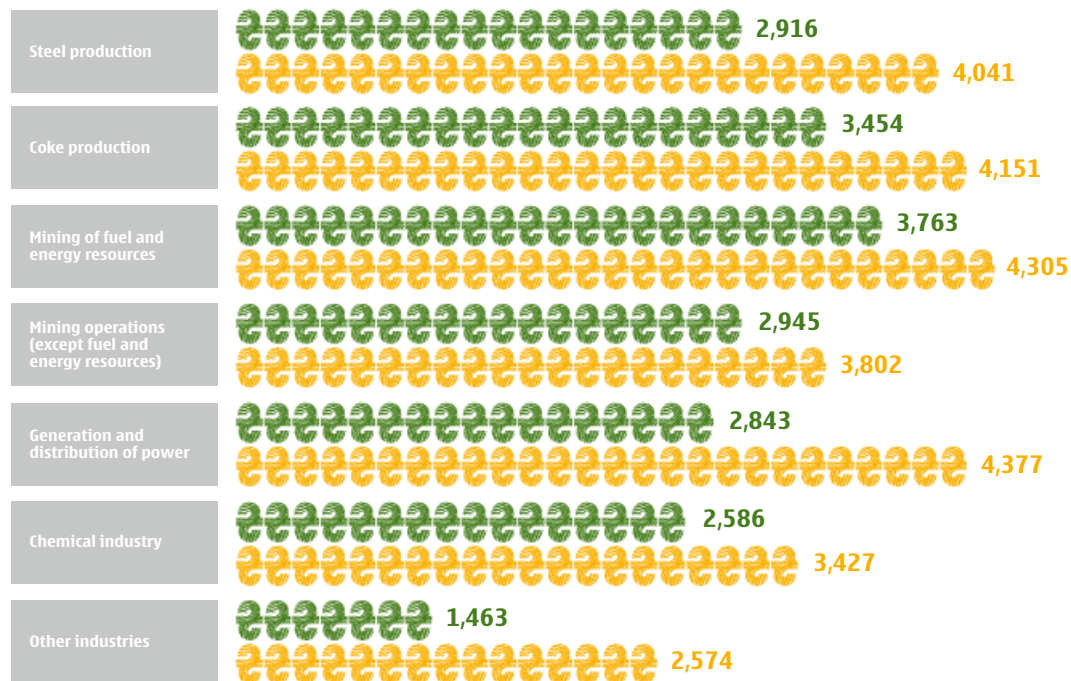
- DTEK's short-term plans are to further develop the DTEK Academy to train future managers, and to continue to develop the Institute of Internal Coaches at DTEK's businesses as an instrument to realize production management;
- New competence systems, as the basis of appraisal of employee performance and development needs, will be introduced at FUIB, Vega and Segodnya in 2011-2012; and
- In 2011 and 2012, FUIB plans to appraise its employees and use the results to develop a talent pool to fill 80% of management posts with internally-grown talent by 2015.

Appraisal, Remuneration, Motivation

SCM Group wants to recruit and retain the most talented staff available. To do this, we provide transparent and competitive remuneration, strong benefits and opportunities for professional growth.

In 2010 the average salary at our industrial businesses rose 28% year-on-year, well above the rate of inflation of 9.1%, according to Ukraine's Finance Ministry. Our salaries also rise faster than those at other Ukrainian businesses. In 2010, the average industrial salary at SCM was 59% of the national average, up from 52% in 2009. In all SCM Group businesses, we pay better than the sector average.

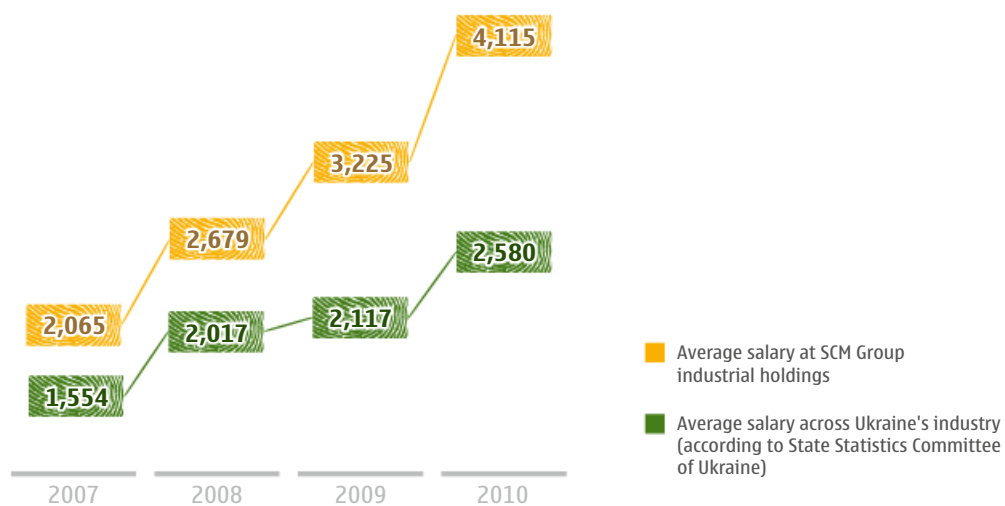
Average salary at SCM Group industrial holdings against Ukraine's industrial average salary, 2010, UAH



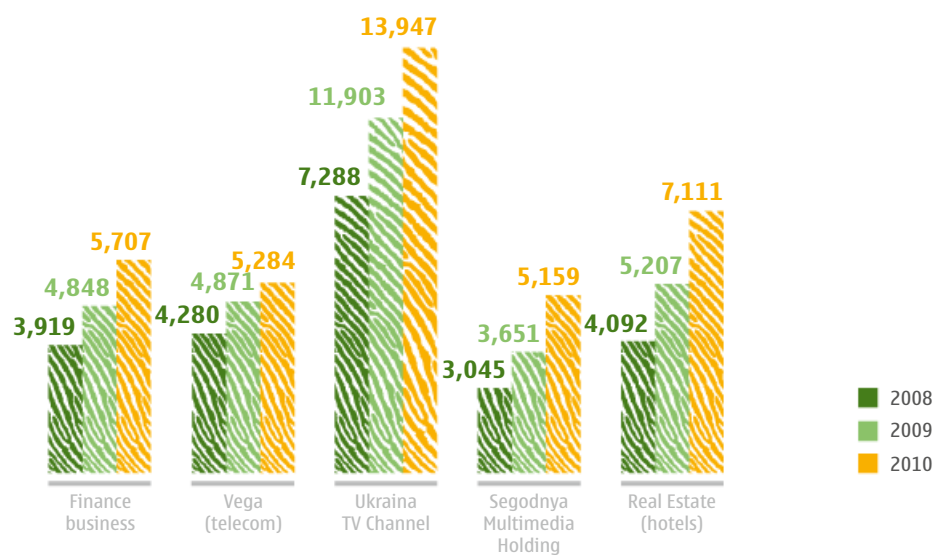
■ Average salary at SCM Group industrial holdings

■ Ukraine's average salary in industry (according to the State Statistics Committee of Ukraine)

Average salary at SCM Group industrial holdings against Ukraine's industrial average salary, 2007–2010, UAH



Average salary at SCM Group non-industrial companies, 2008–2010, UAH



Remuneration and social benefits

We have established a transparent and clear remuneration system, and provide competitive pay based upon the employee's contribution to our business goals.

Achievements in 2010:

- Metinvest is close to completing a remuneration system based on position appraisal, which will determine the contribution of every position to the performance of the company and set appropriate pay levels. Every staff member has concrete objectives within his position that are derived from the company's strategic goals. In 2011, Metinvest plans to tie the maximum size of the variable part of remuneration (or bonus) to job "grades".
- DTEK has been rolling out the Hay Group methodology approach to defining the responsibilities of different positions and establishing a link to remuneration through an annual staff appraisal system. This work started at DTEK's mining businesses (Pavlogradugol and Komsomolets Donbassa Mine) in 2010 and continued at Vostokenergo and Mospinskoye coal preparation plant in 2011. As a result, the average salary at Komsomolets Donbassa Mine increased 21.3%. Senior managers launch employee outreach campaigns to raise awareness of the main aspects of the new remuneration system.
- First Ukrainian International Bank has rolled out a Hay Group-based remuneration system as well. It indicated the level of every position in the general structure of the bank, while salary benchmarking against other players in the industry. This allows FUIB to maintain competitive salaries.

SCM Group companies also offer non-salary benefits to their employees as a way to enhance their social protection. These vary depending on the company's resources and the legal requirements in each industry.

SCM non-industrial companies offer a range of benefits, including voluntary medical insurance, life insurance and corporate activities.

At Metinvest and DTEK social benefits are regulated by industrial and collective agreements and include, for example, assistance to staff and former employees (pensioners), grants paid on special holidays, subsidised recreational activities, children's educational grants, sports and cultural events, among others.

SCM Group also ensures additional social protection. For example:

- Benefit packages at Metinvest's ore and steel plants include medical and life insurance; and
- DTEK's benefit package at coal businesses includes free household fuel for employees, retired DTEK employees, people with disabilities and veterans of the Great Patriotic War (World War II). The Vostokenergo power company enhanced its social package with medical insurance for its employees.

Employee performance appraisal

Performance appraisals offer a fundamental means of determining employees' professionalism, creating individualized remuneration and development plans and goals for the following year. A transparent and well-regulated appraisal shows employee potential to include them in the talent pool and ensure further career growth.

Projects:

- The performance and corporate competencies of employees at Metinvest's core businesses have been appraised since 2011. The results are used as the basis for fair career decisions for the next evaluation period, including changes to salaries and bonuses, inclusion in the talent pool, and other considerations;
- A number of DTEK's companies (Pavlogradugol, Vostokenergo, Service-Invest) appraise staff to key performance indicators, motivating them to improve continuously. For example, more than 250 employees of Pavlogradugol have personal KPIs;
- The Vega group is developing a staff appraisal system based on management by objectives and a new system of corporate competences;
- Ukraine TV channel introduced employee appraisals for senior and mid-level managers in 2010 based on their professionalism and competences, including '360-degree' appraisal by colleagues and subordinates, as well as the employee's manager.

HEALTH AND SAFETY

Health and safety has been and remains the number one priority of our social responsibility strategy and is an issue that must be owned by every member of staff. The fact that directors of our industrial businesses are appraised against 'key performance indicators' related in particular to health and safety is clear proof of the high importance we attach to these issues.

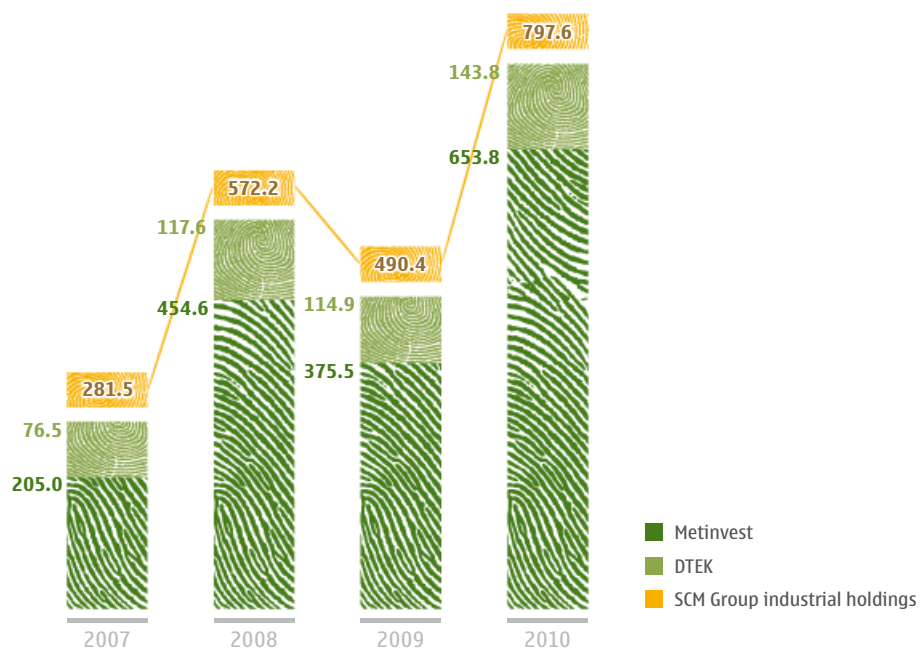
Our companies have come a long way toward meeting levels that are comparable with leading global firms, compensating for the legacy of neglect to health and safety that our businesses inherited from the past decades. We have made massive investment of money and time to improve the safety management systems at our enterprises. This has resulted in significant improvements during 2010.

The total number of accidents fell 17% (from 559 in 2009 to 464 in 2010). Fatal accidents fell even faster, by 35%. Yet, it is with deep regret that we acknowledge that 13 people lost their lives while working at our sites in 2010. Eliminating fatalities to a zero level remains our absolute priority.

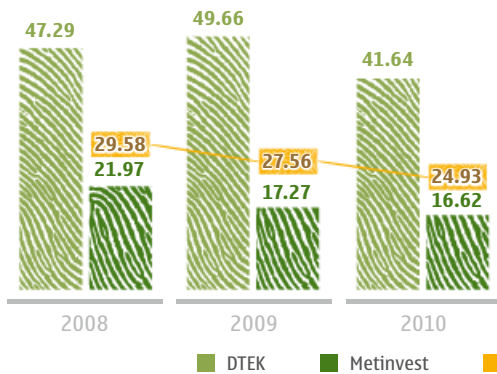
This strong performance is a reflection of our sustained commitment to tackling the causes of accidents. We believe that almost all accidents are preventable, and have increased our investment in health and safety by 63% to UAH 797.6 million in 2010 year-on-year.



Investment in health and safety by SCM Group industrial holdings, 2007–2010, million UAH



Lost day rate at SCM Group industrial holdings, 2008–2010



Occupational diseases incidence rate at SCM Group industrial holdings, 2008–2010



Lost time accident frequency rate (LTAFR) at SCM Group industrial holdings, 2004–2010



Fatal accident frequency rate (FAFR) at SCM Group industrial holdings, 2004–2010



Some major initiatives include:

- All DTEK and Metinvest core businesses have now been audited and certified to meet the international OHSAS 18001 health and safety standard;
- As part of integrated health and safety management system, Metinvest:
 - Metinvest's short-term plans: to implement corporate health and safety standards, conduct targeted safety audits, implement the Strategy for Developing the Healthcare System at Group enterprises;
 - Established a single channel for management through HSE central commissions (vertical governance model), and
- DTEK is aiming to reduce occupational accidents at its coal businesses by 30% by 2013; and
 - Is developing and implementing corporate standards to regulate safety audits, identify root causes of accidents, analyze job hazards and contractor job safety.
- DTEK plans to roll out pilot projects offering financial and non-financial incentives for health and safety performance, and to introduce a system for occupational medicine and a system to manage, maintain and improve employees' occupational health. Also, DTEK plans to adopt a corporate style of personal safety kits.
 - New standards for protective clothing and safety kits at Metinvest and DTEK have been adopted;
- Metinvest and DTEK motivate their employees to work safely. DTEK introduced a corporate system of financial and non-financial health and safety motivation. In 2010, Metinvest launched a CEO's Prize for health and safety to motivate employees to be responsible for their health as well as the safety of their colleagues;

HR management:

- Industrial enterprises within Metinvest and DTEK have standards for safety audits in place. Accordingly, managers of all levels, including senior executives in the management company (the board) and at enterprises, regularly visit production facilities to see how people work and what the working conditions are like. As a result, employees develop a behaviour pattern, where proper attention to the health and safety of themselves and others becomes part of their personal beliefs and values;
- Metinvest's short-term plans include building a common corporate culture, introducing a common staff appraisal system, launching a single talent pool building and development programme, and creating a management training centre;
- Strengthened cross-learning between plants on the management of health and safety risks and encouragement of bottom-up innovations motivate staff. (See: "Token Case Study at Metinvest and DTEK")
- DTEK's short-term plans (DTEK) further develop the DTEK Academy to train future managers, and to continue to develop the Institute of Internal Coaches at DTEK's businesses as an instrument to realize production development, adopting a corporate standard, Contractor Job Safety, that widens the health and safety duty of care to include contractors. (See: "Contractor Safety Competence")
- New competence systems, as the basis of appraisal of employee performance and development needs, will be introduced at FUIB, Vega and Segodnya in 2011-2012; and
- In 2011 and 2012, FUIB plans to appraise its employees and use the results to develop a talent pool to fill 80% of management posts with internally-grown talent by 2015.



In 2010, DTEK launched a task force to evaluate effective incentives to motivate employees to adhere to safe working practices. The task force reviewed lessons from across DTEK's businesses and reported that the approach at Pavlogradugol mining group was the most appropriate. The miners receive coloured tokens indicating how responsible they are to health and safety. Green means strong responsibility and no violations. If someone breaks health and safety rules once, the token is changed to yellow and, for persistent breaches, red. The approach reveals weaknesses in the safety system, which are confirmed by safety commissions and made obvious for peer miners. As a result, this creates pressure on violators.



**Token system
at Pavlogradugol
(DTEK)**

FUTURE PLANS

Every year around 8,000 people come to work at Metinvest's Azovstal Steel Plant who are not employees of the company. These are suppliers and contractors, some of whom will work in hazardous environments. In 2010, Azovstal launched a new initiative to reduce the health and safety risks to this

Health and Safety:

- Metinvest's project aims to implement safety requirements to protect workers and assets, conduct targeted safety audits, implement the Strategy of the Developing Hazardous Work Environment System at Group enterprises, joint audits of hazards, discussions, training contractor staff in safety practices and joint safety check-ups. It also includes a strict ban on bringing alcohol to work or being intoxicated at work.
- DTEK is aiming to reduce occupational accidents at its coal businesses by 30% by 2013; and
- Where necessary, in the case of a demand, for example, Metinvest insists on accurate planning, the use of appropriate equipment and protective clothing and the management of employees during the work. Also, DTEK plans to adopt a corporate standard for personal safety. This procedure fulfils our moral obligation to contractors using the Azovstal site and ensures that we do not incur the cost and disruption that arises from accidents. Metinvest will develop and roll out this initiative to other plants.

**Contractor
Safety at
Azovstal
(Metinvest)**

HR management:

- SCM Management Company will develop a talent management system during 2011-2012 to



With great regret, and despite a continued commitment to improving health and safety standards, a serious accident caused by a firedamp explosion occurred on July 29, 2011 at a mine in the Krasnodonugol coal group (Metinvest), and 26 miners lost their lives. Metinvest has analysed the safety system and devised an enhanced plan to prevent accidents based on the best practices in Ukraine and abroad. The families of the deceased received financial assistance.

In 2011, Krasnodonugol rolled out intensive health and safety programmes, installing additional air cooling systems and automated systems to monitor the location of people and equipment in the mines, as well as provide additional health and safety training. In 2011, Metinvest invested over UAH 83 million in these programmes.

Krasnodonugol also regularly works to prevent accidents, and its corporate health and safety standards are much higher than required by Ukrainian law. Leveraging the world's best practices, Metinvest is building a health and safety management system at its enterprises based on the following principles: leadership at all levels plays a pivotal role in H&S management; every employee is involved in improving safety at work (Safety is everybody's responsibility); consistent and planned actions to identify, assess and reduce risks and hazards; and careful analysis of accidents to learn lessons for the future. We adopt safety attitude standards and change the procedures used to identify the root causes of incidents. For example, as part of the Safety Audits standard, senior executives of the company perform attitude, targeted and cross audits of health and safety at production sites, workshops and offices. The standard covers all employees, from workers to mid-level and senior managers in Metinvest's companies.

Health and safety training is a special focus; the education centre has extended the training time for new staff and allocated more time for practical training. The centre has access to a practice longwall and drifting faces equipped with health and safety appliances, so that students get hands-on experience. Experienced workers are engaged as mentors.

By the end of 2012, Metinvest plans to devise and roll out a programme introducing APPO, an employee and rolling stock tracking system. It will help continuously and automatically monitor the location of people and vehicles in the mines, alert underground transport operators if people are on the tracks, streamline underground vehicle operations and facilitate search and rescue operations in the event of an emergency.

In 2011, Metinvest allocated over UAH 500 million to the health and safety, environment and modernization of Krasnodonugol's production facilities. We will cover Metinvest's programmes in more details in our next report.

Caring for employees' health

Health and Safety:

Industrial production normally goes alongside the factors affecting employee health. In 2010, we recorded 753 cases of occupational diseases, such as vibration, high temperature and humidity, arising from the work environment. SCM Group's industrial holdings take a comprehensive approach to employee health and well-being:

- Metinvest's short-term plans: to implement corporate health and safety standards, conduct targeted safety audits, implement the Strategy for Developing the Healthcare System at Group enterprises;
- In 2010, Metinvest launched a new Strategy for Healthcare System Development. DTEK is aiming to reduce occupational accidents at its coal businesses by 30% by 2013; and The strategy has three components, each targeted at a particular area: emergency aid, promotion of a healthy lifestyle, and occupational health. Altogether, they will significantly improve the quality of employee safety.
- DTEK plans to roll out pilot projects offering financial and non-financial incentives for health and safety performance, and to introduce a system for occupational medicine and a system to manage, maintain and improve employees' occupational health. Also, DTEK plans to adopt a corporate style of personal safety kits.
- Krasnodonugol has a pilot project under the first component. It launched 24-hour underground medical stations, bought equipment and began first-aid training for medical staff who will be closest to employees in case of an emergency. The project will be rolled out to all enterprises within the group in the future; and

HR management:

- In 2010, DTEK launched a corporate system of occupational medicine and health management to improve medical and first-aid services and encourage employees to take responsibility for their own health.
- SCM Management Company will develop a talent management system during 2011-2012 to identify high-performing individuals with high potential to fill senior positions as the SCM Group expands;
- Metinvest's short-term plans include building a common corporate culture, introducing a common staff appraisal system, launching a single talent pool building and development programme, and creating a management training centre.



TRAINING AND PROFESSIONAL DEVELOPMENT

SCM businesses need highly qualified technicians and skilled managers. In 2010, our companies increased the amount of training offered by 48% and increased investments in training by 83%, to UAH 56.2 million compared with 2009. We continue to rely on internal resources like company training schools and internal coaching as an effective way to deliver much of the training, bringing in outside experts where necessary.

Major training initiatives in 2010 included:

- In March, DTEK launched its corporate university, the DTEK Academy, and 80% of all mid-level and senior managers will be trained in-house by 2013. Recognized business schools like the London Business School and Kyiv-Mohyla Business School contributed to the unmatched curricula at DTEK's university, covering important management aspects to teach how to approach objectives comprehensively, as well as routine work knowledge and skills. Key programmes are Energy of Knowledge and Energy of a Leader;
- To build managerial capacity, DTEK launched its Top 50 Talents initiative to train future leaders for critical management positions. By late 2010, 44 DTEK employees had been enrolled in the Top 50 programme and 11 senior managers were participating as mentors;

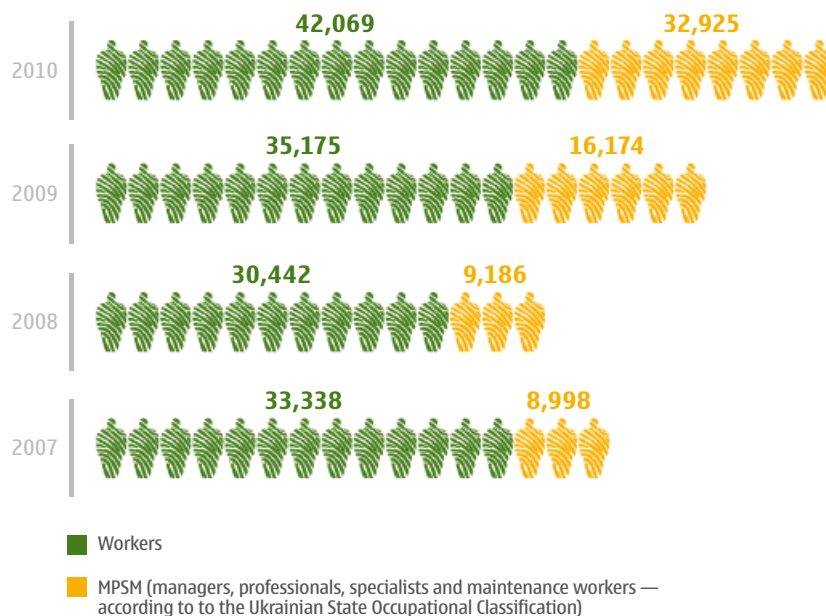


- DTEK also runs an Institute of Internal Coaches of Production Enterprises. In 2010, internal coaches delivered 165 courses to more than 2,000 mid-level managers;
- During 2008 and 2009, Metinvest appraised its managers and built a talent pool. In 2010, the company partnered with a leading Russian business school to deliver an integrated development programme for 88 managers who are part of the talent pool. The programme includes six modules on topics like modern management practices and strategic planning. It also involves an internship placement at an international steel holding. Students learn from the lecturers from leading western business schools and follow their individual development and career plans;
- Segodnya Multimedia publishing holding continued to provide in-house training through its corporate university and has expanded its external training in areas such as online journalism, sales, finance and marketing; and
- ESTA Group is using staff exchanges between the Opera and Donbass Palace hotels and placements at leading hotels overseas to develop the skills of key workers like chefs and concierges.

Investment in employee education by SCM Group core businesses, 2008–2010, million UAH



Employee education of SCM Group industrial holdings, 2007 – 2010, training



Employee education of SCM Group non-industrial companies, 2008 – 2010, training



FUTURE PLANS

Health and Safety:

- Metinvest's short-term plans: to implement corporate health and safety standards, conduct targeted safety audits, implement the Strategy for Developing the Healthcare System at Group enterprises;
- DTEK is aiming to reduce occupational accidents at its coal businesses by 30% by 2013; and
- DTEK plans to roll out pilot projects offering financial and non-financial incentives for health and safety performance, and to introduce a system for occupational medicine and a system to manage, maintain and improve employees' occupational health. Also, DTEK plans to adopt a corporate style of personal safety kits.

HR management:

- SCM Management Company will develop a talent management system during 2011-2012 to identify high-performing individuals with high potential to fill senior positions as the SCM Group expands;
- Metinvest's short-term plans include building a common corporate culture, introducing a common staff appraisal system, launching a single talent pool building and development programme, and creating a management training centre;
- DTEK's short-term plans are to further develop the DTEK Academy to train future managers, and to continue to develop the Institute of Internal Coaches at DTEK's businesses as an instrument to realize production management;
- New competence systems, as the basis of appraisal of employee performance and development needs, will be introduced at FUIB, Vega and Segodnya in 2011-2012; and
- In 2011 and 2012, FUIB plans to appraise its employees and use the results to develop a talent pool to fill 80% of management posts with internally-grown talent by 2015.



Investments in developing
our communities

64.6 million
UAH

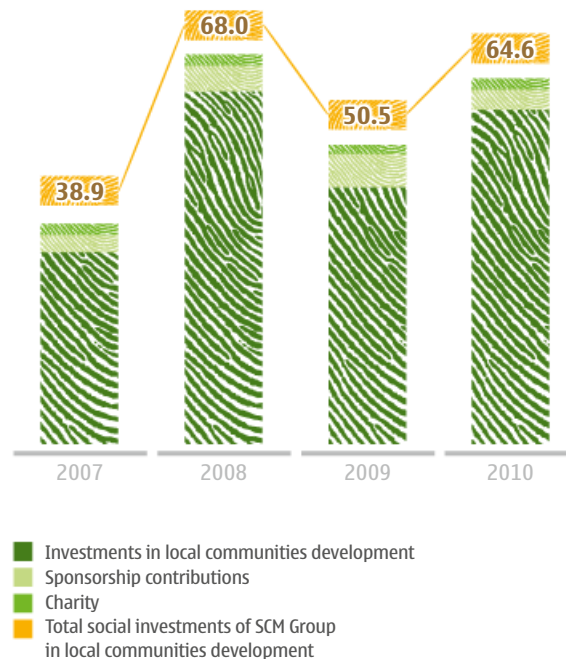
INVESTING IN OUR COMMUNITIES

Cooperation with our local communities is an essential part of SCM's CSR strategy. Our businesses have a heritage of close connection with local communities and have provided them with significant support in building social infrastructure and organizing public life. More effective result-oriented forms of social investments come in place of charity, making visible change in the quality of life in local communities. However, our companies alone cannot achieve this objective, so we design modern social partnership models to involve citizens in addressing social issues. Our special focus is cooperation with non-governmental organizations - the approach shared by all companies in SCM Group.

OUR STRATEGY

SCM's most important contribution to our country and to the communities where we operate is to keep and create jobs, to operate sustainably and to pay taxes. Yet there are other ways in which we can support both the long-term success of our businesses and the development of Ukraine by investing in local communities. Through our social investment programmes, we make high-impact interventions that tackle national problems like education reform, help improve infrastructure and facilities in the local communities where our businesses are based in order to raise living standards and make these communities more attractive places to live and work. In 2010, we increased our social investments by 28%, to UAH 64.6 million.

Social investments in local communities development by SCM Group core businesses, 2007–2010, million UAH



OUR CONTRIBUTION TO UKRAINE'S DEVELOPMENT

Our national programme of social investment is led by the SCM Management Company and focuses on supporting and promoting corporate social responsibility (CSR), education, particularly modernization of professional education, and energy efficiency

Supporting and promoting corporate social responsibility in Ukraine

In 2005 and 2006, the SCM Management Company developed common CSR policies for the SCM Group. These policies recognized the sector focus of our businesses. We signed the UN Global Compact in 2006, and support this initiative by making a contribution to the promotion of the corporate responsibility and sustainable development ideas in Ukraine. We are willing to share our expertise to encourage more Ukrainian companies to observe responsible business principles.

In 2010, we participated in meetings of the Global Compact to promote the adoption of international best practice in CSR in Ukraine and throughout Eastern Europe. We also participated in the launch of the report on Ukraine's progress toward the Millennium Development Goals, to raise awareness of the role business plays in this process. We have also supported an initiative of the Global Compact, the Ukrainian government and Ukrainian universities, to develop a degree-level programme in CSR (See case "CSR as an Academic Discipline in Ukrainian Universities").



As a pioneer in corporate social responsibility in Ukraine, SCM has had to do a lot of learning-by-doing to apply the principles of sustainability and social responsibility within the context of our different businesses, and given an economy in transition. Now that we have amassed a large body of knowledge, we are keen to share it with others to promote the CSR and sustainable development agendas in our country.

Since 2009, we have partnered with the Global Compact Ukraine and the Education Ministry to develop a course on CSR and include it into the curricula of Ukrainian universities.

The concept was presented at a roundtable attended by leading schools and academics in October 2010. The event also presented the Corporate Social Responsibility discipline that SCM took part in developing. The Education Ministry recommended including it in the Bachelor degree curriculum. In addition, SCM and the Ukrainian Association for Management Development and Business Education (UAMDBE) initiated a Ukrainian competition that encouraged university lecturers to develop the best bachelor programme on corporate social responsibility.

As a result of this project, the CSR course gained recommendation from the Education Ministry and is now on the curriculum at Ukraine's leading universities as a baccalaureate degree program. We believe that this will improve the awareness of CSR in Ukraine, ensure a common understanding of corporate social responsibility and sustainable development principles among academia and train a new generation of managers with an understanding of how CSR makes business better and so more efficient and effective.



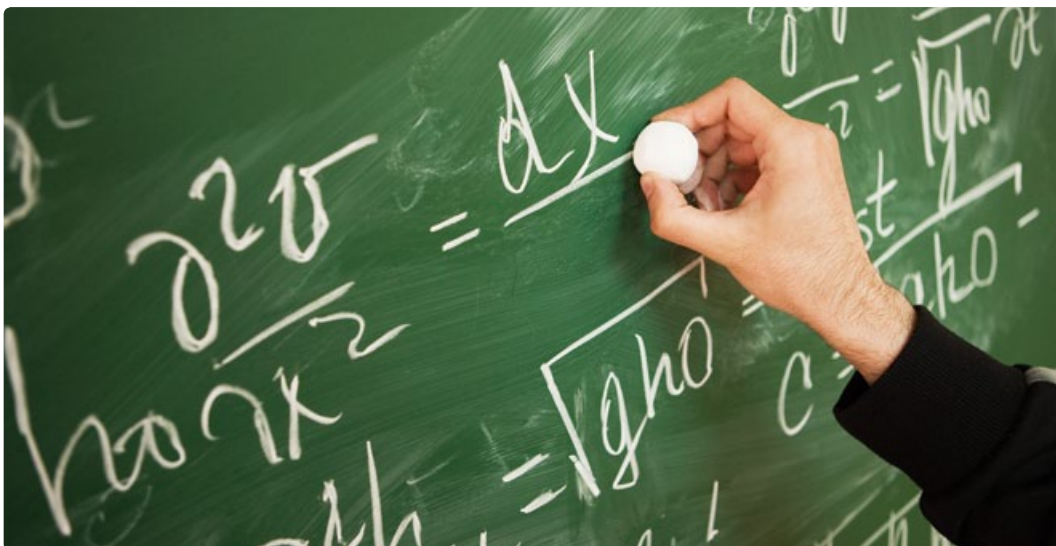
**CSR as an
Academic
Discipline
in Ukrainian
Universities**

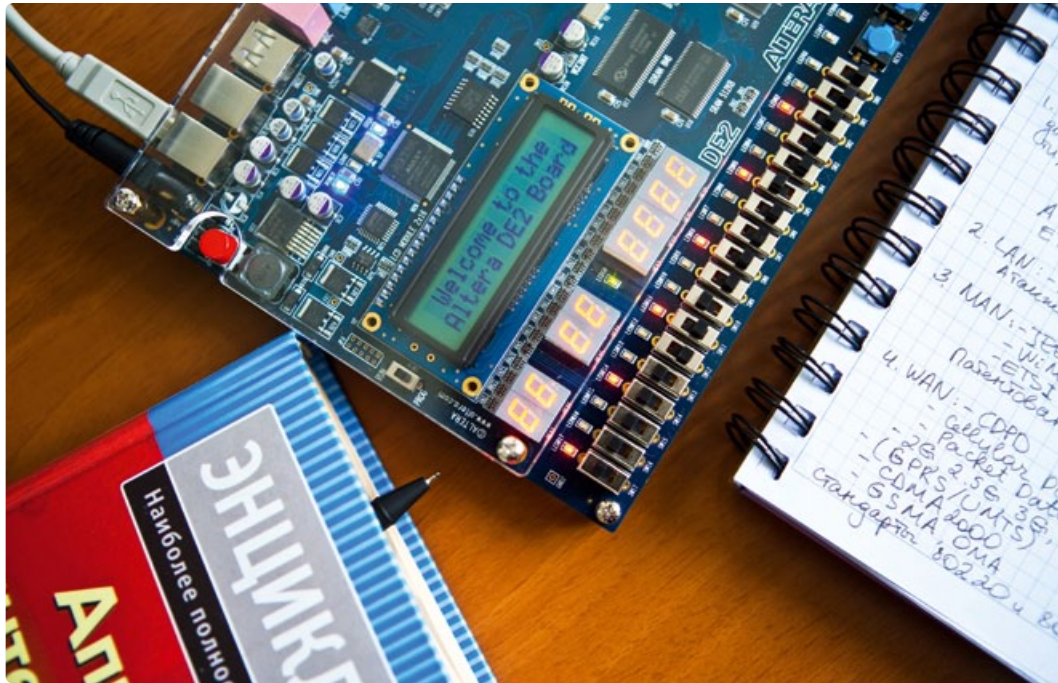
Education

As a major employer in Ukraine, we realize that the quality of human resources will be crucial for the ongoing success of our businesses and for the development of the country. While Ukraine's schools and universities achieve high levels of academic performance, the education they offer is not always well-suited to the practical needs of business. We have therefore championed education reform in Ukraine through our Contemporary Education programme. The programme includes projects like Compass University Ranking, Discussion Club, FormulaS and Life Long Learning.

In 2010, we launched our third Compass Ranking of Ukrainian Universities to improve public awareness of the quality of higher education in our country. SCM is also making a direct contribution to teaching at universities with our new FormulaS initiative, where senior managers deliver master classes to Ukrainian students. We are proud that FormulaS won a prize in the European Corporate Volunteering Contest organized by the East Europe Foundation in partnership with the UN Global Compact Network Ukraine, under the European Year of Volunteering.

Early in 2011, SCM partnered with the Donetsk Oblast State Administration to initiate a Life Long Learning initiative in Donetsk Oblast. This initiative helps modernise the existing education system, build an innovative educational environment in Donetsk Oblast, and create a multi-component lifelong learning model (See case: "Life Long Learning").





The world of work is changing as economic conditions are transformed. Technologies change rapidly due to intense competition in the global economy, and highly-skilled professionals need to renew their skills regularly to keep up with the latest developments and technology. As a business, we are responding with our comprehensive programmes of internal and external training for our employees. Yet this is also a challenge for our national educational institutions, which need to develop new ways of teaching and find new solutions.

Since SCM businesses will benefit if Ukrainian colleges and universities can better meet the needs of the modern labour market, in 2010 we partnered with the European Training Foundation to support Life Long Learning (LLL), starting in Donetsk Oblast. The aim of the project is to modernise the existing educational system in Ukraine, build an innovative educational environment in Donetsk Oblast, and create a multi-component lifelong learning model. The initiative was well-received by government, universities and businesses, and we will work with these partners to promote the concept and help to bring LLL to our country.



Life
Long
Learning

Energy efficiency

As a responsible business, we realize that we must adopt clean production technologies, implement regular environmental and energy-saving programmes at our industrial enterprises and contribute to the environmental education and culture of our staff as well as citizens in our local communities.

Representatives of the SCM Management Company attend conferences, workshops and other events in Ukraine and internationally to promote environmental and energy-saving issues.

In 2010, SCM attended a World Steel Association conference on Sustainable Steel Building, a meeting of the UN Global Compact themed “Caring for Climate: Enhancing the Role of Enterprises in the Environmental Reform”, and the European Bank for Reconstruction and Development’s Business Forum that themed “Building Sustainable Growth”.

We also partnered with Delovaya Stolitsa, a weekly newspaper, under the Energonomics initiative to raise awareness of climate change and the need for energy efficiency. SCM also was a partner to the German-Ukrainian energy forum in Donetsk and to the UK Embassy’s “Save energy! Save money!” public diplomacy project, which organized a photo exhibition on energy saving called “Save Energy! Stop Climate Change!”

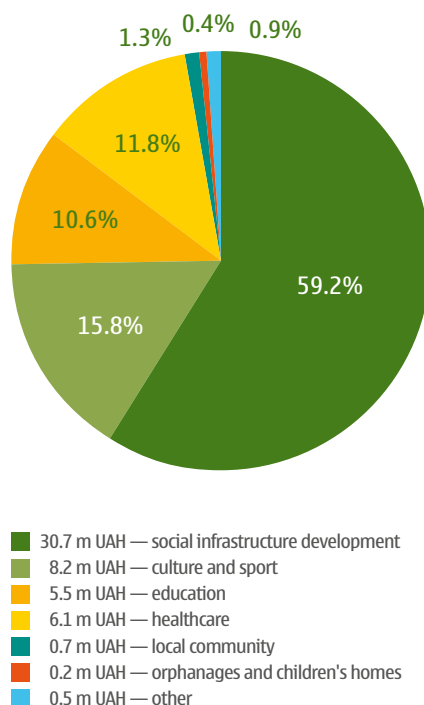
Raising the profile of energy efficiency in the business community and general public is important to us. Our energy saving projects are delivered within a single programme, EnergyEfficiency.UA.

In April 2011, SCM launched a new initiative ranking the energy efficiency of Ukraine’s regions. The Ukraine Energy Index maps the capacity for energy saving across the country and assesses projects to make the national economy more energy efficient. More information about the project is available at www.energy-index.com.ua.

SUPPORTING OUR COMMUNITIES

A significant portion of our social investment is made as investments in local communities (see chart). Almost 90% of our social investment is made by the industrial companies of Metinvest and DTEK. Many of our enterprises are major employers and taxpayers in their towns, so they play a big role in the development of local communities.

Investment of SCM Group industrial holdings in the development of regions of operations, 2010



Strategic approach at Metinvest

In 2010, Metinvest launched its Strategy for Increasing the Efficiency of Social Investments to 2015. The strategy, designed by a task force drawn from Metinvest's key businesses, outlines gradual changes in the management of social investments to improve their quality and make a greater contribution to the development of sustainable communities.

Metinvest uses several forms of social investment (e.g.: assistance to third parties and partnership agreements with cities) and intends to apply new advanced programmes which envisage long-term development and more active citizen engagement (e.g.: corporate social programmes).

In 2010, Metinvest signed partnership agreements with four local authorities: Khartsyzsk Town Council with Khartsyzsk Pipe Plant, Avdeyevka Town Council with Avdeyevka Coke and Chemicals Plant, Krasnodon Town Council with Krasnodonugol, and the Mariupol City Council with Azovstal Steel Plant. This process has been underway for several years, but in 2010 Metinvest rolled out a project offering a new level of cooperation (See case: "Krasnodon Has a Plan").



**Krasnodon
Has a Plan**

In 2010, Metinvest joined a USAID programme to help city councils with strategic planning and increasing their city's investment attractiveness.

The Krasnodon Town Council, Krasnodonugol and USAID's "Local Investment and National Competitiveness" project involved a partnership agreement to work together to update the regional strategy for the city's development to 2015. This project, implemented jointly by all stakeholders, marks a new type of partnership for Krasnodon. The project is run by a Coordination Council headed by the city's mayor, and involving more than 40 representatives of municipal and educational institutions, small and mid-sized businesses, banks, utility companies, local self-governments, NGOs, leaders of the local community and representatives of Krasnodonugol.

This participatory approach brings together local stakeholders and ensures that the plan identifies the most important issues and the most effective solutions. The process will involve public hearings to ensure that it is open and transparent.

Metinvest's corporate social programmes

In 2010, Metinvest approved a portfolio of corporate social programmes to be implemented simultaneously in all regions where the company has operations. In particular, they include an ecological programme, Our Environment is Everyone's Business, and an infrastructure project, Our Town in Our Hands. Metinvest also started a new youth programme, The World of Opportunities, and shaped the structure of its programme for the development of children's football (See case: "Winning On and Off the Pitch").

Donetsk oblast, where many of Metinvest's businesses are located, is football-mad because of the national and international success of the Shakhtar Donetsk Football Club, which is owned by SCM Group. Football is fun. It is also a great way for children to learn about leadership and teamwork.

Since 2007, Metinvest has partnered with Shakhtar Donetsk FC to finance children's football academies in towns like Krivoy Rog, Yenakiyevo and Mariupol, where the company operates. Our support includes hiring professional coaches, upkeep of existing football pitches and building new facilities. So far, over 600 boys aged from 7 to 15 from neighbouring towns and villages have had the opportunity to participate.

Such has been the success of this project that Metinvest plans to open more academies, train more local football coaches, and, in cooperation with Shakhtar, hold an annual Metinvest Football Cup to showcase local talent.



**Winning On
and
Off the Pitch**



DTEK's social investment strategy

DTEK's social investment strategy is focused on partnerships with local authorities. Declarations on Social Partnership have been DTEK's main social investment tool since 2008, specifying the principles, forms and methods for partnership in the areas of contemporary education, healthcare, cultural heritage and infrastructure development. The declarations were signed with 14 towns and three districts in Donetsk, Dnepropetrovsk, Zaporozhye, and Lugansk oblasts (See case: "Cooperation with Kurakhovo").

In 2010, two new themes were added to the scope of these partnerships: energy efficiency and business environment development. DTEK also supported the development of learning between partnerships. For example, in 2010 the company addressed the specific challenges of towns where large electricity generation plants dominate the local economy by initiating a meeting of the mayors of different 'energy towns' to share lessons and experience.



**Cooperation
with Kurakhovo**

Nearly one in ten people in Kurakhovo work at the local power plant, which is run by DTEK's Vostokenergo power company. DTEK has had a partnership agreement with the town council since 2007.

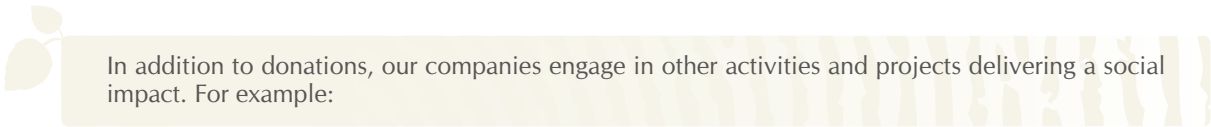
When drawing up a strategic development plan for Kurakhovo, it was agreed that a top priority was reforming the heating system. As part of the project, Vostokenergo carried out an energy audit to create an energy efficiency plan. One of the measures agreed in the plan was to install new heating systems in two pre-school institutions. The works, which were financed by Vostokenergo, were completed in 2010 and the new system will have paid for itself in energy saving within three years.

Vostokenergo's investment in this heating efficiency system was UAH 1.3 million in 2010 and a similar programme has now been launched in Pavlograd. This type of learning between communities is an increasingly important part of the partnership programmes run by DTEK. That is why the company supported a meeting of the mayors of "energy towns".

SCM's industrial businesses also roll out charitable projects. For example, DTEK's coal mining enterprises provide cash and in-kind gifts to local educational, cultural and sports facilities, and support individuals in need, such as veterans, and people with disabilities as well. For several years, Pavlogradugol has supported the Afanasyevskiy geriatric centre for veterans of the Great Patriotic War, people with disabilities and war widows.

The Vostokenergo power company focused on education. In Schastye town, Luganskaya Power Plant helped buy children's furniture, playground equipment and computers to a local school and kindergartens. Kurakhovskaya Power Plant supports the local Prestizh school, which won two national academic contests in 2010.

SCM's non-industrial businesses are involved in an extensive range of charitable activities to help the elderly, children, and the sick, and to support talented young artists.



In addition to donations, our companies engage in other activities and projects delivering a social impact. For example:

- Ukraina TV channel provides free time for social advertising. In particular, it aired anti-drunk-driving videos in 2010;
- Since 2009, Vega Group has been a member of project Onlandia, organized by Microsoft Ukraine, to protect children on the Internet by providing its subscribers with information about children's safety on the web. In June 2010, Vega launched a new initiative to distribute leaflets with information about the project and Internet safe use rules to Vega subscribers through its sales and customer service units; and
- In May 2010, the Segodnya newspaper launched a new editorial project, Stop Cancer, to raise readers' awareness of cancer and to promote its early diagnosis.

Volunteering

Employees of Metinvest's enterprises personally volunteer to support people in need. For example, the Council of Young Pipe Workers at Khartsyzsk Pipe Plant organizes regular events at the plant to raise money for local orphanages. The employees of SevGOK donated money to purchase New Year gifts for young patients of the Regional TB Hospital and the children cared for by the Chernobyl Union NGO. Metinvest plans to develop a comprehensive Corporate Volunteer programme to provide employees with additional opportunities to develop and implement their own social projects.

FUTURE PLANS

- SCM Management Company will continue its national Contemporary Education programme. Also, SCM will start the active stage of its project to develop occupational standards in 2011 and continue further in 2012.
- The SCM Management Company will continue its energoeffektivnost.ua programme focused on energy efficiency.
- Metinvest will continue its social investment strategy, launch new corporate programmes and a new volunteering initiative as well as new local partnership agreements.
- DTEK will build on its social partnership programme and expand it to Western Ukraine.
- DTEK will continue an initiative on energy efficiency, in particular the Municipal Heating Reform in Ukraine project in partnership with USAID, covering the new cities of Pavlograd, Dnepropetrovsk and Kiev.



ABOUT THIS REPORT


SCM Group Sustainability Report 2010–2011 complies with GRI, the international standard of non-financial reporting, and qualifies for the GRIB+ application level. The report was assured by independent auditors and was developed for our employees, citizens of the communities where our enterprises operate, national and local governments, business partners, experts and other members of the public.

ABOUT THIS REPORT

GRI application level							
	2002 in accordance	C	C+	B	B+	A	A+
Self-declared					✓		
Third party checked					✓		
GRI checked							

System Capital Management continues to inform its stakeholders about the sustainability performance of the SCM Group's businesses. This is the fourth sustainability report (hereinafter, the Report) that the SCM Group has prepared for GRI, the international standard of non-financial reporting. This report is breaking new ground to some extent, as it is the first sustainability report of the SCM Group prepared to the GRI B+ application level.





Time scope


In 2007, SCM established its annual reporting cycle. The report features the activities taken by SCM Group in 2010 and the first half of 2011. The quantity indicators cover the period from January to December 2010. Some numbers demonstrate the progress achieved between 2004 and 2010. The previous report covered 2009 and the first six months of 2010, and was published during April 2011. The next report will be released in 2012 to cover performance in 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 and on our anti-corruption initiatives. The report's structure reflects SCM's priorities in corporate responsibility.

The chapters on the environment, climate change, energy efficiency, health and safety and the 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 the industrial and non-industrial businesses of the SCM Group.



Report scope

The report features the performance of the SCM Management Company, industrial holdings (Metinvest and DTEK) and the non-industrial companies of SCM Group, with the information arranged into the 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 102.

The report's scope has changed compared with the previous period: for the first time we included information about Makeyevka Steel Plant, which joined Metinvest in 2010.

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

Indicator calculation

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). Other quantitative indicators relate to businesses covered in this Report.

Health and safety and environmental indicators relate only to industrial holdings. The indicators on human resources management and the development of local communities comprise the performance of the Group's industrial holdings and non-industrial businesses.

The main sources of information are official statistics reports submitted annually to national statistics agencies. The information for a number of indicators is collected and calculated in line with internal reporting forms checked by appropriate internal auditors.

Occupational injuries include all types of work-related injuries. Frequency rates of lost-time injuries, fatal injuries, work-related diseases and lost days were calculated according to the practice advised by the GRI – per 200,000 man-hours worked.


The information about greenhouse gas emissions includes only direct greenhouse gas emissions. At present, SCM Group does not calculate the volume of indirect GHG emissions as their share is insignificant compared with the share of direct GHG emissions.

For a detailed description of the calculation methods, please see SCM Group Sustainability Report 2009-2010.



Completeness and materiality

The report features the most significant performance and all main sustainability 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 information in the report meets the key GRI principles applied to determine the report's content and quality:

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

Comparability. The report follows 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 106.

Assurance

Ernst & Young performed an independent assurance of the report. The independent assurance report is on page 104.

Appendix 1.

THE SCM GROUP COMPANIES AND PRODUCTION ENTERPRISES COVERED BY THE REPORT

1

SYSTEM CAPITAL MANAGEMENT (SCM) —
MANAGEMENT COMPANY

MINING AND METALS

2

METINVEST HOLDING Management Company

Coal and Coke Division

3

Krasnodonugol (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 (YeMZ)

11

Khartsyzsk Pipe Plant (KhTZ)

12

Makeyevka Steel Plant (MMZ)

ENERGY BUSINESS

13	DTEK Management Company
----	-------------------------

Coal production and preparation

14	Pavlogradugol
15	Komsomolets Donbassa Mine
16	Mospinskoye Coal Preparation Plant
17	Pavlogradskaya Coal Preparation Plant
18	Kurakhovskaya Coal Preparation Plant
19	Dobropolskaya Coal Preparation Plant
20	Oktyabrskaya Coal Preparation Plant

Electric power generation

21	Vostokenergo (Zuyevskaya, Kurakhovskaya and Luganskaya thermal power plants)
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Electric power distribution

22	Service-Invest
23	Electric Networks Enterprise Energougol

FINANCE

24	First Ukrainian International Bank (FUIB)
25	Dongorbank
26	ASKA insurance company
27	ASKA-Life insurance company

MEDIA BUSINESS

28	TRK Ukraina broadcasting company (Ukraina channel)
29	Segodnya Multimedia publishing holding

TELECOMMUNICATION BUSINESS

30	Farlep-Invest (Vega Telecommunications Group)
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REAL ESTATE

31	ESTA Holding — management company
32	Donbass Palace Hotel
33	Opera Hotel

Appendix 2.

INDEPENDENT ASSURANCE REPORT ON THE SUSTAINABILITY REPORT OF SYSTEM CAPITAL MANAGEMENT FOR 2010 – 2011.



TO THE MANAGEMENT OF SYSTEM CAPITAL MANAGEMENT JSC

Engagement

At the request of System Capital Management JSC (hereinafter 'SCM') we have performed an assurance engagement. The subject matter of our engagement is the information disclosed in the "Sustainability Report of SCM Group for 2010–2011" (hereinafter 'the Report') except for the following matters:

- Data relating to the prior years,
- Forward-looking statements on events or planned activities of SCM,
- Independent statements made by third parties which SCM included in the text of the Report, 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 2010 and six months ended 30 June 2011.

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.

Criterion

We have assessed the Report against the Sustainability Reporting Framework issued by the Global Reporting Initiative (hereinafter 'GRI Framework'), as indicated in section "About the Report" on page 96 of the Report. We believe that this criterion is 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 the Report" on page 96 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 management responsible for its sustainability policies, activities, events, performance and relevant reporting,
- Analysis of key documents related to SCM 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 sustainability policies, activities, events, and performance in 2010 and during the period of six months ended 30 June 2011,
- 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 15 SCM entities to gather evidence supporting the assertions made in the Report on SCM sustainability policies, activities, events, and performance. The following entities were visited: CJSM “System Capital Management” (Management company), “Metinvest Holding” LLC (managing company), PJSC “Inguletskiy GOK” (managing company), PJSC “Khartsyzskiy Trubniy Zavod” (managing company), PJSC “Krasnodonugol” (managing company), PJSC “AzovStal Iron & Steel Works”, “DTEK” LLC (managing company), PJSC “DTEK Pavlogradugol”, “Vostokenergo” LLC (Kurakhovskaya HPP), 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”.
- Assessment of the sustainability reporting principles used by SCM,
- Assessment of the Application Level of GRI Framework.

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 SCM during 2010 and six months ended 30 June 2011 in accordance with GRI Framework.

Nothing has come to our attention that causes us to believe that the Report does not meet the requirements of “B” Application Level of GRI Framework.

Ernst&Young

Kyiv

11 April 2012

Appendix 3.

TABLE OF COMPLIANCE WITH GRI INDICATORS AND THE UN GLOBAL COMPACT PRINCIPLES

Principles of
the 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	2-3	SCM Group	1, 2, 10
1.2.	Description of key impacts, risks and opportunities. The indicator is covered partially	Context, Our approach	10-27, 31-32		
2. Organization profile					
2.1.	Name of the organization	Profile	4	SCM Group	
2.2.	Primary brands, products and /or services	Profile, Context	4-9, 10-27		
2.3.	Operational structure of the organization	Context	10-27		
2.4.	Location of the organization's headquarters	Context	10-27		
2.5.	Countries where the organization operates	Context	10-27		
2.6.	Nature of ownership and legal form	Profile, Context, Appendix 1	4-9, 10-27, 102-103		
2.7.	Markets served	Context	10-27		
2.8.	Scale of the organization	Context	10-27		
2.9.	Significant changes during the reporting period regarding size, structure, or ownership	Context, About this Report	20, 96-101		
2.10.	Awards received in the reporting period	Context, Investing in our community	25-27, 87	SCM, Metinvest, DTEK, FUIB, Vega, ASKA, ESTA	
3. Report Profile					
3.1.	Reporting period	About this Report	96-101	SCM Group	
3.2.	Date of most recent previous report	About this Report	96-101		
3.3.	Reporting cycle	About this Report	96-101		
3.4.	Contact point for questions regarding the report or its contents	Cover page			
3.5.	Process for defining report content	About this Report	96-101	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, ASKA-Life, Segodnya, Ukraina channel, Vega, ESTA	
3.6.	Boundary of the report	About this Report	96-101		
3.7.	Specific limitations on the scope or boundary of the report	About this Report	96-101		
3.8.	Basis for reporting on entities that can significantly affect comparability from period to period	Context, About this Report	10-27, 96-101	SCM Group	

3.9.	Data measurement techniques and the bases of calculations	About this Report	96-101	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	About this Report	96-101	SCM Group	
3.11.	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report	About this Report	96-101	SCM Group	
3.12.	Table identifying the location of the Standard Disclosures in the report	Appendix 3	106-109	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, ASKA-Life, Segodnya, Ukraina channel, Vega, ESTA	
3.13.	Policy and current practice with regard to seeking external assurance for the report	About this Report	96-101	SCM Group	

4. Stakeholder engagement

4.1.	Governance structure of the organization	Context	21-23	SCM Group	
4.2.	Indicate whether the Chair of the highest corporate body is also an executive officer	Context	21-23	SCM Group	10
4.3.	Number of members of the highest governance body that are independent members	Context	21	SCM Group	
4.4.	Mechanisms for shareholders and employees to provide recommendations to the highest corporate body	Context, Our approach, Investing in our people, Investing in our community	22-23, 28-43, 62-83, 82-96	SCM Group	3
4.5.	Linkage between compensation for members of the highest governance body, senior managers, and executives and the organization's performance	Remuneration of senior managers depends on financial and economic performance of the Company. Also see SCM Annual Report 2010 on www.scm.com.ua		SCM Group	
4.6.	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Context, Our approach	21-23, 30-33	SCM Group	
4.7.	Process for determining the qualifications and expertise of the members of the highest governance body. The indicator is covered partially	Context, Our approach	21-23, 30-33	SCM Group	
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	Our approach, Investing in our environment, Investing in our community	37, 39, 46, 51, 93-95	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Segodnya, Ukraina channel, Vega	
4.9.	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance	Our approach	30-33	SCM Group	
4.10.	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance. The indicator is covered partially	Context, Also see SCM Annual Report 2010 on www.scm.com.ua	21-23	SCM Group	
4.11.	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	Our approach, Investing in our environment	31, 46	SCM Group	
4.12.	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or endorses	Context, Our approach, Investing in our environment, Investing in our community	30-31, 39, 52, 85-95	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Vega, ESTA	
4.13.	Memberships in associations and /or national /international advocacy organizations	Context, Our approach	38-41	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Vega, ESTA	
4.14.	List of stakeholder groups engaged by the organization	Our approach	29-43	SCM Group	
4.15.	Basis for identification and selection of stakeholders with whom to engage	Our approach	29-43	SCM Group	
4.16.	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Our approach	29-43	SCM Group	
4.17.	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	Our approach	29-43	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	24	SCM Group	
EC5	Ratios of average monthly wage in the organization compared to average monthly wage at corresponding industries. The indicator was restated	Investing in our people	66-68	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, ASKA-Life, Segodnya, Ukraina channel, Vega, ESTA	
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	84-95	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Vega, ESTA	

Environmental performance

EN3	Direct energy consumption by primary energy source	Investing in our environment	49-50	Metinvest, DTEK	9
EN5	Energy saved due to conservation and efficiency improvements		50	Metinvest, DTEK	9
EN8	Total water withdrawal by source		53	Metinvest, DTEK	7.8
EN10	Percentage and total volume of water recycled and reused		53	Metinvest, DTEK	7.8
EN13	Habitats protected or restored		57-60	Metinvest	7.8
EN16	Total direct and indirect greenhouse gas emissions. At present SCM Group does not calculate the volume of indirect GHG as their share is insignificant compared with the share of direct GHG		51	Metinvest, DTEK	7.8
EN18	Initiatives to reduce greenhouse gas emissions		48-51	Metinvest, DTEK	7.8
EN20	NOx, SOx and other significant air emissions		52	Metinvest, DTEK	7.8
EN21	Total water discharge by quality and destination. The indicator is covered partially		53-55	Metinvest, DTEK	7.8
EN22	Total weight of waste by type and disposal method		56-57	Metinvest, DTEK	7.8
EN30	Total environmental protection expenditures and investments		47	Metinvest, DTEK	8

Human rights

HR4	Total number of incidents of discrimination and actions taken	In the reporting period the company did not get any claims connected with violation of human rights and discrimination. The Company does not use child labor		SCM Group	1, 2, 4, 5, 6
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour				1, 2, 4, 5, 6
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour				1, 2, 4, 5, 6

Labor Practices and Decent Work

LA1	Total workforce	Investing in our people	63	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, ASKA-Life, Segodnya, Ukraina channel, Vega, ESTA	
LA3	Benefits provided to full-time employees	Investing in our people	68-69	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Segodnya, Vega, ESTA	1
LA5	Minimum notice period(s) regarding operational changes	Minimum notice period is two months, according to the Labor Code of Ukraine		SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, ASKA-Life, Segodnya, Ukraina channel, Vega, ESTA	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region	Investing in our people	71-72	Metinvest, DTEK	1
LA8	Education, training, counselling, prevention and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	Investing in our people	78	Metinvest, DTEK	
LA10	Average hours of training per year per employee (partially restated as the Group does not monitor the information required by this indicator)	Investing in our people	79-80	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Segodnya, 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	78-81	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, Segodnya, Vega, ESTA	
LA13	Staff composition of the organization	Investing in our people	64	SCM, Metinvest, DTEK, FUIB, Dongorbank, ASKA, ASKA-Life, Segodnya, Ukraina channel, Vega, ESTA	6

Society performance

S01	Nature, scope and effectiveness of any programs and practices that assess and manage the impacts of operations on communities	Our approach, Investing in our community	28-43, 84-95	SCM Group	
S05	Public policy positions and participation in public policy development and lobbying	Our approach	39	SCM Group	

Product Responsibility

PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. The indicator is covered partially	Our approach	39	Metinvest	
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements		39-41	Metinvest	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction		39-41	Metinvest, DTEK, FUIB, ASKA, Segodnya, Ukraina channel, Vega, ESTA	

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