SCM Group
Communication on Progress Report
2014

SYSTEM CAPITAL MANAGEMENT

To: Executive Director of
United Nations Global Compact
Lise Kingo
10017 New York
United States

Dear Ms Kingo,

I am happy to present to you SCM Group's Communication on Progress Report 2014 and confirm that SCM Group upholds the ten principles of the UN Global Compact in the area of human rights, labour, environment and anti-corruption.

2014 was a challenge and a responsibility test for the entire SCM Group and for each of our businesses. This was a year of a deep economic downturn in Ukraine. The 11% drop in industrial production was exacerbated by devaluation of the national currency. The volume of capital investment declined by 24%. The budget deficit reached UAH 78 billion, and Ukrainian businesses lost over UAH 400 billion in total.

Most SCM Group companies are located directly in the conflict zone, in Donetsk and Luhansk oblasts. As a result, they were regularly exposed to conflict related damages and had to suspend operations at times, while significant costs were also incurred connected with repairs and reconstruction of industrial and social infrastructure. The following figures help illustrate the scale of the challenge: 47 SCM Group businesses are located in Donetsk and Luhansk oblasts on both sides of the contact line, 127,000 employees we continue to take care of, and 600 towns and villages where we help restore the damaged infrastructure.

In fact, SCM Group passed a very hard exam. In 2014, we paid UAH 32.4 billion in taxes to the national and local budgets and paid salaries to our employees without delays. Our businesses continued to implement their key investment projects and keep their social promises. Overall, we invested over UAH 7.6 billion in sustainable development last year, with a major share of investment focusing on health & safety and environment protection. As part of our Social Partnership Programme, our businesses invested UAH 232.8 million in the development of towns and villages where we operate. This investment helped roll out over 500 different projects in 11 Ukrainian regions.

Established in August 2014 on the initiative of Rinat Akhmetov, the Humanitarian Center pooled the resources of the Rinat Akhmetov Foundation, all SCM Group's businesses and Football Club Shakhtar to aid the most vulnerable people: children, the elderly, and the disabled affected by the hostilities. During a year of its work, the Rinat Akhmetov Humanitarian Center helped over one million Donbas residents by distributing food packages for adults and children, provided pharmaceuticals and helped with evacuation and accommodation, gave targeted payments and consultations with psychologists. The geography of this assistance covered over a hundred towns and villages and included thousands of volunteers from amongst our employees.

I want to thank all SCM Group employees, all employees of the Humanitarian Centre and all volunteers for their selfless work, courage and civic mindedness. I deeply believe that social investments, social projects and aid to people in need will help us be more united, stronger and withstand any challenge and any test.

Oleg Popov

Chief Executive Officer, SCM

SYSTEM
CAPITAL
MANAGEMENT

ABOUT SCM GROUP

SCM is Ukraine's largest private financial and industrial group with over a hundred of companies that provide jobs to about 300,000 people. SCM's shareholder is Ukrainian businessman Rinat Akhmetov.

MINING AND METALS

METINVEST is an international vertically integrated mining and steel company that manages every link in the value creation chain − from producing coal and iron ore to making semi-finished and finished steel products. The Group includes mining and steel companies located in Ukraine, Europe and the United States with a sales network covering all key global markets.

ENERGY

DTEK is the biggest private vertically-integrated power company in Ukraine. The synergy of coal production, power generating and distribution companies along with innovative technologies, professional management and well-balanced social policy makes DTEK a leader in Ukraine's power market.

TRANSPORTATION

PORTINVEST holding manages SCM's port assets and implements a range of investment projects in Ukraine's transport industry. Portinvest's companies tranship cargo in seaports, forward freight and offer shipping agency, vessel chartering and other services.

Lemtrans is Ukraine's biggest private freight forwarding company that offers a full range of rail freight transport services.

Transinvest Holding develops operations in construction and repair of railway tracks, firstly, for SCM Group's transport infrastructure.

BANKING AND INSURANCE

First Ukrainian International Bank (FUIB) is among top ten largest financial institutions of Ukraine by key financial performance.

ASKA insurance company is one of Ukraine's leading insurance companies operating in the national market for 25 years and providing property, casualty, car and health insurance.

ASKA-Life is one of Ukraine's leading full-service life insurance companies.

REAL ESTATE

ESTA Group is one of the biggest players in Ukraine's real estate market. Focused on developing and investing in commercial property, the Group's portfolio includes office centres, malls, hotels and other real estate operations. The Group's current projects include the Donbas Palace Hotel (Donetsk), the Opera Hotel (Kyiv), Park Inn by Radisson Donetsk, the Pushkinsky Business Centre (Donetsk) and the second stage of the Leonardo Business Centre (Kyiv). The Group is also engaged in the reconstruction of the Kyiv TSUM shopping mall and a cultural centre in Andriivsky Descent in Kyiv.

FOOTBALL CLUB SHAKHTAR AND DONBAS ARENA

Football Club Shakhtar Donetsk is the leader in the Ukrainian football league and one of Eastern Europe's top clubs. The team enjoys a highly developed sports infrastructure including a modern training centre and a football academy.

Donbas Arena is an elite stadium, the home ground of FC Shakhtar. Launched on 29 August 2009, it can seat 52,667 people.

HEAVY ENGINEERING

Corum Group is one of the largest international mining equipment producers and developers of integrated solutions. Corum is an expert in mining business. The company focuses on production of mining equipment, construction of mines and implementation of turnkey projects: from design of mining companies to shipment of mineral resources. Corum's equipment is used by mining companies in 15 countries.

TELECOMMUNICATIONS

Ukrtelecom is one of the leading national telecom operators providing a full range of modern telecommunication services across Ukraine and is a market leader in the Internet access and fixed-line telephony markets

Vega Telecommunications Group is a leading fixed-line operator in Ukraine, providing broadband Internet access and data transmission services.

MINERALS AND TRADING

United Minerals Group (UMG) is a diversified group of companies that operates in mineral extraction, production and sales. The company's portfolio covers clay, limestone, dolomite, slag materials, agricultural products, mineral fertilisers, etc.

MEDIA

Media Group Ukraine is a media holding that manages TV, publishing, print and new media projects of SCM Group: Ukraina national general-interest TV channel, Futbol 1 and Futbol 2 thematic channels, NLO TV channel, Indigo TV, Regional Media Group (TV channels Donbas, Channel 34, Sigma and Sfera), Mediapartnership sales house, Digital Screens (oll.tv), Tele Pro production company, Front Cinema, Dopomozhemo TV and Segodnya Multimedia holding.[1]

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[1] The holding runs newspapers Segodnya, Vechirny Donetsk, Pryazovsky Robitnyk, Donetski Novyny, etc. and runs printing shops in Vyshgorod (Kyiv Oblast) and Mariupol (Donetsk Oblast). Furthermore, the holding operates news websites: www.segodnya.ua, www.dnews.donetsk.ua, www.pr.ua, www.vecherka.donetsk.ua, www.gorod.dp.ua, and publishes My Weekend digital magazine.

AGRICULTURE

Harveast is an agricultural group of companies that manages assets in Donetsk Oblast. Its focus areas include crop raising, dairy farming, compound feed production and seed crop rearing.

GROCERY RETAIL

Ukrainsky Retail develops SCM's grocery retail business under the Brusnychka brand in central and eastern Ukraine. Established on 13 September 2006, the chain includes 101 stores located in Donetsk, Kharkiv, Dnipropetrovsk, Luhansk, Zaporizhia and Poltava oblasts. Brusnychka operates a neighbourhood store format. The stores normally occupy an area of 300-400 sq m and offer a choice of around 4,500 SKUs.

FILLING STATIONS

Parallel is a leading wholesaler and retailer of oil products in eastern Ukraine. The company has two large oil terminals in Donetsk Oblast and owns a fleet of modern petrol and gas trucks.

SCM Group in numbers, 2014

7 countries: Ukraine, the United Kingdom, Italy, Bulgaria, the United States, Russia and Switzerland

Over **300,000** employees

Over **100** businesses

UAH **32.4** billion paid in taxes

**SYSTEM
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MANAGEMENT**

OUR UNDERSTANDING OF CORPORATE RESPONSIBILITY

SCM Group embraces over 100 companies and industrial plants that provide jobs and good salaries to hundreds of thousands of people. We follow core principles and values that lie at the heart of our operations. They help us reach our main goals – increase business efficiency and contribute to the social and economic development of Ukraine.

For SCM the commitment to sustainable development means stability, safety and progress. It is a permanent drive to higher living standards in our local communities and the whole of Ukraine. It is about preserving the environment and using energy and natural resources more efficiently. It is a contribution to the development of next generations. We believe that our shareholder, partners, staff with their families and all Ukrainian people are equally interested in it.

Over UAH 7.6 billion SCM invested in sustainable development in 2014:

- employee development, health and safety

- environment and energy efficiency

- development of our local communities and business environment

Our way towards a sustainable development model

2006-2008:

- SCM Group mission and values approved
- SCM Group CSR policy approved
- Initiatives in the education sector realised
- SCM joined the UN Global Compact in Ukraine
- First sustainability reports of SCM Group produced

2009-2011:

- SCM and biggest companies of the Group (Metinvest, DTEK) widely engaged in the UN Global Compact in Ukraine
- Projects for local communities consolidated into a single Social Partnership Programme

2012-2013:

- A model for sustainable development of SCM Group established
- Ethical principles and values of SCM Group (HOW WE WORK) formulated
- Strategic goals of SCM Group in sustainable development determined

2014:

- A single sustainability development policy of SCM Group developed and implemented across the Group.

SCM GROUP STRATEGIC SUSTAINABILITY GOALS

In 2013, we set out SCM Group's strategic Sustainability Goals so that our employees, citizens of the communities where we operate, our partners and all stakeholders understand our sustainability priorities and what we aim to achieve.

The goals make an integral part of our development strategy and have been adopted by all SCM Group businesses.

In 2014, SCM Group companies continued to implement strategic Sustainability Goals of SCM Group.

We will regularly report on the progress towards them in our sustainability reports.

Safety of our employees

We have taken every effort to bring safety incidents at our companies down to zero.

Health of our employees

Our companies have systems in place to protect the health and safety of the employees and extend their employment longevity.

Good working conditions

Our companies are the most attractive employers in their industries and in the regions where they operate. They provide good working conditions and competitive salaries.

Improving the quality of education

We make a strong contribution to improving the quality of education offered to the students of Ukraine's universities and vocational schools and ensuring it meets the needs of the real economy.

Local communities

Our companies have created good living conditions in the regions of their operations.

Environment

Our industrial businesses meet EU air emission standards and apply the best global practices in terms of the quality of discharged waste water and waste management.

Energy efficiency

Our industrial businesses meet the best global practices on the efficient use of fuel and energy.

Business ethics

Our companies correspond to the highest international business ethics standards.

SCM GROUP SUSTAINABILITY POLICY

In early 2014, SCM adopted a common Sustainability Policy replacing the Corporate Responsibility Policy which had been used by SCM Group since 2006.

The Policy sets uniform principles and approaches in the area of sustainable development across the entire SCM Group. The approaches guide every aspect of our strategic planning, project implementation and governance at all levels of our Group.

SCM GROUP SUSTAINABILITY POLICY

HEALTH AND SAFETY OF EMPLOYEES
We do our best to protect the health and safety of our employees

WELFARE AND DEVELOPMENT OF EMPLOYEES
We are committed to making our businesses the most attractive employers in their industries and regions of operation

LOCAL COMMUNITY DEVELOPMENT
We create good living conditions in the regions where we operate and contribute to the sustainable development of Ukraine

ENVIRONMENT AND ENERGY EFFICIENCY
We are committed to making our companies energy efficient and to minimise their environmental impact

STAKEHOLDER ENGAGEMENT
We keep a constructive dialogue with our stakeholders to jointly address social, economic and environmental issues

CORPORATE VOLUNTEERING
We make a practical contribution to addressing social concerns of our society, we develop our corporate culture and create conditions for our employees to fully realise their potential

QUALITY OF PRODUCTS AND SERVICES
We produce quality goods and offer modern and convenient services that satisfy the expectations and needs of our customers

BUSINESS ETHICS
We aim to be the leading national company that meets the highest international standards of business ethics and global practices

For details about SCM Group Sustainability Policy please go to Sustainability section on www.scmholding.com

PROMOTING CSR IN UKRAINE AND INTERNATIONALLY

SCM has been active in a number of CSR and sustainable development initiatives as well as helped promote and explain them in Ukraine.

Since United Nations Global Compact was launched in Ukraine in 2006, SCM became its partner and invested in the development of the UNGC national network. Jock Mendoza-Wilson, SCM's Director of International and Investor Relations, chairs the Steering Committee of the UNGC in Ukraine and is widely involved in organizational work both inside and outside Ukraine.

We also participate in the initiatives of national and international expert organisations which promote CSR and sustainable development ideas in different sections of society.

ADOPTING TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT IN OUR STRATEGY AND ACTIONS

HUMAN RIGHTS

Principle 1: Businesses must support and respect the protection of internationally proclaimed human rights; and

Principle 2: Businesses must ensure that they are not complicit in human rights abuses.

Policy

SCM Group upholds and respects the human rights proclaimed on the international level and fixed in the Universal Declaration of Human Rights approved by the General Assembly of the United Nations.

SCM Group and all of its businesses respect and observe human rights and freedoms without discrimination of any kind, such as gender, race, nationality, language, age, residence, religion and political opinion.

In 2013, we adopted a fundamental corporate document - the code of business conduct **"HOW WE WORK"**. This is the foundation for our relations with each other, our partners, competitors and the Ukrainian society in general. In particular, the Code sets out provisions about the respect for the individual and observance of human rights. All seven key principles of How We Work are equally important for us.

SCM Group key principles
1. Honesty and good faith in relations within the company
2. Integrity in relations with customers and business partners
3. Respect for the individual and observance of human rights
4. Transparency and openness
5. Zero tolerance for bribery and corruption
6. Sustainable development and social responsibility
7. Legitimacy and the rule of law

The SCM Group Sustainability Policy also sets out our principles and approaches to the engagement with the society.

Our companies seek to create good living conditions in the regions where they operate and contribute to the sustainable development of the country.

We lead a constructive dialogue with all stakeholders to jointly address social, economic and environmental issues that are important for the local communities of SCM Group and the whole of Ukraine.

SYSTEM CAPITAL MANAGEMENT

Our fundamental principles:

- We take a whole system approach to the development of our local communities.

- We ensure that SCM Group's social projects and programmes are effective and address important social issues.

- We engage stakeholders including local authorities, residents and NGOs to develop and realise our social projects and programmes.

SCM Group is expanding its corporate volunteering programme. In 2013, we adopted a single Corporate Volunteering Policy to address social concerns and unite tens of thousands of our employees around a common goal – change the world for better.

Implementation

All our companies and employees - more than 300,000 people - observe the key principles of SCM Group. We also encourage our contractors, partners and customers to follow the principles we have suggested. In 2013-2014, most of our businesses reviewed their corporate codes of ethics (DTEK, Metinvest, FUIB) and harmonised them with How We Work. A number of companies developed own rules of conduct for the first time (e.g. Lemtrans, Corum Group and Media Group Ukraine).

Our media businesses (TV channels of Media Group Ukraine and Segodnya Multimedia publishing holding) abide by the ethical principles as they create content and seek to offer objective, accurate, balanced and unbiased information to the society. Editorial standards[2] of Media Group Ukraine establish that the group shares a generally recognized human values and beliefs, the principles of humanity, equality regardless of the nationality, gender, religion and education.

For full text of How We Work go to SCM's website www.scmholding.com to the section Corporate Governance

SCM Group has the **Trust Line** in place to ensure the most effective acceptance of our principles, firstly, inside our companies. We respect the right of every employee of SCM Group or other stakeholder to express concern over the results of our common cause and report any inappropriate actions to the Trust Line. Everyone, who sees a violation of law, norms and corporate ethical standards can report and help us become better.

For us the Trust Line is an effective mechanism of feedback with senior management and supervisory boards. We inform our senior managers about issues on any level of our business and also review the most frequent problems arising at our companies to find out and immediately remove their roots.

Trust Line contacts:

0800-60-0777 (all calls are toll-free within the borders of Ukraine) *or email* trustline@scm.com.ua

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[2] For more about the Editorial standards of Media Group Ukraine please go to http://sobytiya.tv/ru/standarts/

Local community development

We help to raise the living standards in the cities and towns where we operate and contribute to the sustainable development of Ukraine through our social projects and programmes. The Social Partnership Programme (SPP) is our key instrument in the field[3].

Investing in infrastructure, raising the quality and access to medical services and education and developing the business environment are among key priorities for the SCM Group's Social Partnership Programme. We partner with local authorities, NGOs and residents to implement our projects thus sharing a common goal of improving the living standards for millions of people in almost 800 Ukrainian cities and towns.

In 2014, we rolled out SPPs in more than 50 localities of 11 regions of Ukraine: Vinnytsia, Donetsk, Dnipropetrovsk, Zaporizhia, Ivano-Frankivsk, Kyiv, Luhansk, Lviv, Odessa, Poltava, Kharkiv oblasts and the Crimea[4].

> **In 2014, SCM Group implemented more than 500 projects under the Social Partnership Programme with the total investment of almost UAH 232.8 million.**

In 2014, we were active in the projects of the SPP to develop the business environment. For example, Local Economic Development Agencies[5] established with support of DTEK and operating in 15 Ukrainian towns of eight Ukrainian regions expanded their operations. Local economic development agencies are non-profit non-governmental organisations with a wide range of functions from helping individuals to start a business to blueprinting extensive plans for the development of an entire town with the engagement of big investors and partners. The agencies assist those who want to start a business by providing necessary counselling, teaching and writing a good business plan. They also help citizens to borrow small loans to fund the most promising start-ups with a special focus on the youth.

Corporate volunteering is another area that SCM Group continued to develop actively in 2014. Employees of SCM Group businesses organized dozens of volunteering events with engagement of over 30,000 people. Major areas of focus included infrastructure development, environmental activities and help to the people in need.

SCM continues implementing the Clean City corporate volunteering programme launched in 2013. Tens of thousands of SCM Group employees all over Ukraine consolidated their efforts to make the cities and towns where they live more comfortable and cleaner.

In 2014, employees of SCM, DTEK, Corum Group, Ukrtelecom, Media Group Ukraine, Lemtrans, PORTINVEST, Parallel, FUIB, Vega, ESTA and UMG held the Clean City volunteering campaign once again. The initiative was a part of National Spring Clean-up and covered 800 Ukrainian cities and towns. It resulted in 4,500 tonnes of household waste collected within a few hours. Our cities

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[3] For more about the Social Partnership Programme of SCM Group please visit www.sustainability.scm.com.ua or see our sustainability reports at www.scmholding.com

[4] In 2014, Social Partnership Programme was suspended in the Crimea.

[5] For more information about Local Economic Development Agencies, please go to DTEK's social partnership website spp-dtek.com.ua

received new flowerbeds, clean lawns, upgraded playgrounds for children and many other cosy places to enjoy for families.

Since 2012 Metinvest, a mining and metals business of SCM Group, has been rolling out a corporate Good Deeds Campaign[6]. J Employees have been working jointly with the civil society organisations and municipal services to improve children's playgrounds, make repairs and dig gardens for the elderly and also conduct intellectual and sports games, master classes for orphaned children, schoolers and students.

Every year Corum Group employees do many good things as part of the Box of Good Deeds corporate volunteering programme: they collect clothes for orphans, build children's playgrounds, make fun days for children without parental care and help veterans.

Every year hundreds of our employees[7] (including FUIB and Vega telecommunications group) and their families take part in the Run under the Chestnut Trees arranged in Kyiv in May.

For more about SCM Group projects for the development of local communities please read our CSR portal and reports *on* www.scmholding.com *in section* Sustainability *as well as COP of Metinvest* (http://www.metinvestholding.com/en) *and DTEK (*dtek.com*).*

LABOUR

Principle Three: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle Four: The elimination of all forms of forced and compulsory labour;
Principle Five: The effective abolition of child labour;
Principle Six: Eliminate discrimination in respect of employment and occupation.

Policy

SCM Group is the biggest employer in Ukraine. Over 300,000 people work at our production facilities and offices, performing manual labour or working creatively. We are confident that a strong team of professionals is essential to the long-term success and sustainable development of our companies.

In the area of labour relations SCM Group abides by the Constitution of Ukraine, the current laws of Ukraine and supports the ILO Declaration on Fundamental Principles and Rights at Work approved in 1998.

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[6]For more about the Good Deeds Campaign please visit SCM Group's CSR portal www.sustainability.scm.com.ua and Metinvest's CSR portal www.metinvestholding.com/

[7] The Run under the Chestnut Trees has opened the Day of Kyiv festivities for several years. Any person can take part in the marathon. The money raised during the campaign is donated to the centre of infant cardiology and cardiac surgery at the Ministry of Healthcare of Ukraine to buy necessary equipment and medicines to save children with congenial hear diseases.

We pursue the highest standards to ensure our staff with good and safe working conditions and develop their professional skills.

All companies of SCM Group meet the following principles of fair labour practices and respect to human rights in their work:

- Respect and observe human rights
- Comply with the current labour legislation of Ukraine
- Provide our staff with good working conditions, competitive salary and social protection
- Develop the intellectual and skills potential of our staff.

The How We Work ethical code says that at all companies of SCM Group respect and observe human rights and freedoms without discrimination of any kind, such as gender, race, nationality, language, age, residence, religion and political opinion. SCM Group does not use child labour.

Health and safety issues are controlled on the highest level: our industrial holdings (Metinvest and DTEK) established health, occupational safety and environment committees on the board level.

The companies within SCM Group developed and introduced HR policies that set out their approaches to staff recruitment, motivation and training.

The industrial holdings have adopted modern health and safety management systems according to the OHSAS 18001 standard. We strive to achieve our ultimate safety goal of zero injuries. We invest to make working conditions safe and provide our staff with modern personal safety equipment and clothing. In addition, we seek to instil a safety culture throughout the Group and prevent occupational diseases.

Implementation

Being the biggest employer in Ukraine, SCM Group respects the rights of its employees for creation of professional unions and other associations representing their interests.

We work openly and honestly with trade unions and other organisations selected by our employees to represent their interests. We realize that collective agreements covering working conditions, remuneration, social benefits, guarantees and many other important provisions secure the rights and interests of employees. Therefore, we particularly focus on complying with industrial and collective agreements. We discuss changes to collective agreements with the staff and approve them at employee meetings and conferences of trade unions.

In 2014, SCM Group continued to invest to improve safety of working places, provide quality personal safety kits and adopt corporate programmes that contribute to better health and safety of our employees.

> *In 2014, SCM Group invested about UAH 1.6 billion in health and safety.*

All SCM Group companies continue to focus on employee training and development. In 2014, our main areas of work included:

In 2014, our staff development projects focused on:
- talent pool programmes (continued initiatives launched by SCM Group companies in 2011-2012)[8];

- a corporate system for the in-house training of the Group's specialists and managers;

- internal coaching;

- cooperation with universities and vocational colleges to train future staff.

SCM takes an active part in reforming the system of Ukraine due to Skills Passport project[9] which helped develop eight occupational standards for future specialists in metals, energy and digital journalism.

> *In 2014, SCM Group invested UAH 108 million in staff development.*

> *For more about SCM Group projects in health and safety and staff development please read our CSR portal and reports on reports on www.scmholding.com in section Sustainability.*

ENVIRONMENTAL PRINCIPLES

> **Principle 7:** Businesses should support a precautionary approach to environmental challenges
> **Principle 8:** Undertake initiatives to promote greater environmental responsibility
> **Principle 9:** Encourage the development and diffusion of environmentally friendly technologies.

<u>**Policy**</u>

At SCM Group we believe that using natural resources sustainably and reducing the environmental footprint are cornerstones to successful business development and high living standards. We make extensive investments to upgrade our factories and strive to making them modern, effective and eco-friendly.

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[8] For more information about talent pool development, please read social reports of SCM Group for 2012-2013, Metinvest for 2011-2012 and 2013-2014 and DTEK integrated reports for 2013-2014.
[9] For more about Skills Passport go to SCM's website
http://www.scm.com.ua/sustainability/scm_social_projects/contemporary_education/razrabotka-profstandartov/

SCM Group includes very different businesses: SCM Group includes very different businesses: mining and metals, energy, machine building, transportation, banking, telecommunications, media and many others. [10]They all share the following principles:

- Use natural resources, including energy, sustainably

- Minimise and prevent a negative environmental footprint

- Consider environmental implications when we plan investments and new projects

- Be open for cooperation on environmental issues with regional governments, NGOs and our local communities.

- Our companies develop and raise the environmental culture among their staff and in the Ukrainian society in general.

SCM Group and all our businesses respect national legal environmental standards.

Environment management issues are controlled on the highest level: our industrial holdings (Metinvest and DTEK) have health, occupational safety and environment committees on the board level in place.

Industrial holdings of SCM Group (Metinvest[11] and DTEK[12]) have developed environmental policies outlining their priorities including: building environmental management systems, certifying the compliance of management approaches to the international standards of ISO 14001 and ISO 5001, monitoring the environmental footprint, developing and implementing annual and long-term environmental programmes.

Implementation

Our industrial holdings, firstly DTEK and Metinvest, make multi-million investments to modernise equipment and technology. Modernization helps improve our environmental performance, particularly by reducing air emissions, water consumption, wastewater discharges and energy use. Some solutions help reduce waste generation and reuse it in a safer way. Such projects are designed to have a long-term impact.

In 2014, environmental investments of SCM Group industrial holdings totalled over UAH 5 billion.

Our industrial companies develop, adopt and regularly improve their environmental management systems in compliance with international standards, particularly ISO 14001.

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[10] For more about our business operations please visit http://www.scmholding.com/en/business/sectors/
[11] For more about Metinvest Policy on Health, Safety and Environment please visit
http://www.metinvestholding.com/en/csr/hse
[12] For more about DTEK Policy please visit http://dtek.com/en/corporate-social-responsibility/environment

Our industrial companies are committed to reducing their energy use and introducing energy-saving technologies in their production processes as well as adopting and improving energy management systems in consistency with the international standard ISO 50001.

DTEK, the energy holding of SCM Group, is taking active steps to develop wind power business[13]. The wind farm in Botievo is DTEK's first green energy project. It is the most powerful and modern wind power plant in Ukraine. It is the first green energy project that DTEK rolled out from concept to implementation. Once completed, it will generate about 600 GWh of electricity per year using 65 brand new wind turbines with a total capacity of 200 MW.

Office workers of our non-industrial companies (banks, insurances, hotels, telecoms, retailers, TV channels and newspapers) also take actions every day to preserve the environment:

- implement green office principles: consume energy sustainably, save paper, use equipment efficiently, introduce e-document management, collect waste paper, dead batteries and accumulators and pass them on to dedicated recycling organisations, etc.;
- help develop a new environmental culture by taking part in various environmental initiatives.

For more about SCM Group projects in environment please read our CSR portal and reports on www.scmholding.com in section Sustainability.

ANTI-CORRUPTION

Principle 10. Businesses should work against all forms of corruption, including extortion and bribery.

Policy

We aim to be the leading national company that meets the highest international standards of business ethics and global practices.

SCM Group's document How We Work outlines the underlying business principles of the Group. Zero tolerance for bribery and corruption is one of the declared principles.

All provisions of the policy are binding for all employees of every plant and companies within SCM Group.

The Group has embedded a transparent and clear system of corporate governance that meets the highest international standards.

For more about the corporate governance structure at SCM Group please see Corporate governance section on our website http://www.scmholding.com/en/.

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[13] For more about DTEK's wind power actions please see DTEK reports on dtek.com

In 2014, within SCM Group companies there were no criminal prosecutions against employees related to corruption. They did not receive any motions from regulatory agencies or penalties for breaches of standards in any jurisdiction of their operations.

Implementation

Following the advice of the UN Global Compact to report about the actions and initiatives taken by companies to fight corruption in line with two reporting levels (Basic Reporting Elements and Desired Reporting Elements), SCM has chosen to report to Basic Reporting Elements (B1-B7).

Reporting Element B1: Publicly stated commitment to work against corruption

Zero tolerance for bribery and corruption is one of the fundamental business principles of SCM Group fixed in the HOW WE WORK Code.

SCM Group does not tolerate any attempt of bribery to secure competitive advantage.

Most of our businesses have reviewed their corporate codes of ethics to harmonise them with How We Work:

- DTEK's [14]Code of Ethics and Business Conduct includes provisions addressing the fight against corruption.
- Zero tolerance for bribery and corruption is one of the major principles in business ethics of Metinvest[15].
- The Code of Ethics at FUIB[16] also establishes the principle of "zero tolerance for bribery and corruption".
- Codes of ethics developed by Lemtrans, Corum Group and Parallel also contain anti-corruption principles.

Being a signatory to the Global Compact, SCM has been active in promoting the 10th principle of anti-corruption across the Group, in the Ukrainian society and in the international community.

In 2014, Jock Mendoza-Wilson, SCM's Director of International and Investor Relations, represented SCM at the meeting of the UN Global Compact Working Group "The Role of Business in Good Governance". The meeting discussed what role businesses could play to help improve the enabling environment especially with regards to anti-corruption, rule of law and peaceful societies.

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[14] For more about DTEK Ethics and Business Conduct Code please visit Ethics and Compliance section on its website.

[15] For more about Metinvest Code of Ethics please visit Corporate governance section on its website

[16] For more about FUIB Code of Corporate Ethics please visit section Corporate Governance

SCM Group's companies also take part in national and international organizations for ethics and compliance:

- SCM and DTEK are members of the Anti-Corruption Working Group of the American Chamber of Commerce in Ukraine that develops legislative initiatives to fight corruption in Ukraine.
- SCM and DTEK are members of the Compliance Club ACC, a platform that enables compliance experts to share experience, promotes compliance in the Ukrainian market and teaches Chamber members the practices of doing business in line with compliance requirements.
- In 2014 DTEK was the first company to have joined the international partnership within UN Business for Peace[17].
- DTEK takes part in the activities of the Institute of Business Ethics, the Compliance and Ethics Leadership Council and the International Compliance Association.

Reporting Element B2: Commitment to be in compliance with all relevant laws

One of our fundamental principles "Legitimacy and the rule of law" stated in the HOW WE WORK says: "We strictly and rigorously follow the applicable laws of Ukraine and other countries where SCM Group operates."

SCM Group companies (SCM, DTEK, Metinvest and FUIB) have a compliance position in place. This a unit which monitors how they meet requirements of regulatory agencies, applicable laws, internal regulations, fair competition standards and corporate ethical principles. Moreover, DTEK established a compliance management department that carries out preventative activities to avert corruption and financial abuse. Metinvest introduced the positions of a compliance officer and compliance coordinators. These are employees of legal services of Metinvest Group business who are responsible for full and timely implementation of Metinvest Compliance Programme, compliance culture promotion and performance of all compliance tasks at its companies. By cementing ethical principles, they establish relations with the partners based on open rules.

Reporting element B3: Translation of the anti-corruption commitment into actions

SCM sees the corruption risk as one of compliance risks and included it into the category of Strategic Risks. The company developed a system to assess risks related to compliance with corporate standards and laws in the countries of our operations as well as the principles and criteria of effective anti-corruption processes.

Many of our businesses (DTEK, Metinvest, FUIB, Corum Group, PORTINVEST, and Vega) developed regulations to prevent a conflict of interests and external procurement violations. In

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[17]For more information please read the blog of Viktoria Grib, Head of Sustainability Department, DTEK: http://blog.scm.com.ua/en/2014/10/03/business-for-peace-now-with-dtek/

particular, they adopted policies/procedures on selection of contractors that ensure transparency of procurement.

In 2014, Metinvest adopted Compliance Programme with the Action Plan for each year which includes anti-fraud steps inside the company.

Reporting Element B4: Support by the organisation's leadership for anti-corruption

Senior executives of all SCM Group's businesses share the ethical principles and management approaches outlined in the corporate documents and to certain extent are engaged in monitoring and continuous improvement of internal standards.

SCM established a Committee for Ethics that includes top managers of the company. The Committee:

- responds to violation reports from employees and monitors the compliance with the Principles and codes of our companies;
- initiates internal audits and investigations;
- assesses sufficiency of facts about the violations and advises on actions and punishment;
- makes recommendations related to business ethics;
- organizes monitoring of the impact of norms of business ethics on the working environment.

The committee for corporate governance, control and ethics of Metinvest supports and ensures ethical conduct and commitment to the values, policies and procedures of the company and applicable laws. It also independently reviews reports on violations.

DTEK has a department for compliance management in place to implement its compliance policy and the ethics and business conduct code. It reports directly to the Chief Executive Officer and DTEK's Supervisory Board. Metinvest has a position of Compliance officer in place who is subordinate to the Legal Director and regularly reports to the Audit Committee and the Supervisory Board. He is also Deputy Chairman of the committee for corporate governance, control and ethics that ensures a deep involvement of senior management. In turn, the executives at DTEK and Metinvest are obliged to declare regularly the absence of conflicts of interests and compliance with the laws.

Reporting Element B5: Communication and training on the anti-corruption commitment for all employees

Our companies arrange training for their staff on how to apply the codes of ethics and internal corporate standards. For instance, a compliance officer at DTEK regularly trains senior managers and employees on fundamentals of corporate compliance policy, corporate ethics code and anti-corruption standards.

To inform the staff about the ethical principles and instruments adopted to fight corruption, SCM Group applies a variety of communication tools:

- corporate editions (newspapers) and intranet portals;
- putting public access documents on information stands at production plants and companies.

Under its compliance programme Metinvest regularly (every three years) teaches employees on the ethics code. The first training began in November 2014 for compliance coordinators of Metivest to ensure they can further train employees. The programme includes a compulsory topic "Renouncing bribery and fighting corruption".

Reporting Element B6: Internal checks and balances to ensure consistency with the anticorruption commitment

The Group uses the following mechanisms to enforce corporate ethical standards including prevention of corruption:

- **Trust Line.** A single Trust Line has been in place at all companies of SCM Group since 2013. It helps react promptly and efficiently to violations of corporate ethics, abuses, fraud and corruption. Our employees, suppliers and partners can call the SCM Trust Line and report violations they have witnessed when working with the Group's businesses.
- Whistle-Blowing In 2012, FUIB introduced a whistle-blowing procedure. Reports are received via email, at a personal meeting, by phone or drop boxes installed in the bank's headquarters in Kiev and Donetsk and forwarded then to the Compliance Department.
- **Drop boxes.** The employees of SCM Group can report violations of legal, moral and ethical standards by using drop boxes.
- Many of our businesses conduct **anonymous surveys**. For example, in 2014, DTEK and Metinvest included the issues of ethics and fraud risks in the survey for staff engagement.
- Metinvest established a **compliance coordination function** performed by legal department employees. They are responsible for full and timely implementation of the Compliance Programme, promotion of compliance culture and delivery on all compliance objectives at their companies.

Reporting Element B7: Monitoring and improvement processes

SCM Group is focused on monitoring and improving our anti-corruption processes and programmes.

Compliance officers regularly report on performance to the audit committee and ethics committee.

We monitor the efficiency of anti-corruption processes by analysing the statistics of incoming reports to SCM's Trust Line.

The employees handling compliance issues at SCM Group regularly improve their professional skills by taking part in international conferences/workshops and undergoing certification procedures.