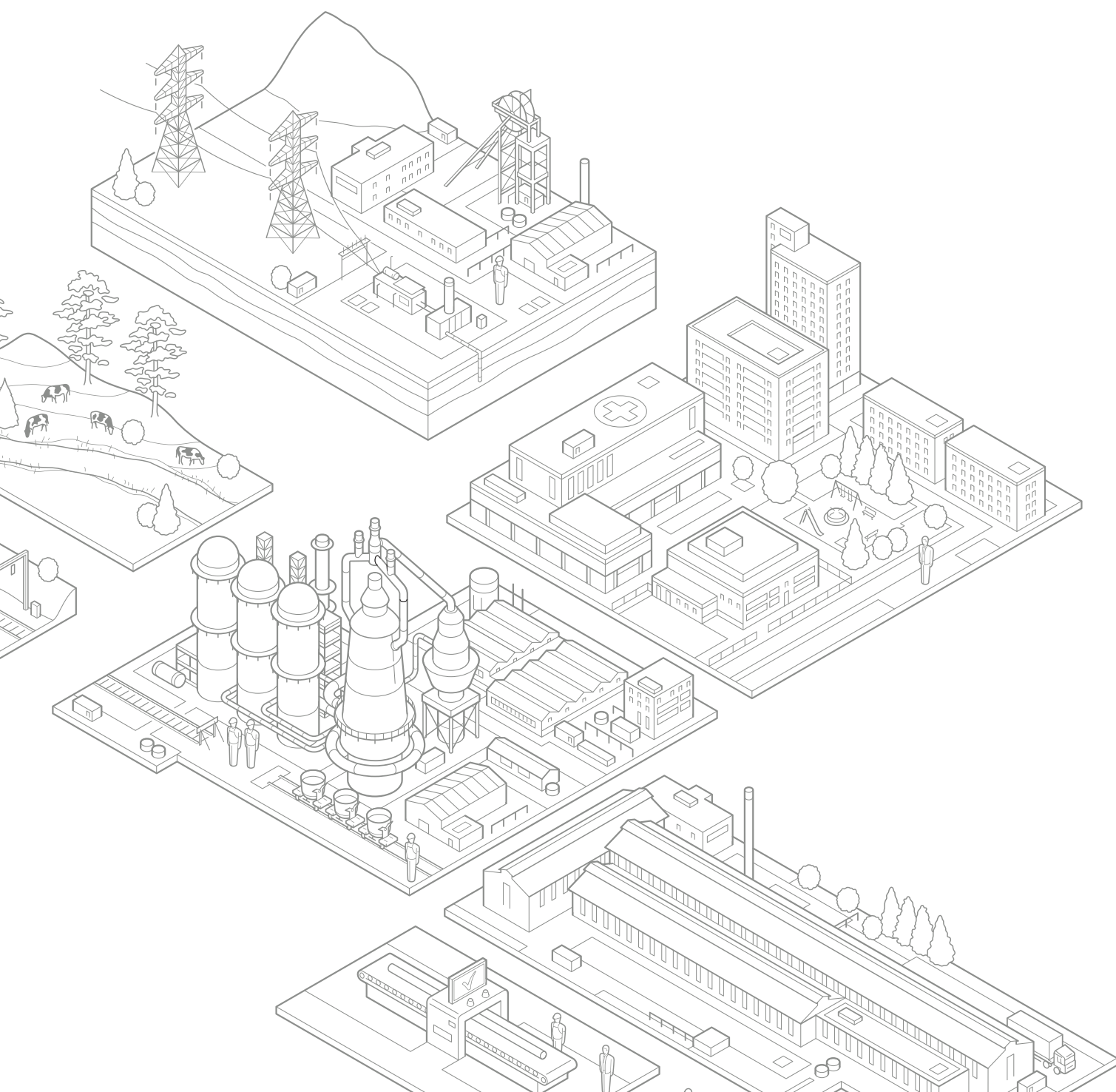


# FROM WORKPLACE TO COMMUNITY

SOCIAL REPORT 2009–2010





METINVEST'S CSR  
REPORT FOR 2009-10  
HAS BEEN PREPARED  
IN ACCORDANCE  
WITH THE  
SUSTAINABILITY  
REPORTING  
GUIDELINES OF THE  
GLOBAL REPORTING  
INITIATIVE AND  
MEETS THE GRI'S B+  
APPLICATION LEVEL



# METINVEST AT GLANCE 2009-10

# Nº1

IN THE TOP 100  
UKRAINIAN BUSINESS  
LEADERS RATING

Metinvest's Ukrainian enterprises paid

**MORE THAN**

**US\$1,389.4m**

**IN TAXES**

## JOINT IMPLEMENTATION PROJECTS

In 2010 in the first phase of the joint implementation project to utilise coal-gas at Krasnodon Coal, Metinvest received €598,000. Over the five years of the first commitment period of the Kyoto Protocol, it expects to reduce greenhouse-gas emissions across all joint projects by more than 8 million tonnes of CO<sub>2</sub> equivalent.

PAGE 60

■ **FOR MORE ON OUR PROJECTS, SEE →**

## NEW STRATEGIC PROSPECTS

Metinvest has approved a development strategy to 2020 that targets long-term sustainable growth through the economic cycle. Each goal includes objectives for doing business responsibly.

SEE PAGE 12

■ **FOR MORE ABOUT THE STRATEGY →**



Container gas utilisation plant at Krasnodon Coal



## STRONGER GLOBAL PRESENCE

Today Metinvest exports a large part of its output to more than 1,000 consumers in 75 countries.

Metinvest, is introducing quality-control and production-safety programmes at its enterprises, and it works with consumers in various different ways.

FOR MORE DETAILS, SEE PAGE 18

■ **PRODUCT QUALITY** →

\*For more on Metinvest's global presence, see [www.metinvestholding.com](http://www.metinvestholding.com)

## FINANCIAL HIGHLIGHTS FOR 2010

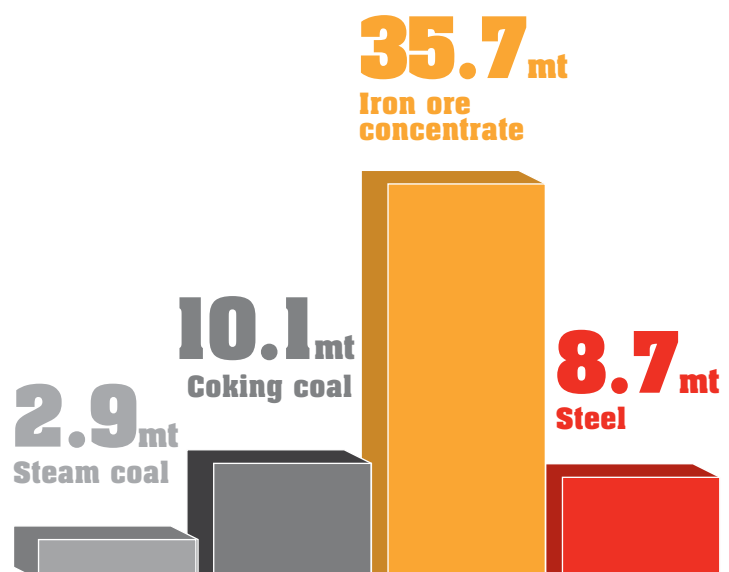
**CONSOLIDATED REVENUE:**

**US\$9,358<sub>m</sub>**

**ADJUSTED EBITDA IFRS:**

**US\$2,552<sub>m</sub>**

## OPERATIONAL HIGHLIGHTS FOR 2010



SEE PAGE 8

■ **FOR DETAILS** →



# LETTER FROM THE CEO



“A business in the global marketplace needs to establish internal standards matching those of the leaders in its sector”

Dear readers,

welcome to Metinvest's second corporate social responsibility (CSR) report for 2009-10, which has been prepared to the B+ Application Level of the Global Reporting Initiative (GRI). It details the areas where we have made notable improvements in our CSR activities, as well as the tasks that still lie ahead.

After we successfully overcame the global economic downturn, our financial and operating performance stabilised in 2010, and the Company met all its obligations to the state, employees, partners, and local communities. We have adopted a strategy for our long-term sustainable development. The focus of Metinvest's new strategy, which runs to 2020, is to improve the efficiency of what we do and to constantly improve our business processes. All of our declared strategic goals set out objectives for doing business responsibly.

A business in the global marketplace needs to establish internal standards matching those of the leaders in its sector. We aim to produce high-quality products while giving due consideration to the interests of society, our employees and all stakeholders. For us, this is driven primarily by moral and ethical considerations, and also by our awareness that in the 21st century a business's sustainability depends directly on its ability to function safely and with minimal environmental impact. We therefore consider our investments in protecting people and the environment to be investments in the future, and we are striving to build a corporate culture in which all workers feel part of a common cause and approach their work responsibly.

We do not consider work to have been done successfully if people have

suffered in the process. Metinvest's overriding priority is the health and safety of its employees, and we continue to work systematically towards our strategic goal of reducing injuries to zero. I believe that we still have much to do, despite the steady reduction in the injury rate.

During the reporting period, we devised numerous corporate standards aimed at preventing injuries, at assessing and reducing the risks stemming from our production processes, and at improving the accountability of our contractors. The comprehensive “Strategy for Developing the Healthcare System at Group Enterprises” was also drafted and began to be introduced in 2010.

We recognise the problem of global climate change and are taking measures to minimise our impact over the long term. I am proud to say that Metinvest today leads Ukrainian companies in the use of Kyoto Protocol mechanisms. Based on joint implementation projects at the Group's coal and metals enterprises greenhouse gas emissions are expected to fall by more than 8 million tonnes of CO<sub>2</sub> equivalent. We are thus making a noticeable contribution to meeting the obligations that Ukraine has assumed.

Alongside emissions-reduction and energy-efficiency programmes, our environmental work targets efficient management of water resources, waste products and land reclamation. An integrated management system certified to OHSAS 18001 and ISO 14001 has been introduced at the Managing Company and major production facilities.

In 2010, the Managing Company's HSE Internal Audit department was established. The enterprises' activity in these areas is monitored continually, as is their compliance with legal obligations

# WE AIM TO PRODUCE HIGH-QUALITY PRODUCTS WHILE GIVING DUE CONSIDERATION TO THE INTERESTS OF SOCIETY, OUR EMPLOYEES AND ALL STAKEHOLDERS

and corporate standards, which are set based on the experience of leading companies in the global business community.

The key factor underpinning Metinvest's success in both production and sustainable development is the professionalism of our employees. An important strategic goal for us is to build a united team that is motivated to achieve common goals. Over the past two years, we have drafted a development plan for our HR system, have almost completed work to introduce a transparent remuneration system, and continued to run the Talent Pool programme. I am confident that this programme will help to ensure continuity in our managerial decisions and in the Company's management style, as well as promote leadership skills and innovative thinking.

As the major employer in many Ukrainian towns, we continue to play an important role in urban development, and we maintain close ties to the people who live and work alongside us. This report details the progress that we have made in developing partnership relations with local communities over the past two years. A "Social Investment Strategy" has been drafted and approved, a portfolio of new corporate programmes has been put together, and strategic social and economic urban development projects have been launched in collaboration with international partners. These initiatives open up great opportunities to involve a wider range of stakeholders. I consider this to be of great importance, since we can change our life for the better only if we do so together.

We must also not forget that many of today's development goals are global, and achieving them requires combined efforts with reliable partners focused on a common result. Signing the UN

Global Compact in 2010 was a significant move for us, marking another step toward to forming a new culture in our relations with state and non-government organisations, as well as society at the national and international level.

I am confident that this CSR report represents an excellent opportunity for Metinvest to provide you, our readers, with information about what we do and how we envision our social responsibility. We always welcome responses and comments that help us to improve our approaches and find more efficient solutions along the road to sustainable development.

**Igor Syry**

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# OUR COMPANY

## 24 ENTERPRISES IN UKRAINE, EUROPE AND THE US

Metinvest is a global vertically integrated metals and mining company.

SEE PAGE 8  
■ FOR DETAILS →

## INTERNATIONAL QUALITY STANDARDS

The Company is introducing and certifying quality management systems that meet ISO 9001 standard.

SEE PAGE 20  
■ FOR DETAILS →

## TALENT POOL DEVELOPMENT

During the reporting period, personnel development became a priority for the Company. Last year, an integrated development programme was developed in conjunction with a leading Russian business school.

SEE PAGE 26  
■ FOR DETAILS →

## REDUCTION OF INJURIES

During the reporting period, Metinvest reduced the injury rate by 11.5%.

SEE PAGE 34  
■ FOR DETAILS →

## SYSTEMATIC APPROACH TO WASTE MANAGEMENT

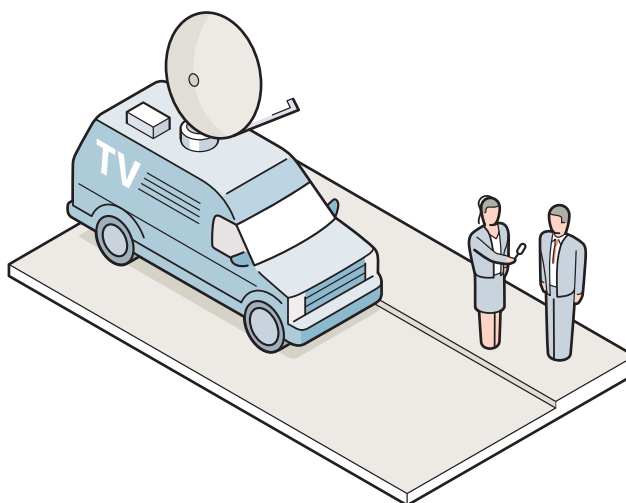
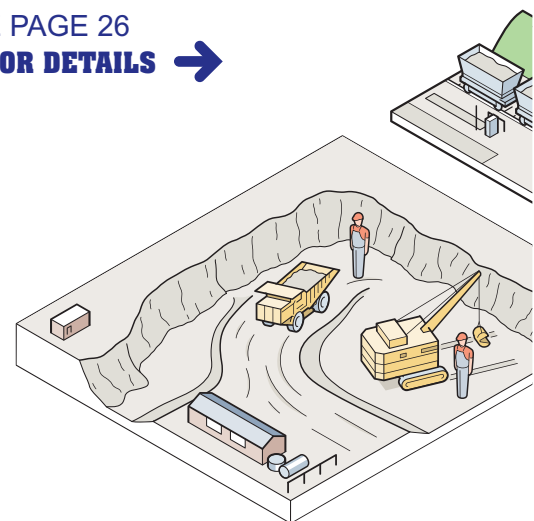
Last year Metinvest started the major environmental project MONTIS to process and recycle slag at metal production enterprises.

SEE PAGE 50  
■ FOR DETAILS →

## PARTICIPATION IN THE USAID PARTNERSHIP PROGRAMME

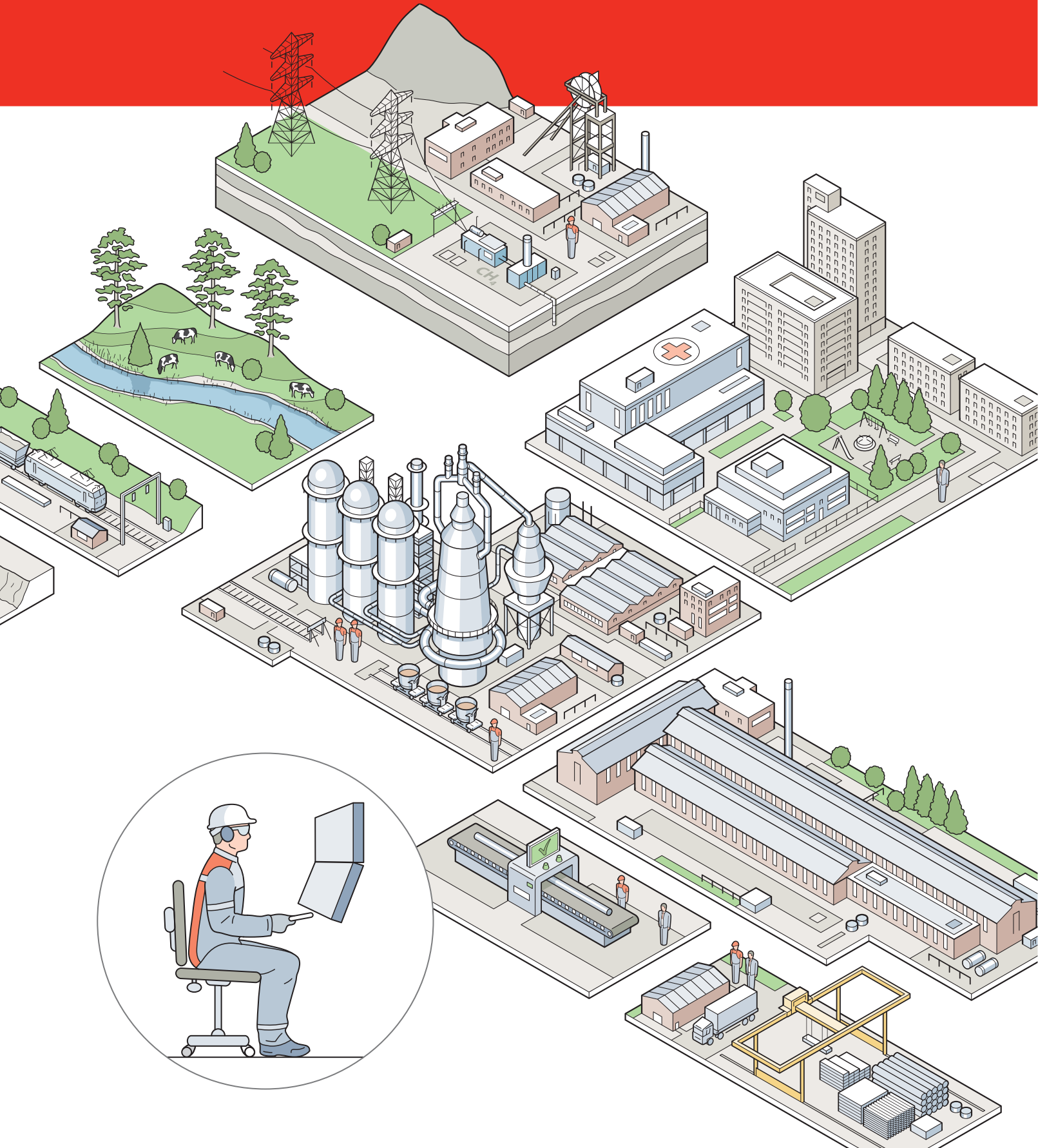
Metinvest has entered into a partnership with USAID to devise a strategic social and economic development plan for Krasnodon.

SEE PAGE 68  
■ FOR DETAILS →





METINVEST GROUP IS AN INTERNATIONAL, VERTICALLY INTEGRATED METALS AND MINING COMPANY WITH 24 ENTERPRISES IN UKRAINE, EUROPE AND THE US. THE COMPANY CONTROLS EACH STAGE OF THE PRODUCTION CHAIN, FROM MINING IRON ORE AND COAL AND PRODUCING COKE AND STEEL TO MAKING HIGH VALUE-ADDED PRODUCTS



# METINVEST TODAY



Metinvest is an international vertically integrated metals and mining company<sup>1</sup> with 24 enterprises in Ukraine, Europe and the US. The Company controls each stage of the production chain, from mining iron ore and coal and producing coke and steel to making flat-rolled steel, shapes and sections, large-diameter pipes and other high value-added products.

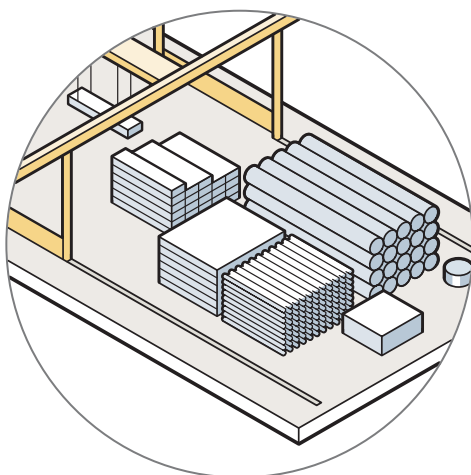
Metinvest includes enterprises across three sectors of the metals and mining industry, and is structured into three divisions: Coke and Coal; Iron Ore; and Steel and Rolled Products.

In the reporting period, the Company made numerous changes from the information presented in its first CSR report. In 2009, it acquired United Coal Company (UCC), a producer of coking coal in the US; and the Bulgarian steel mill Promet; and Makiivka Steel Works (MMZ). In 2010, Metinvest combined its

assets with Ilyich Iron and Steel Works, one of Ukraine's largest metals enterprises. These decisions were dictated by the Company's long-term strategy of strengthening vertical integration, achieving maximum production efficiency in Ukraine, and strengthening its global market positions.

Metinvest exports a large part of its output to more than 1,000 consumers in 75 countries.

In 2010 and 2011, the Company successfully placed Eurobonds in the US, Europe and Asia. The funds were raised mainly to finance capital investment programmes.



Operational, mt	2008	2009	2010
Crude steel	8.2	7.0	8.7
Iron ore concentrate	31.3	30.7	35.7
Coking coal	6.2	9.5*	10.1
Steam coal	-	3.0*	2.9

Financial, US\$m	2008	2009	2010
Consolidated revenue	13,213	6,026	9,358
Adjusted EBITDA IFRS	4,769	1,449	2,552

\* Metinvest's coking and steam coal production figures fully consolidate the output of UCC, which was acquired in 2009.

<sup>1</sup>METINVEST HOLDING. is headquartered in Donetsk.

<sup>2</sup>The Report includes output statistics for all of the Group's production enterprises, including some that did not feature in the 2009-10 CSR report.

TODAY, WE ARE ALREADY ONE OF UKRAINE'S LARGEST COMPANIES AND A MAJOR EXPORTER AND TAXPAYER. THE COMPANY'S SUCCESSFUL DEVELOPMENT IN THE FUTURE WILL CONTRIBUTE TO AN INCREASE IN UKRAINE'S STANDING



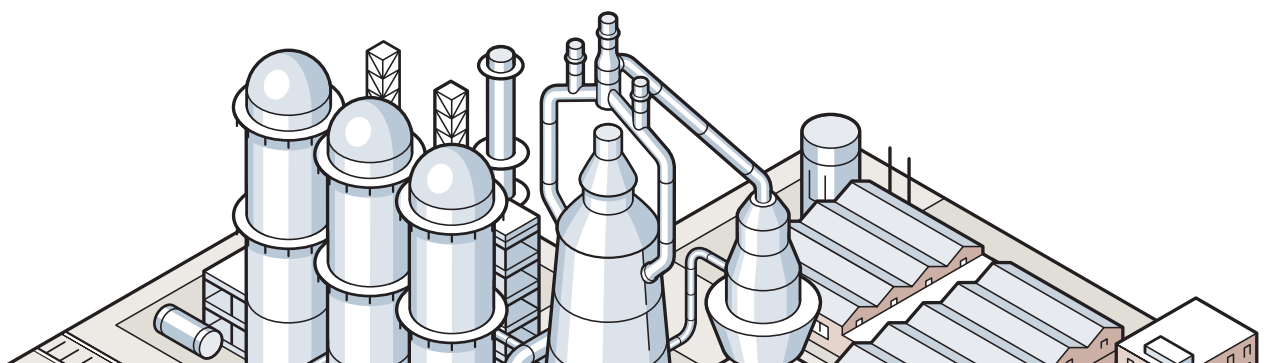
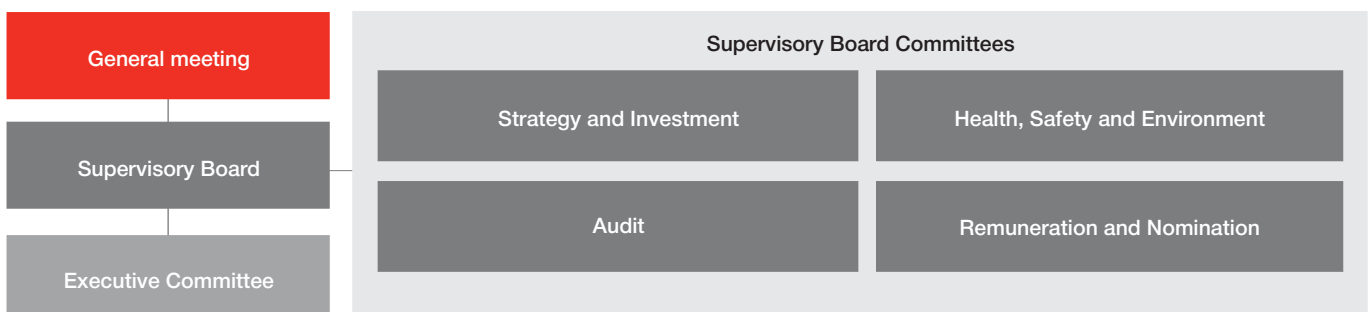
Metinvest recognises the importance of appropriate corporate management and supports high levels of transparency and communications in accordance with global best practices.

In the reporting period, the Company's corporate management structure remained unchanged. The Supervisory Board includes two independent directors. The involvement of independent directors ensures the impartiality of decisions taken at board meetings. Minority shareholders' rights are guaranteed under the articles of associations, which were recently brought up to date and into line with changes to the Ukrainian Law on Joint Stock Companies. The timeframe for adopting the new charters was extended to allow all minority shareholders the opportunity to familiarise themselves with them.

Metinvest's management believes that an effective internal control and risk management system will provide reliable support for the Company to achieve its strategic and operational goals, as well as sustainable financial results. This system is being introduced to help diagnose and manage substantial risks in a timely and efficient way. It is based on the best examples from global practice, such as the "Enterprise Risk Management – Integrated Framework" developed by the Treadway Commission's Committee of Sponsoring Organisations (COSO).

The Internal Control and Risk Management Department actively supports the introduction of this system at both the Managing Company and most of the production enterprises.

#### CORPORATE GOVERNANCE





# HOW WE WORK

## KEY AWARDS AND ACHIEVEMENTS IN 2009-10:

# Nº1

Metinvest came first in the Top 100 Ukrainian Business Leaders rating and second in the Top 100 Companies in Ukraine

# 9 OUT OF 500

Metinvest ranked ninth among the 500 largest companies by revenues in Central and Eastern Europe in 2009, according to the Deloitte Top 500

# 11% OF ALL UKRAINIAN TAXES

In 2010, Metinvest's enterprises paid US\$1,389.4m in taxes to the state budget

The Company's strategy targets sustainable long-term growth. Today, we are already one of Ukraine's largest companies and a major exporter and taxpayer. In 2010, we paid US\$1,389.4m in taxes, which according to the Ukrainian State Tax Service represented 11% of total contributions to the state budget. Metinvest has a decentralised CSR management system.

The Executive Committee sets strategic goals and defines promising areas for development. Policies have been adopted, or are in the process of being developed to establish principles and performance indicators in each key area: labour safety, environmental safety, personnel support and development, and improving the quality of social investment.

Policies are implemented at each level of management by the Company's functional business units. For example, the Corporate Communications directorate is responsible for the Social Investment Strategy, while the Health, Safety and Environment directorate is responsible for the HSE Strategy, and so on. As such, strategic goals are broken down into action plans for the functional business units, which develop measures at the enterprise level.

Directors of business units are members of the Executive Committee, thereby ensuring execution, coordination and direct control over the programmes. The Supervisory Board also monitors the implementation of key projects and programmes.

Signing the UN Global Compact in 2010 was another step in the development of CSR activity for Metinvest. For us, participation in this UN initiative means greater

transparency and the opportunity to employ global best practices and develop partnership relations.

As the only Ukrainian member of the World Steel Association (WSA), the Company supports the Global Sectoral Approach Initiative, and it has been certified as a Climate Action Member under the programme since 2009.

Metinvest's commercial activity is on an international scale; the Company has acquired assets abroad and entered international financial markets.

Metinvest conducts business with partners responsibly through numerous mechanisms controlled by the management. Annual results are published to International Financial Reporting Standards (IFRS), and independently appraised by a leading auditor.

Conflicts of interest are avoided using procedures laid down by the Conflict of Interest Manual, where Metinvest has defined types of transaction that could lead to such issues.



ВНИМАНИЕ!  
УБЕДИТЕСЬ В ПРАВИЛЬНОСТИ:  
1. ПЕРЕКЛИКНИТЕ ТРОС ЧЕРЕЗ ТРАССУ.  
2. ПРОТЯНИТЕ ШЕЛЬ С ТРОСОМ ПОД ПОРТАЛ.  
3. ВРАЩЕНИЕМ ВИНТА ПРОТЯНУ ЧАСОВЫЙ  
НАТЯЖИЛИЩ МЕХАНИЗМ И ПЕРЕКЛИКНИТЕ ПОД



# OUR GOAL IS TO BECOME EUROPE'S LEADING INTEGRATED STEELMAKER, AND WE INTEND TO ACHIEVE IT BY USING MODERN BUSINESS CULTURE AS A GUIDE



## THROUGH HIGH-QUALITY BUSINESS MANAGEMENT, METINVEST:

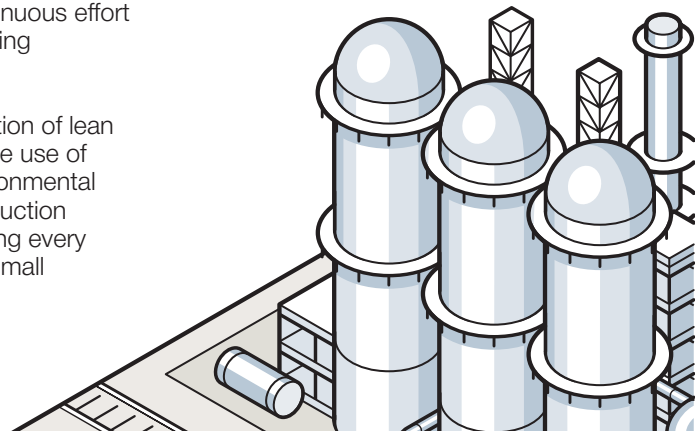
- enhances the image of Ukraine as a reliable producer and supplier of high-quality products
- improves the country's investment climate and forms positive expectations of Ukrainian business among Western partners and investors
- introduces new technologies and best practices for doing business

These transactions undergo mandatory scrutiny by the supervisory boards of enterprises and the Managing Company. To make decisions about purchases, Metinvest holds open tenders and publishes announcements on its corporate website. All interested parties may participate in tenders.

An important factor in the Company's sustainable development is the establishment of a new corporate culture that will change relations among employees, between the business and the environment, and between the business and society. Metinvest takes a holistic approach to this goal. One such method is the introduction of 'lean production' philosophy, a widely used technique for optimising business processes based on a continuous effort to reduce losses arising during production.

The successful implementation of lean production will rationalise the use of resources, reduce our environmental footprint, and increase production safety and quality by involving every member of staff in making small changes on a daily basis.

Lean production principles have been introduced using simple mechanisms. In the near future, a strategy and action plan will be developed at the Group level.



## INTRODUCTION OF LEAN PRODUCTION AT KHARTSYZSK PIPE

Introduction of lean production across the Company began at Khartsyzsk Pipe. Staff from the enterprise underwent training on the "5S" methodology – Sort, Shine, Set, Standardise and Sustain – and also visited various companies where such methods have been successfully put into practice. This exchange of

experience allowed them to develop approaches adapted to the demands of the plant. For example, responsibility for maintaining the conditions of working areas was divided between shifts, and competitions were held among employees of divisions.

Thanks to 5S, the enterprise is adopting rules about tidying working areas regularly, and sorting and removing unnecessary objects, while optimal locations and numbers of tools used in production have also been established.

Since September 2010, the plant has been using new lean production methods: total productive maintenance (TPM) and single-minute exchange of die (SMED).

As a result overall changeover times at several units have been reduced by 30%. To support workers' initiatives to reduce losses, a suggestions system was introduced in 2011, allowing employees to highlight potential ways in which their work could be improved.



# COMPANY DEVELOPMENT STRATEGY AND CSR ACTIVITY

## NEW STRATEGIC PROSPECTS

The Group overcame the economic downturn thanks to its main competitive advantage: vertical integration, which enables it to remain sustainable and resilient regardless of fluctuations in market prices.

The unification of Metinvest's enterprises into a single production chain minimises production losses, while the stability of relation among them has ensured relatively even indicators. Another important factor in sustainability was the Company's balanced borrowing policy, which meant that its budget was not placed under great strain.

At the same time, we understand that, while the advantages of vertical

integration are currently enough to ensure a decent market position, in the longer term this may be too little. We are therefore taking proactive steps today by adopting a new Company strategy to 2020. Each of our declared goals contains our responsibilities to different groups of stakeholders, including the state, local communities, shareholders, clients, market participants and workers.

## GOAL 1

Sustain a competitive advantage in steelmaking through greater vertical integration and efficiency

Influencing sectoral cyclicity is impossible in a market economy, so it is important for any metals producer to keep costs low. This guarantees competitiveness regardless of the influence of external and internal factors.

Today, most Ukrainian steelmakers use production technologies dating from the 1960s and 1970s. This makes it impossible to achieve maximum efficiency, because they are outdated compared with global best practices in production, the use of energy and other resources, waste management, etc.

As such, the plans detailed in our strategy include, above all, large-scale modernisation that will have numerous important effects for both the Company and society:

- increased production efficiency;
- reduced energy consumption and rational usage of raw materials;
- reduced environmental footprint;

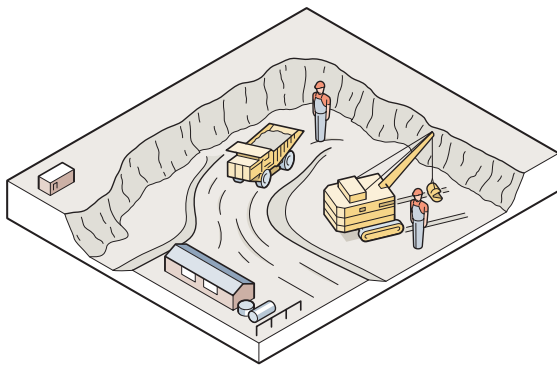
- greater opportunities to make new in-demand products and improve quality.

This reflects the economic, environmental and social components of the Group's CSR activity.

With this in mind, Metinvest has approved a new investment programme that will come to over US\$1 billion in 2011 alone. We are also completing work on a Technological Strategy, as well as defining a technological configuration target and production and quality requirements for incoming raw materials.

First, we plan to introduce pulverised coal-injection technology at all of our iron ore facilities, to increase the utilisation rate for energy that we generate and buy, and to remove inefficient steelmaking technologies.

# METINVEST'S STRATEGIC VISION IS TO BECOME THE LEADING VERTICALLY INTEGRATED EUROPEAN STEELMAKER, DELIVERING SUSTAINABLE GROWTH AND PROFIT THAT IS RESILIENT TO BUSINESS CYCLES AND PROVIDING INVESTORS WITH RETURNS AT ABOVE THE INDUSTRY BENCHMARKS



At the time of publication, open-hearth production had been fully decommissioned as part of the overhaul of Azovstal. There are plans to increase steel volumes produced using converter methods.

Another important condition for improving business efficiency is to focus Metinvest's financial and human resources on its main activity. This is being achieved through restructuring, by moving support services such as maintenance and transportation from the Company's core business to professional subcontractors.

Metinvest is helping small firms that will specialise in the development of the support-services sector to establish

themselves. During the initial phase, guaranteed order volumes help them to reach a level of quality that will allow them to attract other clients. We consider this approach to be our contribution to reducing unemployment at a time when the structure of the labour market is changing visibly.

## GOAL 2

Strengthen positions in strategic markets through increased sales of finished steel and by obtaining preferred-supplier status in key sales markets

Metinvest intends to increase the share of finished high value-added steel products in its output. To become a preferred supplier in key markets, we need to offer products and associated services of the highest quality, and to be flexible enough to adapt to the development of the market.

To do this, we must anticipate our clients' needs and take early action to change product lines and technological processes. The Company is introducing quality-control and production-safety

programmes at its enterprises, and it works with consumers in various different ways. See the Production Quality section for more information on Metinvest's activity in this area. Various initiatives in the Technological Strategy also aim to achieve high indicators in this field.

## GOAL 3

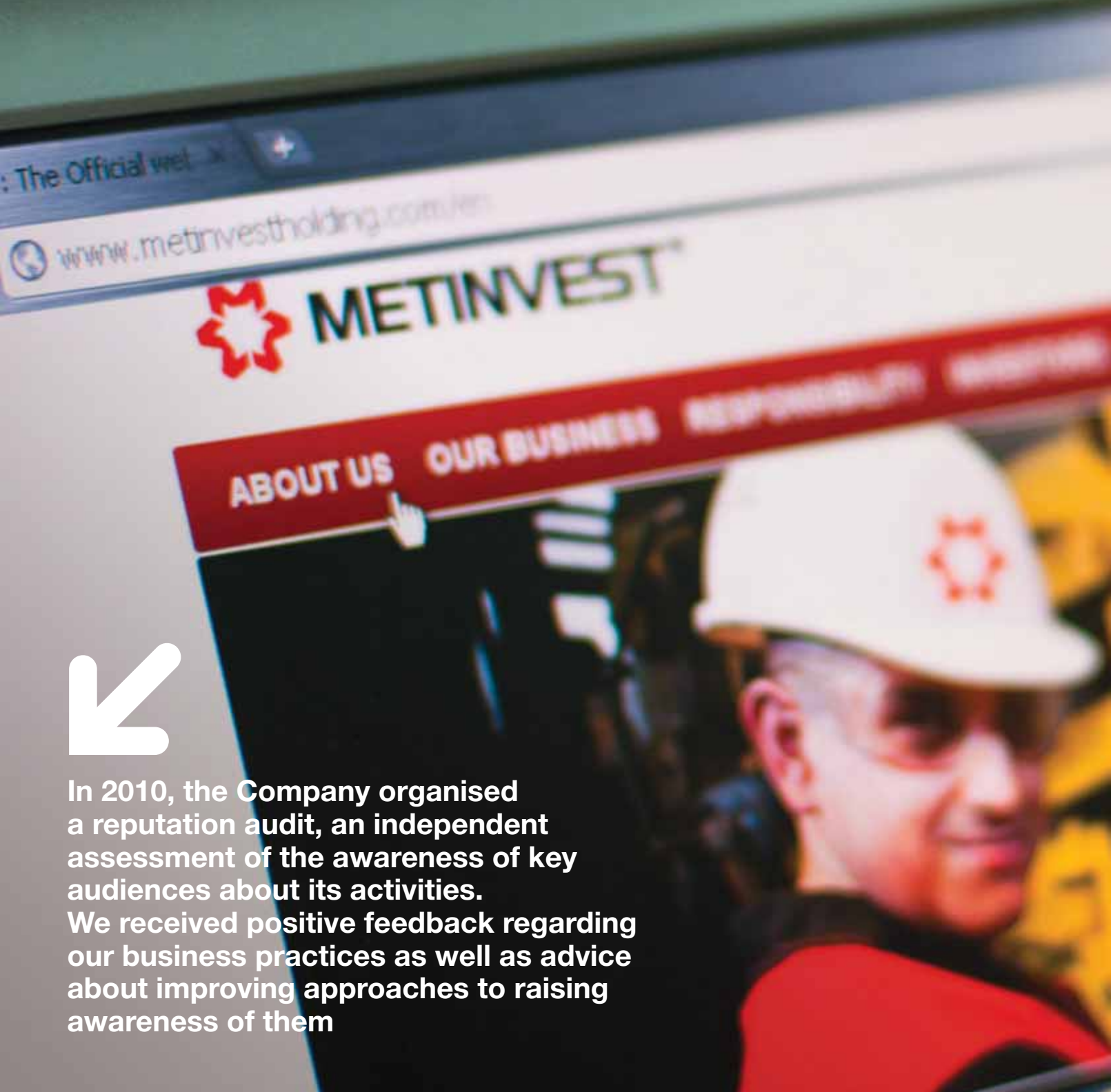
Achieve world class business excellence through the introduction of a single culture and system of values, efficient HR management, and the optimisation of internal processes

This strategic goal includes the introduction of several fundamental concepts for improving the business, including a wide range of socially responsible management practices. Such practices include a modern HR management system, the introduction of best approaches to production and environmental safety, and innovative ways of working with local communities.

This report presents the management approaches and main programmes that Metinvest is applying in all areas of its CSR activity.



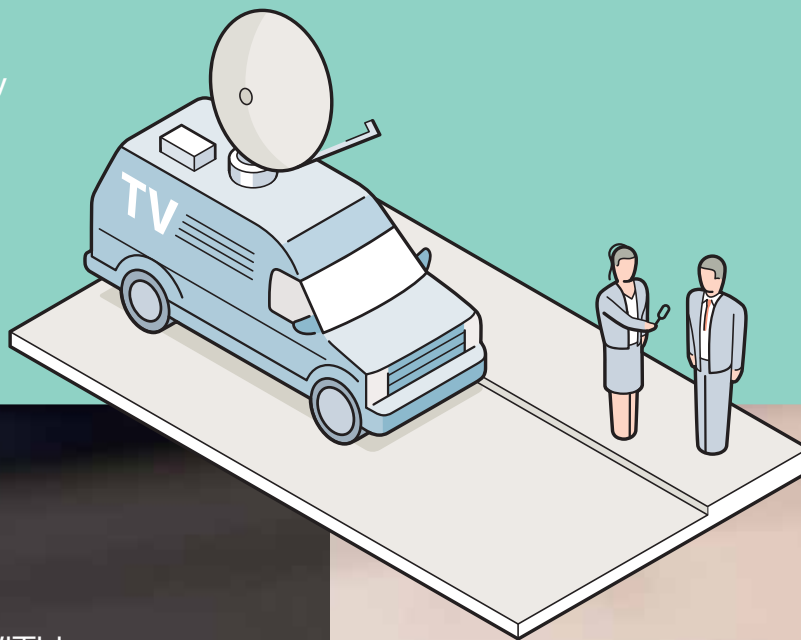
# STAKEHOLDER ENGAGEMENT



In 2010, the Company organised a reputation audit, an independent assessment of the awareness of key audiences about its activities. We received positive feedback regarding our business practices as well as advice about improving approaches to raising awareness of them



Metinvest uses modern communication tools widely



## BUILDING CONSTRUCTIVE RELATIONSHIPS WITH KEY STAKEHOLDERS

including employees, customers, suppliers, local communities, authorities and regulatory bodies – with the help of modern communication tools is highly important for Metinvest.

Regular cooperation with certain stakeholders is an integral part of the main business processes. These relationships are governed by formalised procedures and agreements, as well as other ways of ensuring better mutual understanding. With local communities, for example, we have well established partnerships that the Company works constantly to develop.



SEE NEXT PAGE

■ FOR DETAILS →

# STAKEHOLDER ENGAGEMENT

At Metinvest, the main principle in engaging with stakeholders is information transparency. We are committed to maintaining an open dialogue, which minimises the risks of potential conflicts and helps to allocate resources to address the most important problems in society.

We identify the most pressing social issues using the following methods:



- monitoring articles in leading general interest and business publications
- ensuring feedback and responding to reports in the corporate media
- conducting surveys
- organising road shows
- analysing requests and enquiries sent to the Metinvest enterprises and the Managing Company
- holding internal discussions (for example, with PR specialists at enterprises)

Given the wide range of stakeholders, Metinvest employs tailor-made approaches to convey its position to them, receiving feedback via a system of internal and external communication tools.

In 2010, the Company organised a reputation audit, an independent assessment of the awareness of key audiences about its activities. We received positive feedback about our business practices and advice about how to improve approaches to raising awareness about them. The audit results will be used to improve our communications strategy.

## STAKEHOLDER ENGAGEMENT METHODS



- corporate publications
- internal web-portals
- corporate radio and TV channels
- information stands

- meetings of senior managers with employees and trade unions
- hotlines
- opinion polls
- questionnaires

- employee conferences
- corporate events

- collective agreements

- corporate website
- events and regular meetings with media
- financial, annual and social reports
- reports of enterprises at town council sessions

- product complaint filing system
- meetings of representatives of enterprises with the public
- public liaison office
- public opinion polls
- key audience surveys
- answers to requests from the public, media, etc

- participation in conferences and forums
- membership in associations
- participation in law-making process

- discussion of social and economic cooperation agreements

We conduct an open dialogue, which minimises the risks of potential conflicts and allocates resources to the most important and urgent social issues



We consider it important to exchange experience and information with international partners, which we do by taking part in international conferences and associations. Metinvest joined the American Chamber of Commerce in 2009 and the European Business Association in 2010.

On the regional level, we discuss key issues with local governments, environmental agencies, the expert community and other organisations, while regularly evaluating their satisfaction with working with our Company. In 2010, a public survey regarding Krasnodon Coal's social programmes was conducted in Krasnodon. The results identified the types of social assistance that residents need and expect most, and the information will be used to plan future social investment programmes. Importantly, half of the respondents would like to be involved in joint social initiatives by Metinvest and the city.

We communicate actively with the international, national, regional and local media. Each year, senior managers meet representatives of electronic and print media to talk about the Company's development strategy

and major projects. Participants can also suggest other topics for discussion.

One effective tool for promoting the Company, enhancing its reputation and raising its investment attractiveness is a road show, which includes meetings with potential investors and analysts in various cities worldwide. Such meetings give these stakeholders an opportunity to learn about Metinvest's business and talk to its executives.

An important channel for maintaining relations with employees is internal communications. Regular meetings with executives of the production assets help to identify the most important and urgent issues, as does liaising with trade unions and conducting opinion polls.

Our enterprises widely use corporate media (newspapers, radio, own TV channels), which ensures effective feedback. For example, in response to letters and phone calls, the newspaper Noviy Azovstalets published reports about Azovstal's plans to improve working conditions, explaining the salary and benefit payment procedures established in the collective

agreements, changes in the salary structure, internal regulations, etc. Corporate media outlets are also a convenient way to announce innovations and discuss them with employees.

In 2010, the Managing Company conducted its first employee engagement survey. The results showed that personnel consider Metinvest to have an extremely positive reputation and are prepared to recommend it as an employer. They noted that the following issues need to be addressed: employees' roles and achievements need recognising; more career and additional education opportunities are required; and the remuneration system needs improving, particularly the salary payment system. The Company is using the poll results to develop its HR management strategy.



## DEVELOPING INTERNAL COMMUNICATIONS

In March 2010, the Steel and Rolled Products division launched a project to develop an internal communications system. Before the project began, a working group consisting of PR and HR specialists and internal consultants was established.

Questionnaires from over 2,500 employees across all of Metinvest's Ukrainian steel businesses, the Managing Company and the divisional Sales function showed that over 70% of employees view their line managers,

operational meetings and the corporate media as the best sources of information. Other useful sources include meetings with the CEO, information stands, posters and communication with colleagues. As a result, the division will focus on these communication channels in the future.

In terms of priority topics to be covered, employees highlighted social and environmental initiatives of the division and the Company in general, as well as HR development programmes.



# PRODUCT QUALITY



Metinvest's products are used in various industries in the European Union. As this is a priority target market for the Company, meeting all of its requirements is strategically important

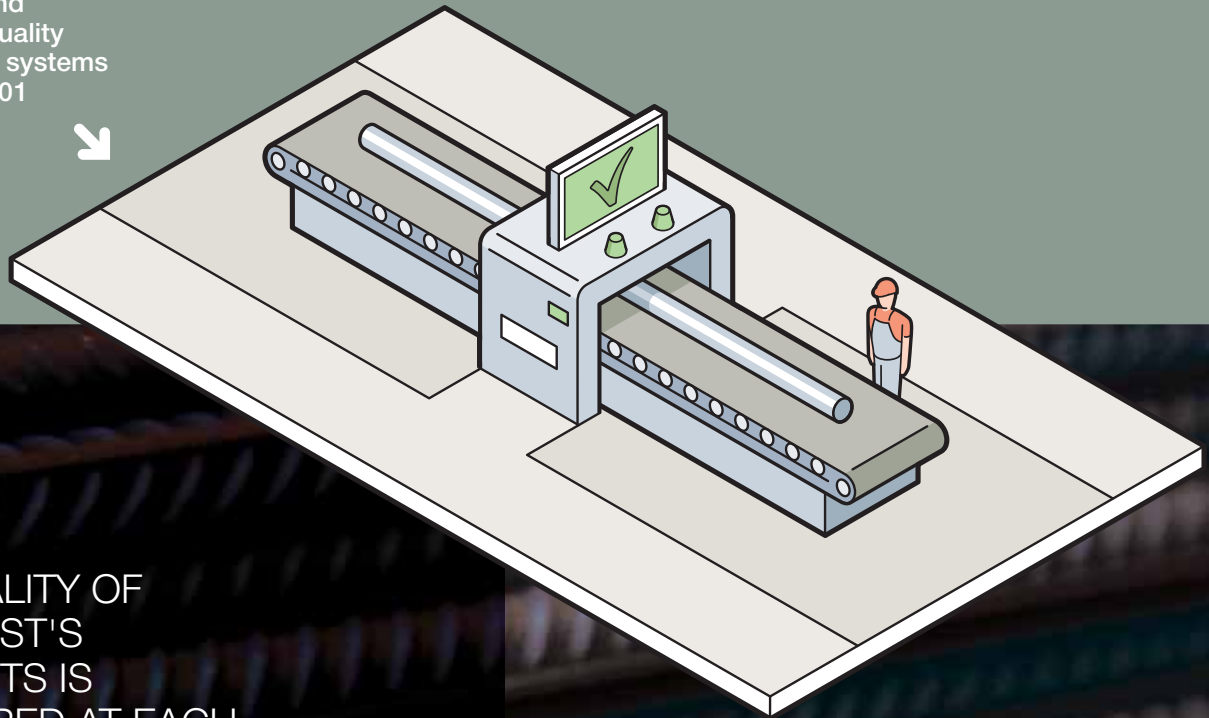


A close-up photograph of a metal rebar with a series of transverse ridges. A white stamp is visible on the surface, containing the following text: METINVEST®, KHTW, TY Y 14-8-2-97, 10F2Φ5, and 413244.

METINVEST®  
KHTW  
TY Y 14-8-2-97  
10F2Φ5  
413244

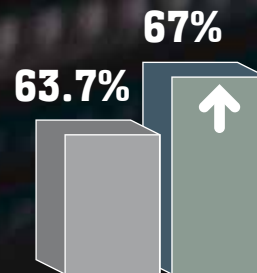


The Company has introduced and certified its quality management systems to the ISO 9001 standard



THE QUALITY OF METINVEST'S PRODUCTS IS MONITORED AT EACH STAGE OF THE PRODUCTION CHAIN,

from coal and iron ore mining to finished goods. Our product strategies seek to increase supplies to high-tech industries, such as rail-wagon building, heavy engineering, shipbuilding, bridge building and production of oil and gas pipelines.



For example, by employing the appropriate technology to enrich different types of iron ore separately, Ingulets GOK has increased the iron content of the concentrate from its second processing plant from 63.7% to 67%.



SEE NEXT PAGE  
■ FOR DETAILS →

## PRODUCT QUALITY

### GOALS AND APPROACHES TO QUALITY MANAGEMENT

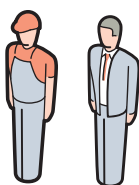
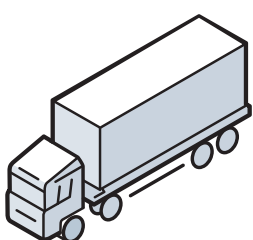
As regards production, the Company focuses on introducing new technologies, upgrading equipment and installing modern facilities to make new steel products and supply the entire range of goods demanded by the market. As the objective is significant, a New Product and Market Development department was established within the Steel and Rolled Products division.

Modern approaches to quality management are not limited to ensuring that products comply with established technical standards. They include every

factor that has a direct and indirect effect on the end result, such as work organisation, employee engagement, consumer interests, service conditions, etc.

The Company has introduced and certified its quality management systems to the ISO 9001 standard.

### CUSTOMER ORIENTATION POLICY



In 2009, the Steel and Rolled Products division adopted a policy detailing the fundamental approaches to key customers and the principles of working with them.

It aims to involve customers with long-term plans for partnership with the Company in joint projects to make new types of products and improve current ones, as well as to build partnerships with clients based on exchange of practices, joint efforts and risk distribution. Metinvest is also committed to improving the flexibility of

sales by taking into account current and projected customer needs in terms of volume and quality of steel products.

In the reporting period, the division devised and received approval to introduce certain procedures that will help to develop the quality management system.



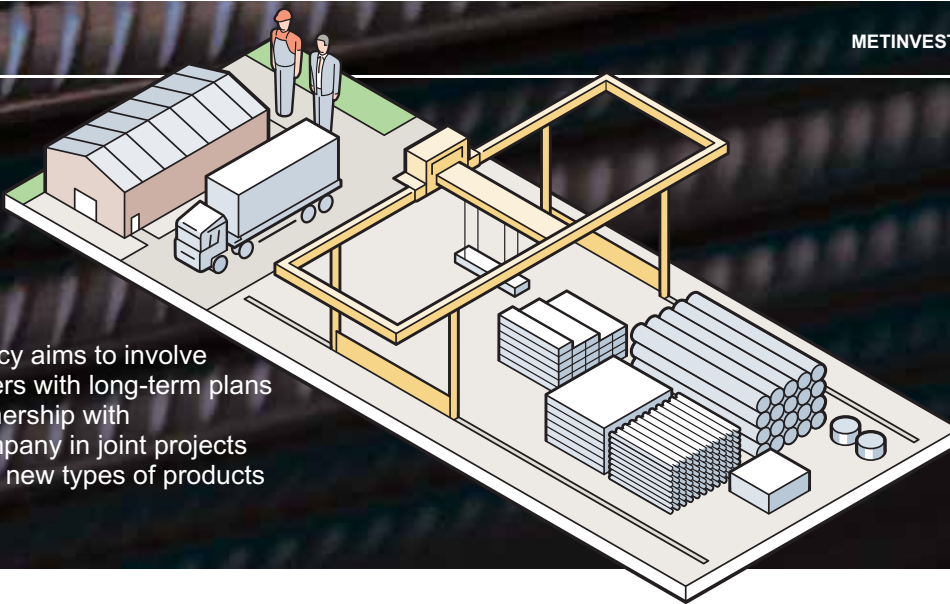
### NEW TECHNICAL SOLUTIONS

One of Metinvest's key business areas is supplying rolled steel to pipe plants in Ukraine, the Middle East and South America. Global requirements for pipe products are becoming increasingly stringent: consumers need high-strength materials that can resist adverse conditions. To meet this demand, the Company is applying new technical solutions. In 2011, Azovstal plans to launch an

accelerated cooling facility to increase the strength of its rolled steel and cut production costs by using alloying components in steelmaking. In addition, the plant has built a new lab to test the resistance of some products (hot-rolled plate and steel pipes) in acidic environments.



Our policy aims to involve customers with long-term plans for partnership with the Company in joint projects to make new types of products



## TECHNICAL VISITS AND AUDITS

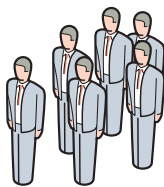
When customers have design specifications, they should approve product parameters before the Company delivers them. Technical visits and audits have proved highly popular as a way of cooperating in such situations, and we view them an extremely important type of interaction, as they lay the foundation for long-term partnership. As such, we have established a corporate procedure to organise system-wide work in this area.

During the visits and audits, customers can go to the Company's facilities, check the production setup, see how

quality is controlled and managed, and obtain documents to recognise Metinvest as a potential supplier.

After a technical audit, customers analyse the results, which helps to identify any corrective measures required. This ensures continuous improvement of quality in line with their needs.

## MARKET GROUPS



The Sales function and enterprises work together to meet the new market requirements for products as much as possible. In particular, CEOs of enterprises, functional managers from the Steel and Rolled Products division, and representatives of the Sales function and engineering teams from facilities collaborate in groups for flat and long products. They discuss major quality parameters and opportunities for new products. Their decisions are taken into account when developing quality management programmes.

For example, the Flat Product group initiated an increase in output of high-resistance steel plate, is developing a programme to make flat products with thermo mechanical rolling technology, and has created an internal catalogue of steel and rolled products. In addition, the Long Product group has improved the quality of rails and expanded its range of goods.

## CUSTOMER SERVICE

Metinvest uses several types of after-sales service: analysis of verbal and written requests, complaints and demands from customers; questionnaires; and meetings with suppliers, consumers and independent auditors. The questionnaires, one way of exchanging information with buyers regularly, work as follows: once completed, they are sent to specialists at the Company's enterprises so that disadvantages can be eliminated and technologies improved in line with customer needs. They also help to assess customer satisfaction.

Metinvest continued to develop this area in the reporting period. In particular, it started expanding its customer care and after-sales service to deal with complaints and introduce organisational and technical measures to improve product quality. The department's objective is to devise an effective customer feedback mechanism and improve after-sales cooperation.



# PRODUCT QUALITY

## JOINT CONFERENCES

The Sales function has introduced and is developing the practice of organising conferences for customers.

In 2009-10, Makiivka Steel held conferences with consumers of wire rods and Metinvest Ukraine, with buyers of rolled coil. There are also plans for a major conference with

consumers of flat products and coil. The conferences establish committees with various areas of focus, and customers can learn about the Company's plans to develop production, technologies and customer service, as well as discuss quality, logistics, the service system, etc.

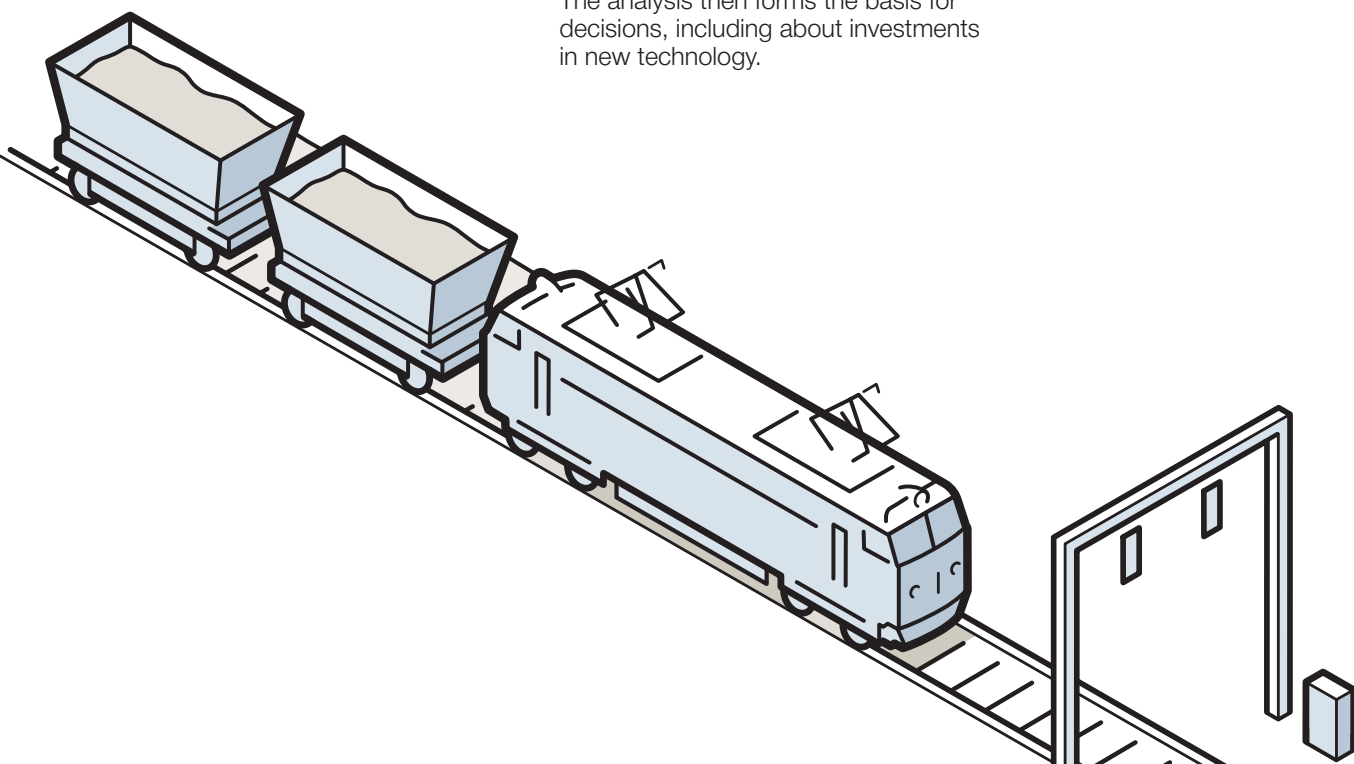
## QUALITY OF IRON ORE PRODUCTS

As competition in the global market for iron ore products is intensifying continuously, enhancing their quality is becoming increasingly important. The quality of the pellets and concentrate produced by Metinvest's iron ore enrichment works (GOKs) meets international standards. At the same time, the demands of today's market mean that product quality and range needs to be improved continuously.

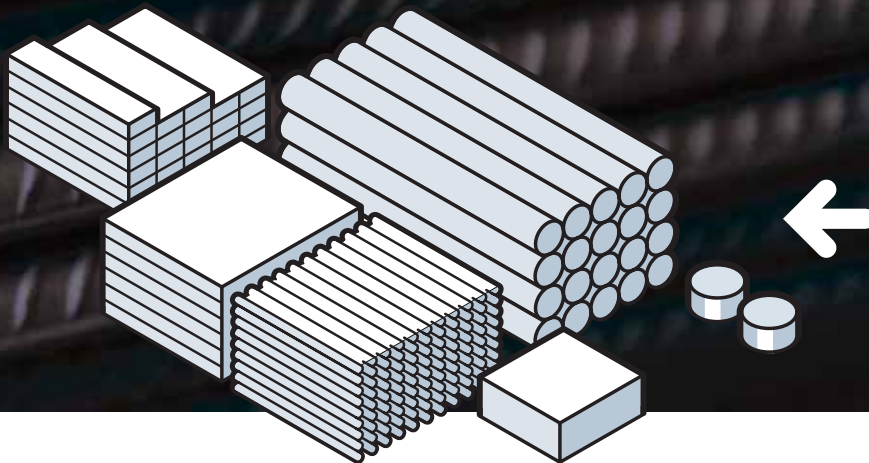
As such, Metinvest's GOKs have long-term quality programmes to analyse customer demands, their trends and the Company's ability to meet them. The analysis then forms the basis for decisions, including about investments in new technology.

For example, Ingulets GOK decided to enrich different types of iron ore separately, which increased the iron content of the concentrate from its second processing plant from 63.7% to 67%. Another important project at the plant is the construction of a second magnetic flotation refining facility to increase the quality of marketable raw material to 67%.

Enterprises regularly monitor the characteristics of products in special labs, enabling accurate information to be provided to customers.







In 2006, the new EU regulation REACH took effect. In 2010, our businesses registered their products as REACH-compliant with the European Chemicals Agency

## PRODUCT SAFETY

In accordance with Ukrainian law, product safety is ensured with the help of radiology tests, inspections of incoming raw materials, monitoring of the production process, acceptance tests, etc.

Metinvest's products are used in various industries in the European Union. As this is a priority target market for the Company, meeting all of its requirements is strategically important.

In 2006, the new EU regulation REACH took effect. In 2010, our businesses registered their products as REACH-compliant with the European Chemicals Agency, enabling them to continue deliveries beyond that year. The enterprises also developed safety data

sheets (SDSs) in line with the new REACH format and are creating a database of them that can be accessed through the Group's website.

At present, Metinvest is working to apply the EU regulation on classification, labelling and packaging (CLP). According to it, all substances that are delivered to the EU and subject to registration under REACH in 2013 and 2018 should be included in a classification and labelling notification submitted to the European Chemicals Agency.



Steel angles produced by Makiivka Steel Works

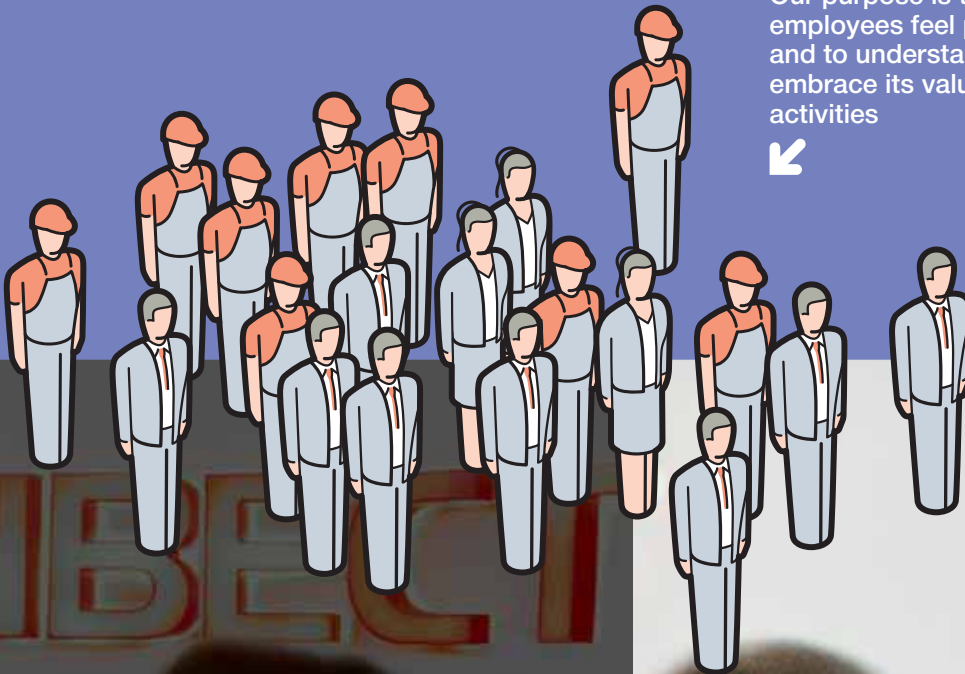
# EMPLOYMENT RELATIONS



**We strive to maintain a social climate where every employee feels protected and can fulfil his or her professional or creative potential**



Our purpose is to make our employees feel part of the Group and to understand, accept and embrace its values in their daily activities



## OUR PRODUCTS ARE MADE BY OUR PEOPLE, AND THE NET RESULTS DEPEND ON THEM

Metinvest employs specialists from numerous countries with different mindsets and views. A diversity of opinions and expertise is the best way towards our goal, which is to create a united, professional and motivated team of innovative thinkers who are ready for change and able to realise the Company's new strategy.



SEE NEXT PAGE

■ FOR DETAILS →



# EMPLOYMENT RELATIONS

## STRATEGIC HR MANAGEMENT

In 2010, Metinvest employed

**67,652**  
**PEOPLE<sup>3</sup>**

<sup>3</sup>Number of full-time employees at Metinvest's Ukrainian businesses covered in this report, except for Ilyich Iron and Steel Works, at the end of 2010

Building a corporate culture and relations with employees is the cornerstone of the HR management strategy, which we started to develop in the reporting period. An employee survey conducted last year provided feedback about changes at Metinvest, measured the satisfaction and engagement of employees, and revealed areas that need special attention. As a next step, the Company devised a plan to develop a HR road map, which takes into account the survey results.

Metinvest's main objective today is to standardise processes and procedures while taking into account its expertise and best global practice.

The Group's goals and priority objectives in HR management are to:

- enhance the corporate culture
- develop common HR management approaches
- ensure the presence of a skilled workforce (through recruitment, adaptation and creation of a talent pool)
- build a corporate HR training and development system (including a talent pool)
- develop a system of remuneration and motivation (financial and non-financial)
- introduce an performance assessment system

## BUILDING A CORPORATE CULTURE

Metinvest's enterprises have traditional corporate cultures that involve different management styles and relations among employees. Our purpose is to make our employees feel part of the Group and to understand, accept and embrace its values in their daily activities.

To this end, we began to build a corporate culture based on common values and principles, while retaining the best practices of our enterprises,

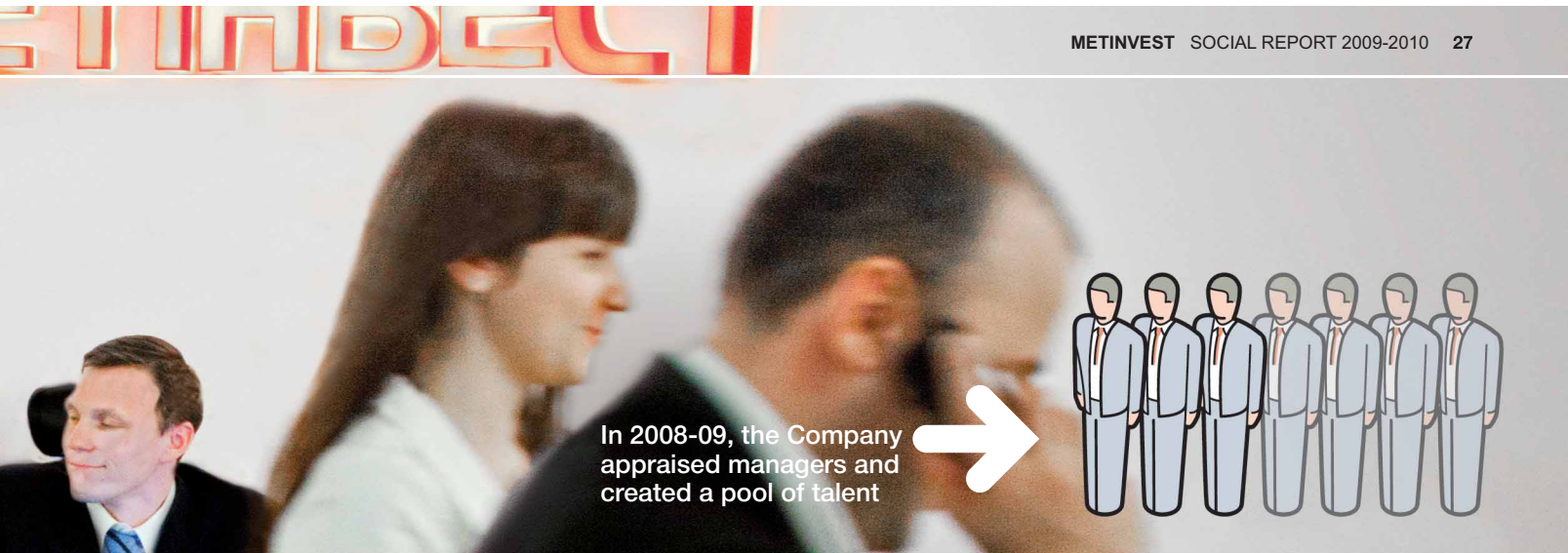
which will help to achieve the Company's strategic goals.

In early 2011, we formulated corporate values and developed an integrated programme to transform our culture in line with them. A task group of talent pool managers has started to examine the existing corporate cultures at our assets, to align the approved development plan with the current situation at every enterprise.

## TALENT POOL

The successful implementation of Metinvest's strategy will depend on the availability of professional managers and specialists able to achieve the set objectives. As such, building and developing the talent pool has become a priority.

In 2008-09, the Company appraised managers and created a pool of talent. In 2010, we developed an integrated development programme in cooperation with a leading Russian business school to ensure that our internal expertise is sufficiently strong for managers to deliver on the corporate strategy.



The programme covers two groups of managers (88 people in total), includes six modules over a year, and offers internships at one of the most successful international steel holdings. The trainees will learn modern management practices and strategic planning, as well as how to build effective business models to meet the Company's strategic goals, etc.

Courses are taught by professors from the best international business schools. Leading metals and mining specialists as well as representatives of international companies, government authorities, and scientific and cultural organisations are invited as experts. Alongside theoretical studies, the programme includes practical tutor-led lessons in which trainees can gain

management skills by implementing actual strategic projects of the Company. After each module, participants defend their projects before the Metinvest Executive Committee. Every participant will have a personal mentor (a senior executive from the Managing Company) and an individual development and career plan. In addition, there will be mechanisms for consistent promotion and rotation within the Group.

All of Metinvest's businesses will apply a holistic approach to the talent pool programme starting from 2011. The Company will select participants based on an appraisal of their performance in the previous period and of their potential.



Training session of talent pool development programme

# EMPLOYMENT RELATIONS

## HR TRAINING AND DEVELOPMENT

# 82,573

trainings were conducted in 2009-10, of these:

# 13,521

were in new specialisation

# 3,491

were in further professional development

Under the Company approach, adopted data reflects the total amount of trainings provided to the employees

Training and developing leadership skills in our employees consistently are important aspects of being a competitive and sustainable business. We give our staff opportunities to improve their skills, gain new knowledge and achieve professional excellence.

One area of focus is training line managers and specialists of all levels using modern programmes and methods. In the Iron Ore division, the Line Manager School, School of Core Services, School of Young Specialists and Open Business School have continued to function at the enterprises. The results and efficiency of programmes are regularly assessed, and their content is aligned with the current needs of businesses.

In the reporting period, Metinvest focused mostly on enhancing the quality of training courses. Northern GOK improved its "Fundamentals of Effective Management" and "Foreman in Modern Production" courses. At Ingulets GOK, a survey of young specialists helped to introduce a programme supporting projects developed by such employees to

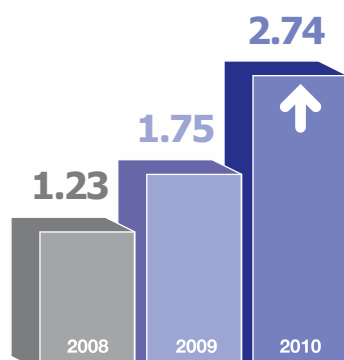
improve the plant's operations.

Workers can also increase their qualifications and gain new specialisations and skills to remain competitive in the Company and the labour market.

Metinvest has launched a range of training programmes focused on new management approaches introduced in the Group (HR efficiency management system, the 'lean production', HSE strategy, etc) and the development of managers' new functional competencies. For example, in cooperation with Mariupol State University, the Company launched a new programme, "The Fundamentals of Effective Public Speaking", for senior executives at Azovstal.

In the near future, the Managing Company plans to set up a training centre for senior managers across the Group, based on best practices at enterprises.

INVESTMENTS IN TRAINING EMPLOYEES, US\$m



## TRAINING SENIOR MANAGERS

In 2010, Northern GOK adopted regulations on training and developing heads of business units, chief engineers, heads of departments and senior specialists. Following the appraisal of their abilities, the plant devised individual development plans and a comprehensive training programme. It engaged a European management school to create individual programmes for managers to develop strategic thinking, enhance negotiation skills, study innovative management techniques, etc. In 2010, 141 managers attended courses under this programme and 11 of them were promoted after completion.



Metinvest is finalising the development of its remuneration system based on 'position appraisal', which ensures common rules for managing remuneration with the principle of fairness at their core



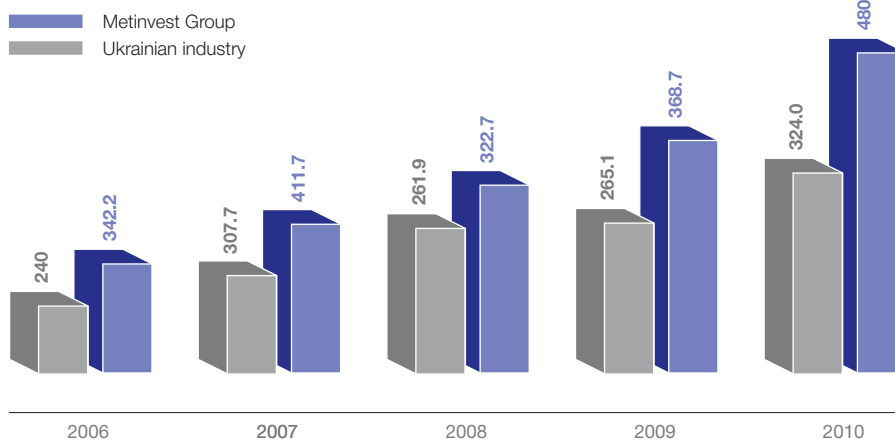
## REMUNERATION AND MOTIVATION PROGRAMMES

Metinvest is finalising the development of its remuneration system based on "position appraisal", which ensures common rules for managing remuneration with the principle of fairness at their core. This underpins the common approaches that determine the contribution of every position to the end result of the Company's operations. Metinvest meets this principle by setting a common set of salary ranges for positions within the same grade.

Our enterprises apply a broad range of non-financial motivation, including competitions in which employees can show their skills and compensation of educational costs. For example, Azovstal pays the tuition fees for promising young employees wanting to study for a second degree.

In addition, young specialists at enterprises in the Iron Ore division have the opportunity to prove themselves as self-starters and committed employees by developing projects that are important for production processes and submitting them to managers for consideration. They spend six months working on their projects under the guidance of mentors (managers) and defend them at an annual conference for young specialists. In 2010, 24 projects were submitted to Central GOK and Northern GOK. The authors of the best initiatives join project implementation teams.

AVERAGE MONTHLY SALARY, US\$



Source of average monthly salary in Ukrainian industry: State Committee of Ukraine ([www.ukrstat.gov.ua](http://www.ukrstat.gov.ua))



## PROJECT OF A YOUNG SPECIALIST

A young specialist at Central GOK, an assistant shovel operator at the Petrovskiy open pit, developed a project to use wear-resistant tyre-protective chains on special vehicles at the deposit.

The main idea is to expand the useful life of tyres on open-pit vehicles from 2,000 to 8,000 service hours through the use of wear-resistant chains, which

can protect tyres from cuts and punctures and give them more road adherence. Ultimately, one set of tyre-protective chains can save US\$26,400 on operating costs. The enterprise is studying the feasibility of the project and the possibility of engaging its author as a specialist in the technical department at Petrovskiy pit

# EMPLOYMENT RELATIONS

## EMPLOYEE PERFORMANCE APPRAISAL

Appraising the efficiency of employees' performance is an essential element of a modern HR management system. Quantifiable objectives based on the Company's strategic goals are set for every employee for the year ahead. At the end of the year (starting from 2011), the performance and corporate

competencies of employees of the Group's core businesses are appraised. The results are used as the basis for fair career decisions for the next period, including changes to salaries and bonuses, inclusion in the talent pool, etc.

## SOCIAL SUPPORT FOR EMPLOYEES

**US\$36.6<sub>m</sub>**

invested in social services for employees in 2009-10

**US\$17.1<sub>m</sub>**

invested in maintaining its social facilities in 2010

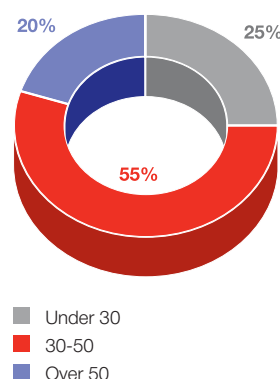
We strive to maintain a social climate where every employee feels protected and can fulfil his or her professional or creative potential.

Despite the difficult economic environment in 2009, the Company did not amend its social programmes significantly. The elements of the social package are set in collective agreements and include support for employees and pensioners, bonuses paid on major dates, opportunities for holidays at resorts, meals at discount prices, sports and cultural activities, etc.

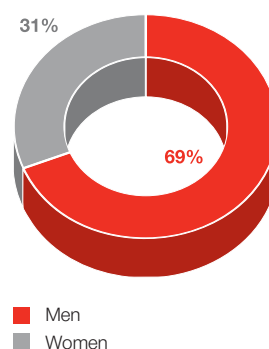
Some provisions were improved. For example, Ingulets GOK increased allowances for newly born children, while the number of enterprises paying for medical and life insurance for employees partly or fully also increased. In the event of relocation or promotion to another region, some categories of employees receive extra compensation (rent, one-off travel expenses, etc).

Our enterprises continued to finance cultural, sports and household facilities: recreation centres, sports complexes, community centres, children's camps, etc. Our cultural and sports facilities often provide services to both employees and local citizens.

AGE OF WORKFORCE, 2010



GENDER OF WORKFORCE, 2010



Key performance indicators based on the Company's strategic goals are set for every employee for the year ahead



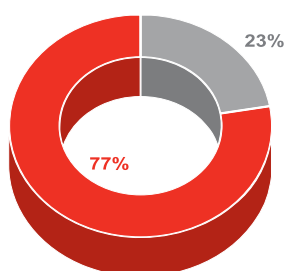
## WORKING WITH TRADE UNIONS AND NGOS

Our enterprises' trade union organisations take part in drafting and approving collective agreements, resolving disputes and fostering the appropriate cultural environment for employees. They have become a valuable partner for the Company in the process of introducing a new remuneration system and reorganisation. Engaging the trade unions in these processes in the reported period helped to safeguard employees' interests and resolve potential disputes.

We continue to assist other employees' organisations (such as youth associations, councils of veterans, and women's associations) that support particular social groups and local citizens (see our first social report for details of their activities). During the reporting period, Khartsyzsk Pipe helped to establish the Khartsyzsk Pipe Women's Association, which protects the rights of women, engages them in social activities, promotes healthy lifestyles and provides help to orphanages, asylums and children's homes.

## RESPONSIBLE RESTRUCTURING

NUMBER OF EMPLOYEES AND SUPERVISED WORKERS, 2010



■ Employees (managers, engineers)  
■ Supervised workers

The restructuring at Metinvest fully complied with the corresponding industry-specific agreements, collective bargaining agreements and legislation. One of the main tools used in the restructuring process was the outsourcing of non-core activities, which involved around 10% of employees in 2009 and 5% in 2010. The Company made every effort to ensure transparency and consider the interests of all parties.

Non-core functions were transferred to external contractors (outsourcers). In the reporting period, we outsourced cleaning, medical, security, catering and maintenance services.

Outsourcers were selected by tender according to certain criteria. We also work closely with them to ensure a smooth transition for our employees to those companies. The agreements between our enterprises and outsourcers ensure that Metinvest's outsourced employees retain their job profile (work schedule, salary and social

benefits set in collective agreements) for a year at least. Also, employees of our GOKs reserve the right to receive voluntary medical insurance, while Azovstal continued its residential loan programme.

Metinvest's enterprises organise information campaigns through their corporate media and via meetings with employees, senior managers and the heads of HR. All employees can receive answers to any questions that they have. For example, to support their staff, Northern GOK and Central GOK established public coordination councils, which considered all employees' requests.

The Company also supports outsourcers at the initial stage by securing guaranteed orders, prioritising contractual payments and providing preferential rent terms.



# HEALTH AND SAFETY



**All of the Group's enterprises have a standard for safety audits in place. In accordance with this, managers of all levels, including senior executives in the Managing Company (the Board) and at enterprises, regularly visit the production facilities to see how people work and what the working conditions are like**

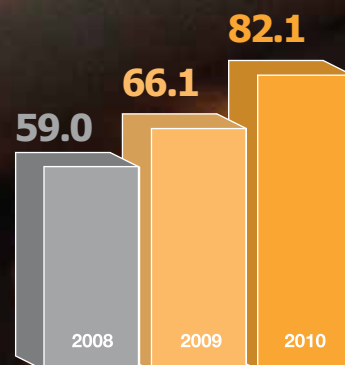


Metinvest has devised four new corporate H&S standards based on international best practice



## A FOCUS ON OCCUPATIONAL HEALTH AND SAFETY IS CRITICAL TO THE SURVIVAL AND COMPETITIVENESS OF A BUSINESS

It is instrumental in reducing the risk of injuries, accidents and man-made disasters causing damage to society and the environment. Ultimately, it guarantees sustainable and socially responsible business development.



INVESTMENTS IN OCCUPATIONAL HEALTH AND SAFETY, US\$m



SEE NEXT PAGE  
■ FOR DETAILS →

# HEALTH AND SAFETY

## METINVEST'S PHILOSOPHY

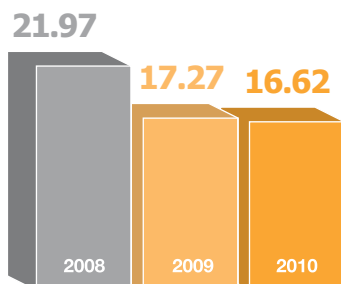
Our health and safety (H&S) philosophy is that we work not only to meet the legal requirements, but also to enhance the safety culture considerably, thus making our business even more reliable. Drawing on international best practice, Metinvest is building a H&S management system based on the following main principles:

- leadership at all levels plays a pivotal role in H&S management;
- every employee is involved in enhancing safety at work: safety is everyone's responsibility;
- enterprises take systemic and planned actions to identify, assess and reduce risks;
- accidents are analysed carefully to learn lessons and prevent them in the future;
- the Company liaises constructively with all stakeholders, including contractors, to achieve the best results.

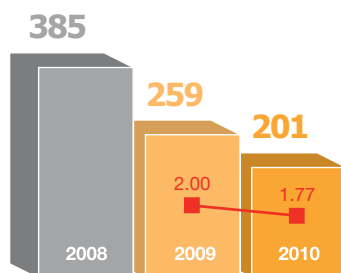
This philosophy is outlined in the Group's Policy and Principles of Health, Safety and the Environment<sup>4</sup>. Metinvest focuses on all aspects of safety at work, including equipment performance. We regard changes in the attitude of all employees to their own and other people's safety as a priority. We rely upon the statistically proven and globally accepted opinion that only 15% of accidents have technical causes (hazardous working conditions), while the remaining 85% are caused by unsafe acts of people. At the same time, hazardous working conditions can be a consequence of someone's unsafe actions or a past oversight.

The Company dedicates financial and human resources to improving the H&S management system. The commitment and abilities of the senior management regarding these issues are our advantage and the key to success.

RATIO OF LOST DAYS

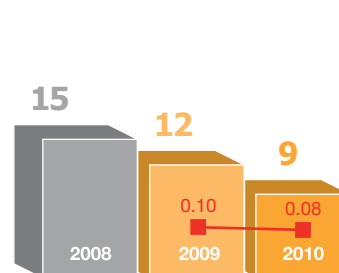


OVERALL NUMBER OF ACCIDENTS  
INVOLVING A LOSS OF WORKING CAPACITY



LTIFR

OVERALL NUMBER OF ACCIDENTS  
INVOLVING FATALITIES



FIFR

<sup>4</sup>For more information about the Policy and Principles, visit the Company's website

To ensure that information is comparable, the accident figures for 2008-09 include enterprises that were not part of the Group in the reporting period: Inkor Chemicals (2008) and Makiivka Steel Works (MMZ: 2008-09).

To ensure that the Company's figures are comparable with those of international players, as of 2009, the CSR report features ratios for the frequency of lost-time incidents (LTIFR) and fatal incidents (FIFR), which are calculated per 1 million man-hours worked (and not per 200,000, as recommended by the GRI).





The foundation of Metinvest's approach to managing HSE issues is the belief that the main factor in a safety system is people. The vast majority of incidents are caused by a human factor



## APPROACHES TO H&S MANAGEMENT

### VERTICAL STRUCTURE OF HSE CENTRAL COMMISSIONS



In 2008, the Group adopted a health safety and the environment (HSE) strategy for 2008-11 ("the Strategy"), which identified priorities in this area. That same year, the Managing Company set up a HSE directorate to assist the senior management in implementing the Strategy.

The Strategy can be fulfilled only if an efficient and effective management system is in place. As such, in 2009, Metinvest started building an integrated management system (IMS). Integration means consolidating two areas in one system: health and safety, on one hand, and environment, on the other, as well as integrating the management systems of the enterprises and the Managing Company.

At the initial stage, in 2009, the IMS was introduced at Metinvest Holding and certified to OHSAS 18001 and ISO 14001. By late 2010, all of the Group's main production facilities had OHSAS 18001 certificates.

The next step included introducing a range of corporate standards that are binding upon the Managing Company and enterprises and set common requirements for some elements of the management systems.

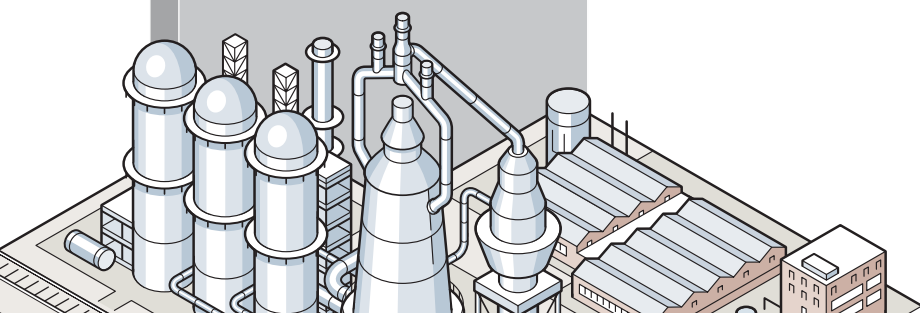
Among other things, the IMS creates a single channel for management through HSE central commissions, which are established at the level of the Managing

Company, divisions and enterprises and form a single vertical chain of command. Comprising the managers of production and functional units, the commissions are collective governance bodies that represent interests and take advantage of the expertise of all production and functional executives.

Governance through the central commissions helps to ensure effective decision-making and immediate control over enforcement of decisions as they are made by the managers directly responsible for H&S at work. To address certain issues, the commissions can set up task groups chaired by commission members and engage specialists with the requisite H&S competencies to work in the groups, including external experts and contractors.

One excellent example of our achievements in this area is the contractor H&S task group created at Yenakieve Steel in 2009. It organises weekly H&S check-ups by members and authorised representatives of the contractors. Top managers of the contractors devised measures for introducing a safety standard for work completed (the Contractor Job Safety Standard). In addition, the enterprise checked the compliance of contracts and agreements with the standard.

<sup>6</sup>The Supervisory Board has a Health, Safety and Environment Committee. For more information about its work, see: [www.metinvestholding.com/en/about/governance/committee](http://www.metinvestholding.com/en/about/governance/committee)



# HEALTH AND SAFETY

## SAFETY AUDITS

Behavioural safety audits  
carried out in the Group in 2010:

**50,041**

Target safety audits in 2010:

**64,305**

All of the Group's enterprises have a standard for safety audits in place. In accordance with this, managers of all levels, including senior executives in the Managing Company (the Board) and at enterprises, regularly visit the production facilities to see how people work and what the working conditions are like.

Safety audits are supplementary to H&S check-ups conducted within the three-stage control mechanism (required by Ukrainian law). They focus on employee actions, while check-ups and inspections concentrate primarily on the state of equipment, sites, buildings and structures. The audits help managers to correct unsafe acts by employees and give credit for safe approaches, thus showing that safety at work is important to them. Personnel learn how to identify hazards and that managers see and appreciate concern about safety. As a result, employees develop a behaviour pattern, where proper attention to the health and safety of themselves and others becomes a part of their personal beliefs and values. For this reason, the audits are called "behavioural safety audits".

The standard also covers audits that focus on hazardous conditions, which mean the state of equipment, compliance/non-compliance with safety rules when carrying out certain work, etc. These are "target safety audits" conducted according to checklists approved by the standard and are binding upon all Group entities. In addition, each asset develops its own additional specific checklists. For example, Ingulets GOK has developed and now uses checklists for transporting large and hazardous cargo as well as people, issues that are critical for it.

The audits help to foster a modern safety culture: to identify and correct unsafe acts at work promptly; and to analyse inputs, identify the most pressing areas, and set priorities for further actions to improve H&S at work.

## ROOT CAUSES OF ACCIDENTS

Alongside our efforts to prevent accidents, we seek to learn lessons from the incidents that were not avoided and use this information to build a better system for accident prevention.

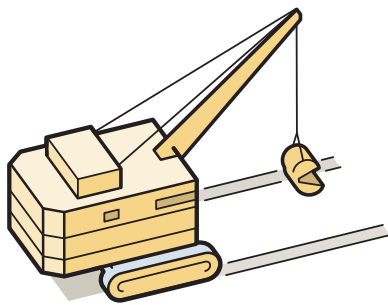
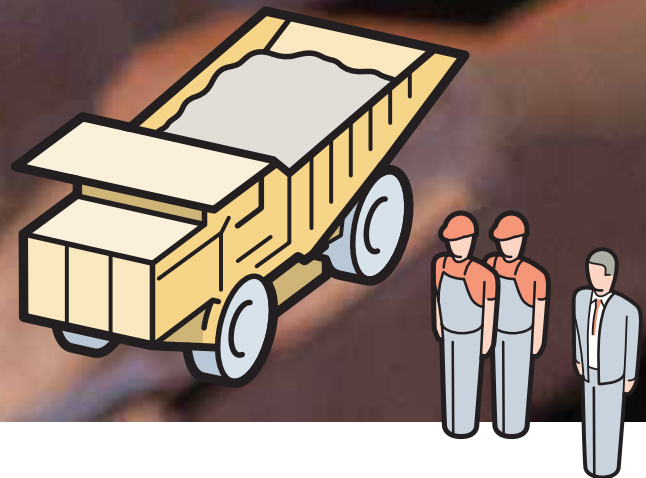
Metinvest has put in place the standard "Procedures for Identifying Root Causes of Accidents" (IRCA). It enshrines analysis methodology that helps the Company to focus on identifying defects in management systems that have caused an accident or injury. We call these defects the root causes of accidents.

### THE ROOT CAUSES OF ACCIDENTS MEET THE FOLLOWING CRITERIA:

- they are weaknesses in the management system
- removal of them allows similar accidents to be avoided or the chance of recurrence to be minimised
- the problem should be addressed by senior managers of a business unit, enterprise or the Group



One of our managers' tasks is to encourage workers to take the right actions, create incentives for safe behaviour and avoid dangerous practices in a timely manner. One method used to do this is safety audits



Being mandatory elements of the analysis, the corrective and preventive measures are put in place to eliminate defects in the management system. If necessary, they are introduced across all areas and operations where similar accidents are possible.

The procedures also set rules for disseminating accident information across the Group. "Top priority notices" include initial information that help managers and employees to identify and rectify similar situations in their

facilities, while "accident conclusions" outlining analysis results are announced after root causes are identified.

Managers at all levels are trained to use this methodology, with some attending advanced training programmes and acting as methodology experts thereafter. This demonstrates that root causes are identified in line with the methodology.

## H&S RISKS

In 2010, the Company developed a methodology framework for identifying and reducing risks. The standard "Job Hazard Analysis" (JHA) ensures that all employees assess the risks and hazards of their work in a simple, but effective, way before and during any operation.

One special feature is a focus on workers, who must have strong skills in conducting JHA and cease to be passive recipients of instructions from managers.

The standard "Production Risk Assessment and Reduction" has a narrower target audience – production managers and specialists – as they need higher-level expertise and a mandate to implement it. As part of the standard, the Company developed guidelines on how to use several international risk assessment methods such as HAZID, ENVID, Bow-Tie and HAZOP.

## MAJOR INVESTMENT PROJECTS

Metinvest's strategy envisages implementing large investment projects to build and retrofit production facilities. In line with the strategy, the Company has developed the standard "HSE Management in Investment Projects", which will ensure strict compliance with Ukrainian law and the requirements of international investors (if projects involve external financing), particularly banks embracing the Equator Principles. The standard regulates risk management at all stages of projects.



# HEALTH AND SAFETY

## TRAINING EMPLOYEES

# 64,890

### MAN-HOURS

invested in training employees  
in corporate H&S standards in 2010

# 8,525

employees taught by internal  
trainers in 2010

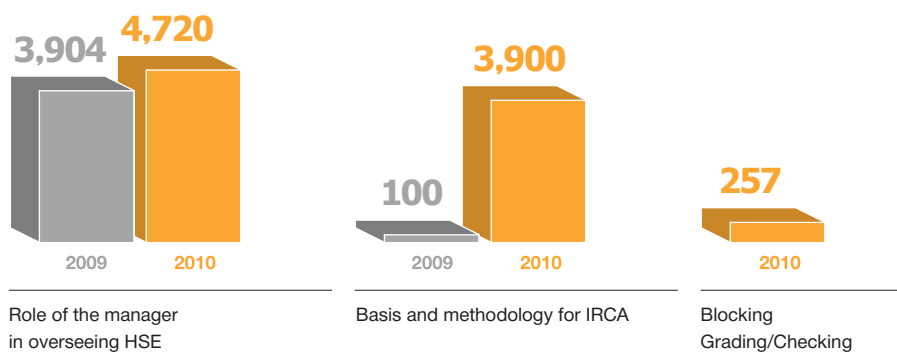
Any change or innovation should be made clear to people, otherwise it will fail to meet the new requirements. We invest in training managers and employees in new safety management tools and safe work practices and procedures.

Last years, the Company placed a greater emphasis on training managers of all levels, from top to line managers. The introduction of every corporate standard was accompanied by respective training programmes. Since 2009, Metinvest has had in place a continuous HSE training programme for

line managers, with the classes taught by directorate specialists and internal trainers.

The Company focuses on training HSE specialists, as they need to be professionals and effective managers at the same time. In 2010, Metinvest developed a model of competencies for them and assessed their managerial and professional abilities. The results were used to devise individual development plans and training schedules.

#### NUMBER OF MANAGERS TRAINED IN CORPORATE H&S STANDARDS



## “TRAIN THE TRAINER” PROGRAMME

The introduction of corporate standards gave rise to a need for training many people at the same time. Given the vast amount of work to be done in a short time, the Company decided to launch “Train the Trainer” programme. An internal trainer is a specially trained employee with

extensive production expertise. During the preliminary preparations, the internal trainer studied corporate HSE standards and the fundamentals of andragogy<sup>6</sup>, familiarised themselves with interactive training methods, and improved their presentation skills.

Our innovative and effective solution to this has been to engage retirees with extensive leadership experience at Metinvest's enterprises to do the job. Their potential helps the Company to accumulate and share practical



<sup>6</sup>Andragogy is a part of pedagogy that describes how adults learn and how a teacher as facilitator manages the learning processes.



Any change or innovation should be made clear to people, otherwise it will fail to meet the new requirements. Since 2009, Metinvest has had in place a continuous HSE training programme for line managers across the Group

## EMPLOYEE INCENTIVES

In 2010, Metinvest adopted the Regulation on the CEO's Prize for HSE Achievements. All employees may take part in a competition to win the prize by submitting projects that have significantly improved H&S at work, prevented industrial accidents and occupational diseases, or reduced the Company's environmental footprint.

In 2011, Metinvest plans to time the first final of the competition to coincide with its fifth anniversary celebrations.

## NEW STANDARDS FOR WORK CLOTHES AND PERSONAL PROTECTIVE EQUIPMENT

**US\$313,992m**

invested in training employees in H&S in 2010

Metinvest provides employees with work clothes and personal protective equipment (PPE) in accordance with the national standards. Meanwhile, we are committed to ensuring the best protection for our employees and thus set more stringent standards in this area. To tackle the issue, in 2009, the enterprises in the Iron Ore division launched a pilot project to provide higher-quality work clothes and PPE to their employees.

Based on this practice, the Managing Company developed a new standard last year, "Standards of Work Clothes, Footwear and other Personal Protective Equipment for Employees of the Metinvest Group". It covers all production jobs in the Group, determines the level of protection and

quality of PPE, and suggests providing additional protective equipment not covered in the national industry-specific standards.

The project had the following mandatory stages:

- a diagnostic audit, which identified risks and hazards at workplaces;
- development of a list of requirements for PPE;
- analysis of PPE given to employees to check whether it meets the requirements in full;
- development of a list of new PPE that meets the requirements in full;
- on-site and laboratory tests involving a leading industry-specific institute.

When developing the standard, the Company placed greater emphasis on the comfort and ergonomics of the new PPE. In 2011, the Group's enterprises will receive new work clothes and PPE that meet the corporate standard.

knowledge.

In addition, the program has an important social effect:

- trainers have a new, interesting and sought-after job;
- they have the opportunity to earn additional income;
- the programme helps to stimulate retirees and make them feel valued.

At present, Metinvest has 53 internal coaches, and they in turn trained 8,525 employees in 2009-10.

# HEALTH AND SAFETY

## CONTRACTOR RELATIONS

Contractors carry out a lot of work on Metinvest's industrial sites, and any accident that they have could affect our employees and production facilities. We believe that we should work actively with contractors on safety issues. This is not only part of our moral commitment to protect people, working for Metinvest from injuries (irrespective of who they are employed by), but also of our obligation to ensure business sustainability.

To this end, the Group has developed (and will put in place in 2011) the corporate standard "Contractor Job Safety". In line with it, our enterprises interact with contractors before entering into a contract, i.e. at the stage of contractor assessment and selection. Specialists at the enterprises assess potential partners based on compliance with laws and the ability to meet internal corporate requirements imposed by Metinvest.

HSE requirements are included in agreements with the contractors. When deciding about further cooperation, our businesses take into account a contractor's safety level, due care and efforts made to tackle problems.

This interaction continues at the execution stage: we carry out joint audits, check-ups and accident investigations and develop measures to improve safety.

The results of these joint efforts are discussed at regular meetings involving the respective managers of our enterprises and contractors.

## EMPLOYEE HEALTHCARE

The environment in which metallurgists and miners operate differs greatly from ordinary working conditions (due to vibration, high temperature, humidity, confined space, etc). As such, we need systemic approaches to prevent occupational illnesses and maintain employees' health. In the reporting period, we analysed the existing healthcare system to bring it in line with the latest standards and international best practice.

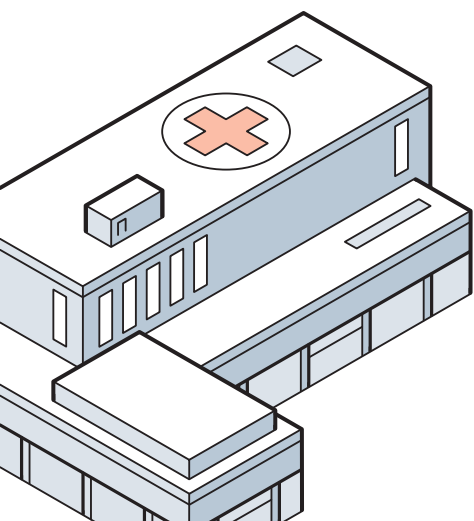
Our conclusion was that certain elements of it are in place at all Group enterprises. At the same time, we found that the following steps need to be taken:

- introducing a common up-to-date standard for emergency aid at the pre-hospital stage;

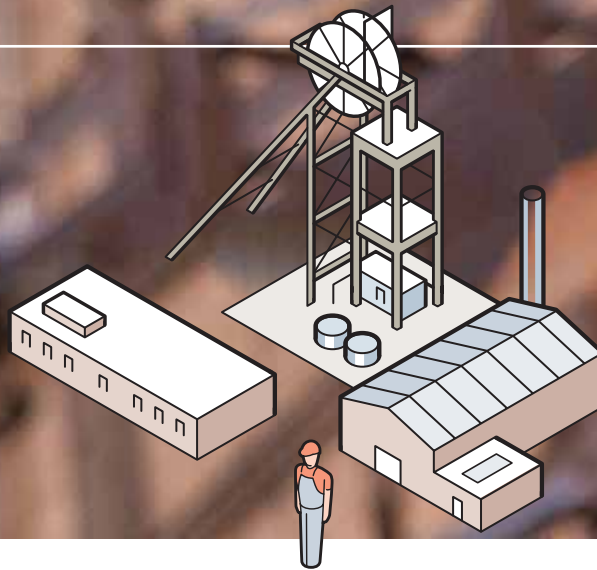
- improving the existing system of initial and regular medical examinations to determine ability to work (cardiovascular diagnostics);
- introducing a cutting-edge system to prevent cardiovascular disease and promote a healthy lifestyle;
- reviewing and adjusting the system for work-related illnesses.

The analysis results underpin the "Strategy for Developing the Healthcare System at the Group Enterprises", which was introduced as a pilot project at Krasnodon Coal in 2010.

Three mines have created 24-hour underground medical stations.

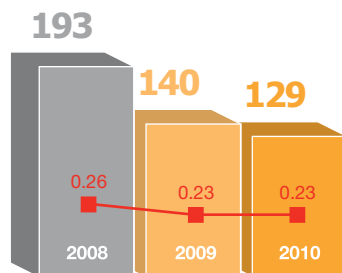






Our moral obligation is to protect people, working at Metinvest production sites, from injuries, irrespective of who they are employed by. As such, we work actively with contractors on safety issues

#### NUMBER OF OCCUPATIONAL ILLNESSES



Ratio of occupational illnesses

All mines will have underground rooms equipped with stretchers, splints and bandages for non-medical staff to provide emergency aid. Surface medical stations are equipped with automated external defibrillators and modern portable first aid bags.

Experts of the R&D Centre for Disaster Medicine have devised an emergency aid training programme for treating heart failures and injuries. Developed in accordance with international standards, it has been adapted for all trainees irrespective of their knowledge and skills in this area. Training courses will be held for medical staff and employees who are near workers in emergencies (foremen, shop managers, etc). In the long term, the Company plans to train all employees working in hazardous areas. In 2010, Krasnodon Coal trained 100 medical officers and launched training courses for 50 office workers (including senior managers).

In 2011, all Group enterprises will conduct such training. The trained medical officers become internal coaches who teach volunteer medical assistants and production workers.

The second element of the strategy suggests measures to prevent cardiovascular diseases and promote a healthy lifestyle. It focuses on raising awareness of managers and employees of the risks related to smoking, obesity, low physical activity, stress, etc. We will draw employees' attention to managing risks that do not require any medical intervention and depend on their knowledge and skills.

The third element of the strategy focuses on improving medical examinations. We will work closely with the Institute for Medical and Social Problems in the Donbass to develop additional rules for preliminary and regular medical check-ups. The approach will include preliminary health assessments for new employees and further occupational health monitoring. The Company has planned measures to improve examinations regarding work ability, health surveys and occupational pathology diagnostics, as well as to prevent disease progression.

#### EMPLOYEE HEALTH PROTECTION STRATEGY

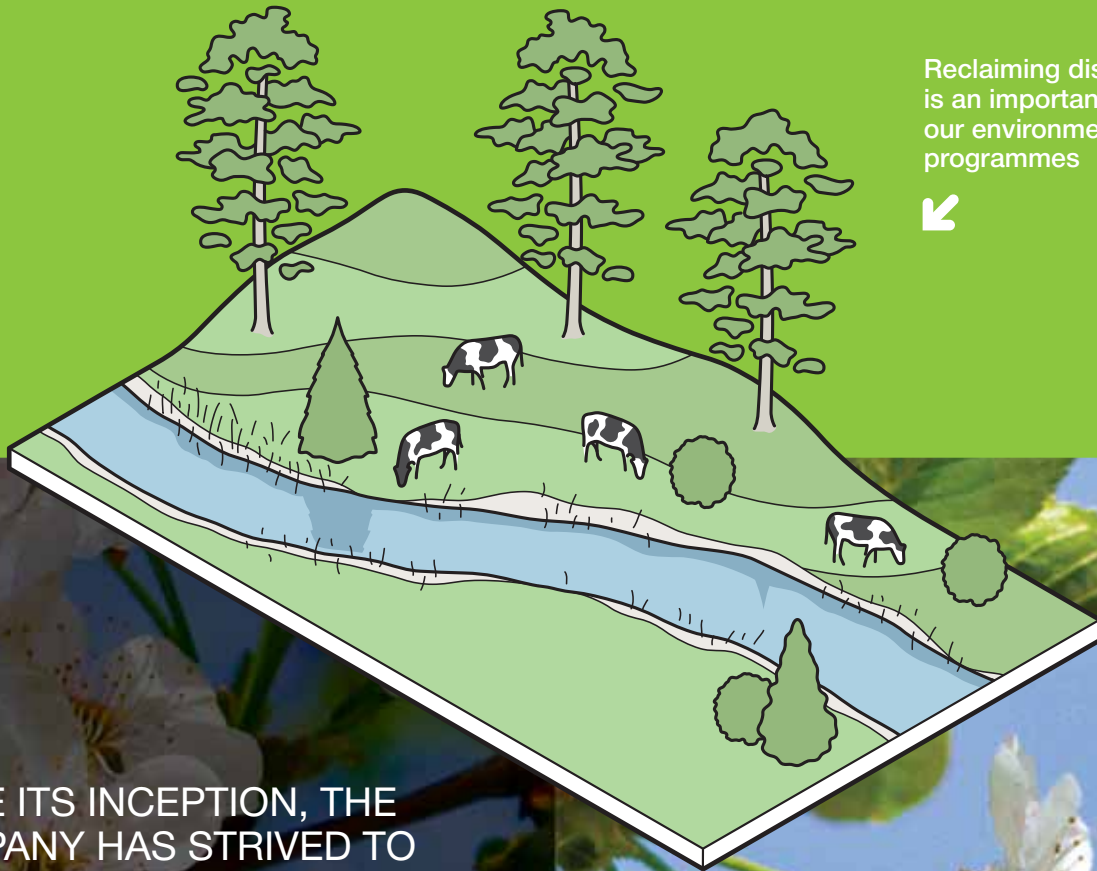
I. Emergency aid	II. Healthy lifestyle promotion	III. Occupational health
<p>Reducing emergency response time</p> <p>Providing the healthcare service with state-of-the-art:</p> <ul style="list-style-type: none"> <li>• equipment</li> <li>• means of connections</li> <li>• transport facilities</li> </ul> <p>Training:</p> <ul style="list-style-type: none"> <li>• medical staff</li> <li>• volunteer medical teams</li> <li>• production workers and office employees</li> </ul>	<p>Screening programmes</p> <p>Thematic campaigns:</p> <ul style="list-style-type: none"> <li>• cardiovascular diseases</li> <li>• smoking</li> <li>• alcohol</li> <li>• physical activity</li> <li>• balanced diet</li> <li>• stress management</li> </ul>	<p>Expanding the schedule of preliminary and regular medical check-ups</p> <p>Using collective protective equipment</p>

# ENVIRONMENT

In 2010, we adopted a methodology for targeted environmental audits, which seek to determine the environmental aspects of our enterprises' activities, communicate information to senior managers, and suggest how to improve the system







Reclaiming disturbed land is an important aspect of our environmental programmes



## SINCE ITS INCEPTION, THE COMPANY HAS STRIVED TO DEVELOP ITS ENVIRONMENTAL MANAGEMENT CONTINUOUSLY

Our strategic approach is to reduce waste generation, emissions and contaminant discharges gradually by improving production processes, optimising equipment operation modes and introducing modern technologies.



SEE NEXT PAGE

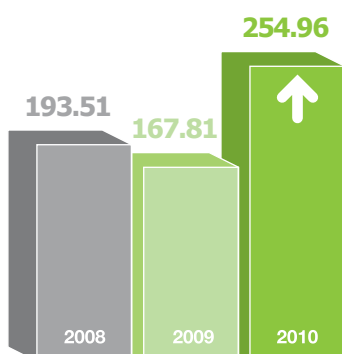
■ FOR DETAILS →



# ENVIRONMENT

## MANAGEMENT APPROACHES

INVESTMENTS IN ENVIRONMENTAL MEASURES, US\$m



As a part of Metinvest's HSE strategy and the integrated management system, environmental management follows the principles adopted for health and safety. Senior executives at all levels – from the Supervisory Board to foremen – are responsible for managing environmental issues through central commissions. During the reporting period, every enterprises in the Group established environmental subcommittees, which began functioning in 2011.

Environmental department helps the Company's executives to fulfil the environmental aspects of the Strategy: set common objectives, develop environmental standards and guide their implementation. Our enterprises deal with specific environmental issues included in their annual environmental protection programmes. This ensures both a systematic and a flexible approach aligned to the particular activities and conditions of each entity.

The production facilities and the Managing Company hold quarterly meetings with environmental managers from all of Metinvest's assets. In 2010, the meetings focused on identifying environmental aspects and planning long-term environmental costs, as well as introducing special measures to improve the efficiency of environmental departments. Working groups consisting of representatives of the Managing Company and enterprises have been established to address the most important issues.

The environmental management systems of the Group's enterprises have been certified to ISO 14000. At the end of 2010, all enterprises of the Iron Ore division, two steel plants (Khartsyzsk Pipe and Yenakiieve Steel) and Inkor Chemicals had compliance certificates.

## ENVIRONMENTAL ASPECTS AND RISKS

Over the past two years, we have closely analysed the environmental aspects of the production cycles at every asset. Based on this, we compiled a register of environmental aspects and assessed and rated them, as well as developed and tested a methodology to determine environmental risks. Following the assessment, the environmental departments at our enterprises introduced the necessary changes and additions to their environmental programmes.

In 2010, we adopted a methodology for targeted environmental audits, which seek to determine the environmental aspects of our enterprises' activities, communicate information to senior managers, and suggest how to improve the system.

Optimising the procedures for obtaining environmental permits and licences is another important area supervised by the Managing Company. We have established a database of permits and licences of all enterprises and monitor every document that is received. The systemic approach is described in the procedure "Organising Work to Obtain Environmental Permits and Licences".

We regularly monitor changes in environmental laws and update our e-library of regulations. We have also developed special e-forms for calculating environmental payments for enterprises in accordance with the new Tax Code.



Alongside the obligatory measures, our enterprises conduct research to prevent risks



## ENVIRONMENTAL CONTROL

Controlling environmental safety is an absolute priority for Metinvest. To meet this objective, we conduct different types of monitoring: analysing air quality at the borders of sanitary buffer zones between businesses and residential areas, water quality, wastewater, the state of water collectors, etc.

Alongside the obligatory measures, our enterprises conduct research to prevent risks. Central GOK engaged the Ukrainian Environmental Research and Development Institute to check its production zone and detect high-risk contamination sources. The work led to suggestions about creating a monitoring and early warning system.

Northern GOK analysed the tailing ponds and dumps of the Pervomaiskiy and Annovskiy open pits and assessed their impact on the air, surface and ground water, and soil. The results

showed that these waste disposal sites provide a high level of protection.

Compared with the previous reporting period, some of the Company's environmental performance indicators increased insignificantly due to the decline in output in 2009 and its increase in 2010. In addition, some indicators increased in 2010 because we expanded the scope of reporting to include two more businesses, Makiivka Steel (MMZ) and Inkor Chemicals. At the same time, our enterprises' environmental programmes have helped to stop emissions and discharges at some sources and significantly reduce them at others. Case studies about reducing our environmental footprint are given further in this section.





# ENVIRONMENT

## AIR EMISSIONS

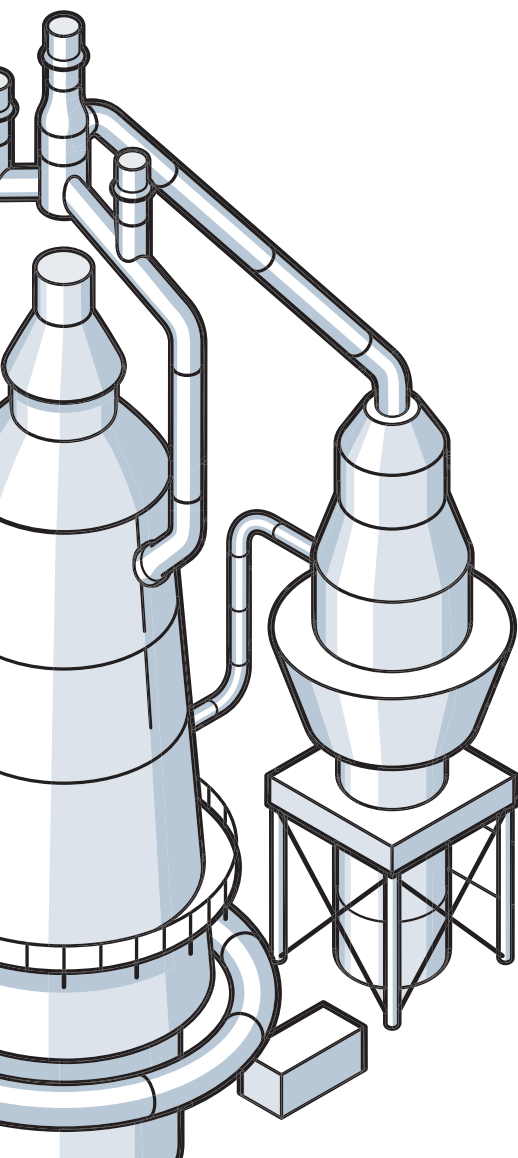
Our ore mining and processing plants have continued their ongoing environmental measures and launched a comprehensive programme to modernise dust-collection equipment. In 2009, Northern GOK installed modern electric filters on the roasting machine in the pelletising shop. The facilities are regarded as one of the best in the world, with a cleaning efficiency of up to 98%. In 2010, the plant started installing a similar filter on the second roaster. These measures were listed in the "Programme to Improve the Environmental Situation in Dnepropetrovsk Region by Reducing Emissions from Major Polluting Businesses in 2007-15".

Meanwhile, our steel and coke plants have overhauled and modernised their facilities and installed new equipment. Khartsyzsk Pipe installed a third induction furnace in place of an outdated gas heating furnace, which allows nitrogen and carbon oxide emissions caused by gas combustion to be removed. Alongside having a significant environmental effect and contributing to greater production efficiency (less time to heat the furnace), the induction furnaces reduce gas consumption.

In addition to investment projects aiming to reduce emissions noticeably or eliminate them completely, the Company attaches great importance to permanently maintaining the efficiency of gas cleaning facilities used in different production cycles. The safe operation of gas cleaners and compliance with emissions limits directly depend on timely and quality repairs. For example, during the reporting period, Azovstal overhauled and repaired its gas cleaning facilities in its blast-furnace and sinter shops, while Yenakiieve Steel rebuilt a gas-exhaust duct in its converter shop.

Meanwhile, Krasnodon Coal focused mostly on preventing spontaneous combustion and extinguishing burning waste rock dumps, preparing them for further reclamation and realising the Kyoto Protocol projects<sup>7</sup>. Extinguishing waste rock dumps will help to stop emissions of carbon and nitrogen oxides, sulphur dioxide and hydrogen sulphide generated during combustion. Krasnodon Coal works constantly on nine operating dumps in close cooperation with R&D institutes and specialist organisations.

For example, the Orekhovskaya mine has reduced emissions of different substances by 17% to 90% (the project is ongoing).



<sup>7</sup>See chapter on Climate Change



Our enterprises' environmental programmes have helped to stop emissions and discharges at some sources and significantly reduce them at others

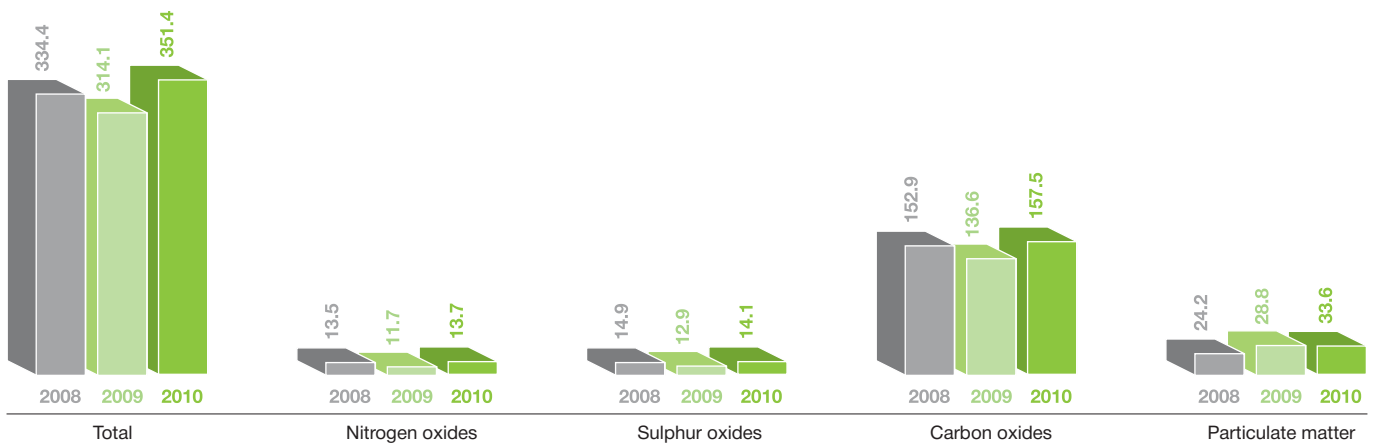


In addition, the Duvannaya mine conducted an experiment to extinguish combustion sources using an innovative method: injecting a clay mud solution to a depth of three metres. The mine will assess the effectiveness of this approach in 2011.

Studying new clean technologies of using coal in boiler houses is an important and promising area.

One technique enables world-leading synthetic composite liquid fuel to be produced from black coal. Metinvest is studying the British programme "Cleaner Fossil Fuels" and techniques for treating chemical coal to derive synthetic fuel. If the Company approves any of these methods, the use of coal in boiler houses will be increased substantially.

#### GROSS AIR EMISSIONS, THOUSAND TONNES



## REDUCING EMISSIONS AT AVDIIVKA COKE

In 2010, Avdiivka Coke completed the construction of coke-gas final cooling facilities (it built three of them over 2008-10), which enabled any contact of contaminated gas with water in the cooling cycle to be avoided. As a result, the enterprise stopped air emissions from its open coke coolers.

The new approach also reduced the workload at the plant's biochemical facilities, where the process water is cleaned, increasing their reliability and

improving the quality of water purification.

The overall results were as follows:

- reduced losses of benzene hydrocarbon;
- no direct contact of contaminated coke gas with recycled water;
- no air emissions during recycled water cooling (the sources of air

contamination were eliminated – cooling towers in two shops);

- no more need to blow dirty water from the recycling system to biochemical facilities at 80 m<sup>3</sup>/hour.

The technology reduced chemical emissions by over 2,000 tonnes of a year.

# ENVIRONMENT

## WATER MANAGEMENT

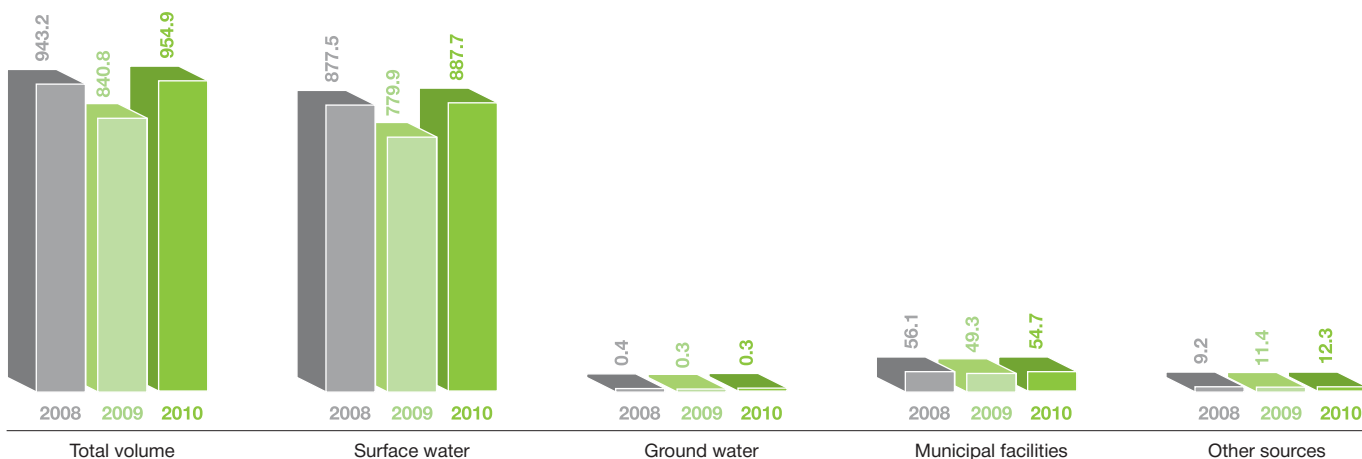
Our enterprises source water mostly from surface reservoirs and central water supply systems. Most of the water is used in recycling processes and to cool equipment without exposure to contamination.

To avoid consuming water from surface sources and discharging wastewater into them, Northern GOK has a water supply recycling system in place. The water is sourced from a special pond with clarified water channelled from the tailing dump. To ensure that this system

operates stably, the plant installed a new pump house for recycling water in 2010. All water pipes have meters to measure the actual volume of process water supplied.

Some water is used in the production process. The wastewater generated goes through several cleaning stages and is then discharged into open-air water facilities.

WATER CONSUMPTION, MILLION CUBIC METRES



## REDUCING THE ENVIRONMENTAL IMPACT ON SURFACE WATER

Reducing the impact of production processes on the Sea of Azov is of particular importance for Azovstal.

The enterprise's main actions aim to optimise the use of sea water in

production and increase wastewater cleaning. In particular, the plant stopped using sea water to cool its batch furnaces, optimised sea water consumption by gas cleaners of blast furnaces, and switched some production components to process water.

For mechanical wastewater treatment, the plant uses a sludge dump, which removes suspended substances and oil products via a settlement process, as well as cleans and conducts



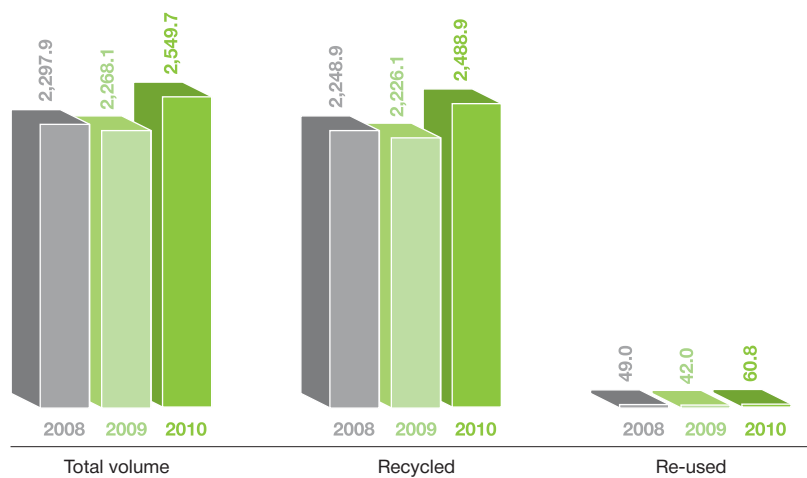
## STUDYING NEW CLEAN TECHNOLOGIES OF USING COAL IN BOILER HOUSES IS AN IMPORTANT AND PROMISING AREA FOR THE COMPANY

In 2009 and 2010, we discharged 770 and 876 million cubic metres of wastewater, respectively. Metinvest understands that wastewater from its facilities has a negative impact on water bodies, including the Sea of Azov. To reduce this footprint, our enterprises apply technical solutions and different types of multi-stage wastewater cleaning (mechanical, biological, electrochemical, etc).

To clean mine water discharged into the Bolshaya Kamenka river, Krasnodon Coal uses a complex of purification facilities, which are able to clean 69% of water at the Barakov mine and 76% at the Orekhovskaya mine.

Each year, the Krasnodon Coal develops an action plan to reduce the content of suspended matter. In 2010, it cleaned settlers and catch facilities of settlement ponds, thus improving the efficiency of the cleaning facility by 30% by ensuring an equal supply of water for purification during the day. As a result, the time that the water remains in the pond has increased.

VOLUME OF REPEATEDLY RECYCLED AND RE-USED WATER, MILLION CUBIC METRES



Laboratories at our enterprises regularly measure the quality of mine water discharged from all water outlets into the Severskiy Donetsk and Bolshaya Kamenka rivers. Specialists from the municipal sanitary administration also take samples of the mine water for chemical and bacterial analysis.

secondary treatment of wastewater received from the blast-furnace plant, converter and rolling shops. The settled sludge is taken from the dump and used as secondary iron ore material at the sinter plant. The integration of Ilyich Steel into the Group in 2010 significantly increased the extraction and dispatch of iron sludge to the asset's sinter plant. Annual sludge consumption totals 375,200 tonnes, which is much more than Azovstal can produce. This reduces waste disposal at the plant

and makes sludge removal from the dump more efficient.

Biochemical treatment of wastewater in the coke production shop is performed at a biochemical unit with the help of microorganisms in special aerated facilities. The microorganisms make contact with pollutants in the wastewater and destroy them with biological catalysts. All of the cleared water (100%) is used to extinguish coke and is not discharged into natural water bodies.

A laboratory certified to protect air and water regularly monitors the quality of the wastewater discharged into the Sea of Azov. It does this by measuring the concentration of pollutants in samples taken in line with the standards established by the Ministry of Environmental Protection of Ukraine.



# ENVIRONMENT

## WASTE MANAGEMENT

The largest part of the waste generated by our coal, ore and steel plants is non-hazardous (99.97% belongs to class 4). At the same time, its disposal requires land, which can otherwise be used for beneficial purposes.

We manage waste by minimising the environmental footprint of disposal sites with the help of new solutions, using waste in our production processes, and transferring waste to third parties for further use.

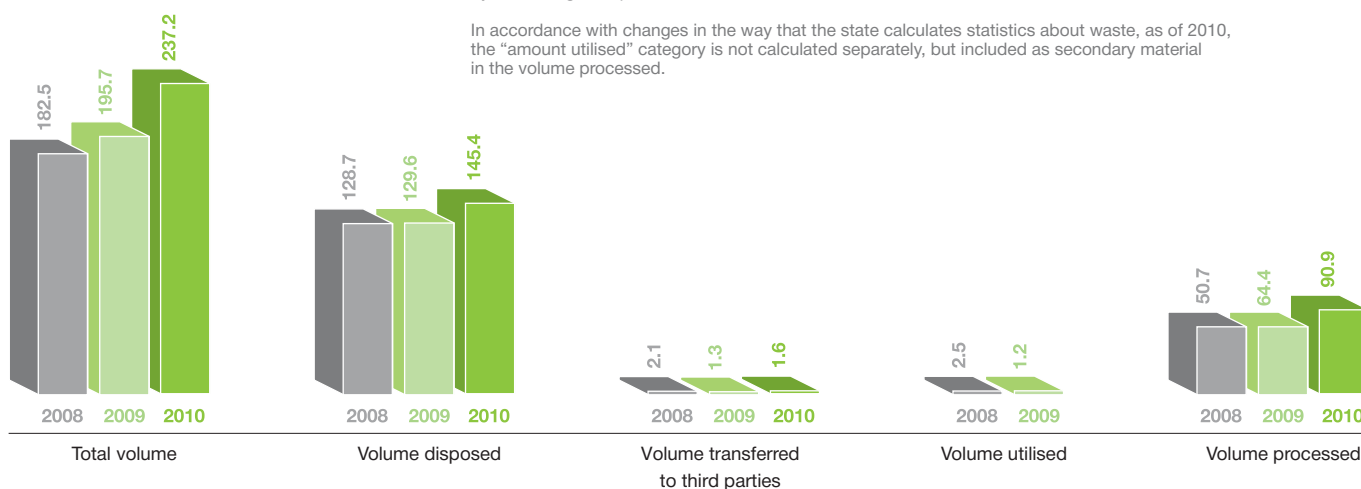
Since 2010, Metinvest has applied a system-wide approach to treating and recycling slag (solid waste) generated in the steelmaking process. We have launched a strategic project called MONTIS (mountain in Latin) to eliminate slag stored in waste dumps and optimise the process of treating and recycling hot slag.

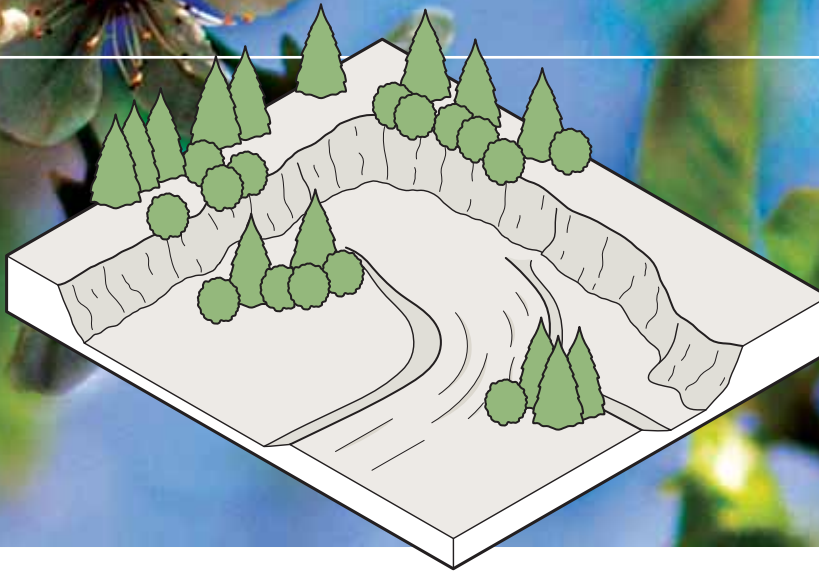
This long-term project comprises several steps. At the first stage, we will

choose a partner with the necessary expertise in recycling different slag (dump, hot, etc). In 2011, we plan to launch a pilot project at Makiivka Steel (MMZ) to gauge the effect of the technology and confirm estimated data. Metinvest will use the latest slag treatment equipment from international producers. MMZ was chosen for the pilot project because it has the largest volume of dump slag in the Company.

If the results are successful, other steel mills in the Group will take part in the project. The objective of the next stage is to process all of the hot slag generated in the daily operations of our plants. At the same time, we will deal with treating the slag on our waste dumps. The scope of this activity depends on many factors, primarily whether our partner can develop a sufficient market to sell the treated products. As such, we also see MONTIS as an opportunity to create a recycled resources market for the

### VOLUME OF WASTE, MILLION TONNES





In 2009-10, Metinvest reclaimed 35.7 hectares of land in Kryvyi Rih and Krasnodon

construction sector and to support the development of small and medium-sized enterprises in Ukraine.

In addition, in the reporting period, our assets continued all long-term waste treatment programmes and activities outlined in the first social report (pre-concentration of iron-bearing sand at Central GOK; planting trees and grass on Avdiivka Coke's waste dumps; operating the AMCOM facility at Azovstal; reclaiming open pit no. 2 at

Central GOK).

Our enterprises also implemented investment projects to study how they can use waste and reduce the volume generated.

In 2010, Ingulets GOK started an investment project to determine whether processing its oxidised ore makes sense. It plans to conduct a range of studies involving international specialists in 2011 and then develop a

feasibility study in 2012. According to the results of the feasibility study, Ingulets GOK will decide whether to modernise its processing shops to ensure the integrated use of raw materials and use oxidised quartzite in its treatment cycles, which is not processed in Ukraine at present.

## RECLAIMING LAND AND GREEN PLANTING



Waste rock dumps reclaimed by Krasnodon Coal

At the end of the reporting period, the Company had 104.8 hectares of land for reclamation<sup>8</sup>. Reclaiming disturbed land is an important aspect of our environmental programmes. To reduce the amount of it, Metinvest applies the following methods:

- backfilling mined open pits;
- reshaping the waste rock dump with further reclamation;
- covering the area with plants and grass.

Ore mining plants continued their long-term programmes to reclaim open pits in Kryvyi Rih, rehabilitate the land disturbed by open mining and reduce the area allocated for disposal dumps. Trees and shrubs will be planted on the land reclaimed from open pits.

In 2010, Northern GOK reclaimed the openings at the Pervomaiskaya mine, thus reducing the amount of overburden rock by 6.05 million tonnes. Ingulets GOK conducted a technical

and biological reclamation of 9.88 hectares, laying fertile soil and planting 40,000 trees. In addition, reclamation of open pit no. 2 with overburden rock from the Gleyevatskiy open pit allowed Central GOK to store 1.24 million cubic metres of overburden rock in 2010 alone. The pit stores all of the waste produced by Gleyevatskiy, saving 140 hectares of land.

Krasnodon Coal has reclaimed land after drilling degasification holes in the mines of the Samsonovskaya-Zapadnaya mine. Before drilling, it removed and stored the upper fertile layer. Once the hole is no longer in use, the land is reclaimed and acknowledged as suitable for further use as intended.

<sup>8</sup>Land subject to reclamation is land on which economic activity has ceased and which should be reclaimed under dedicated projects (by law, it must be transferred to the land reserve).

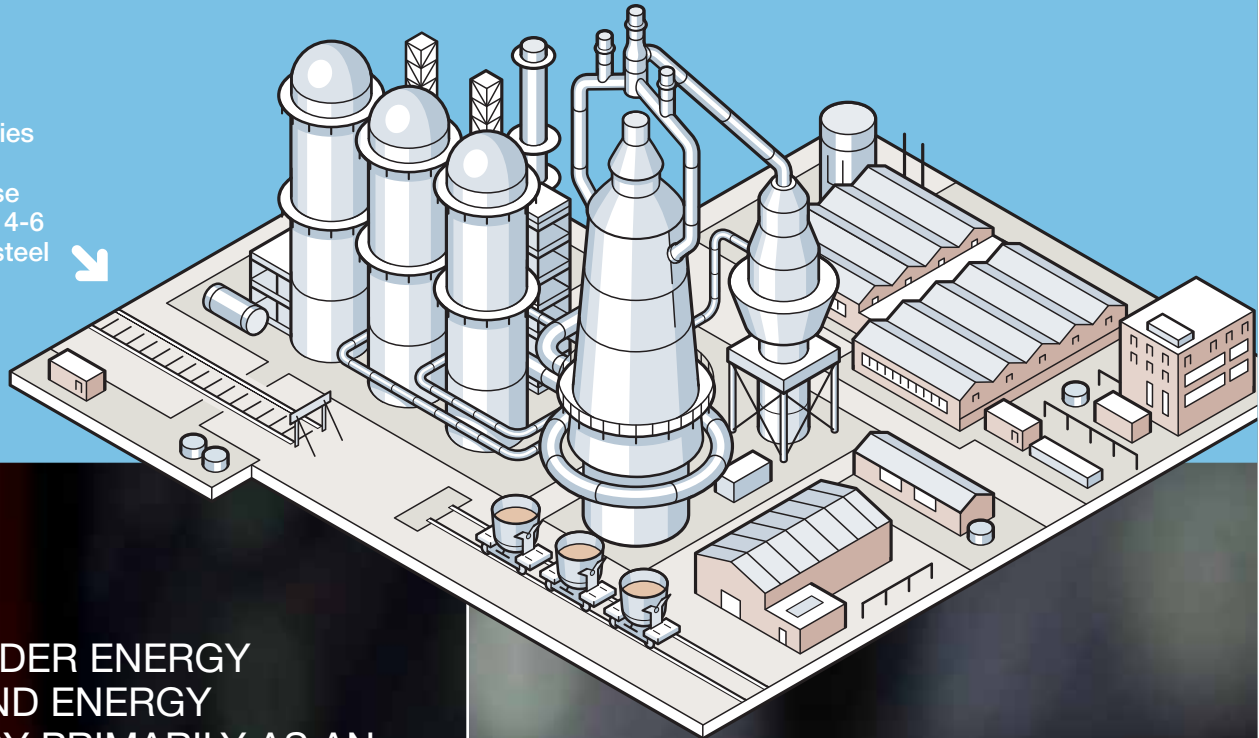
# ENERGY EFFICIENCY AND ENERGY SAVING

One important innovation was setting up energy committees comprising representatives of the Managing Company and enterprises. They hold meetings to consider investing in energy-saving measures and analyse their consistency





Key scheduled projects to modernise our production facilities are expected to reduce energy use by an average of 4-6 GJ per tonne of steel



## WE CONSIDER ENERGY SAVING AND ENERGY EFFICIENCY PRIMARILY AS AN INDISPENSABLE MEANS TO ACHIEVING OUR STRATEGIC OBJECTIVE OF IMPROVING THE OPERATING EFFICIENCY OF PRODUCTION CYCLES

Lower fuel consumption also has a major environmental benefit.

In the foreseeable future, the global trend in steel and mining industries towards lower energy consumption will affect the competitiveness of businesses. Amid energy price hikes and greater demand, metals and mining companies will have to look for solutions.



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# ENERGY EFFICIENCY AND ENERGY SAVING

## ENERGY EFFICIENCY PRIORITIES

Investments in energy  
saving in 2010

**US\$62.1m**

All of our assets develop and implement energy saving projects each year. Our key focus is the overall modernisation of our mining and steel businesses. The new Technology Strategy will determine concrete technical and technological solutions to reduce the energy intensity of production facilities.

Energy intensity in steelmaking depends on the technology applied and the ratio of the materials used. In general, our facilities use over 70% of all energy (including process fuel) to make pig iron, the major energy resources being coke and natural gas.

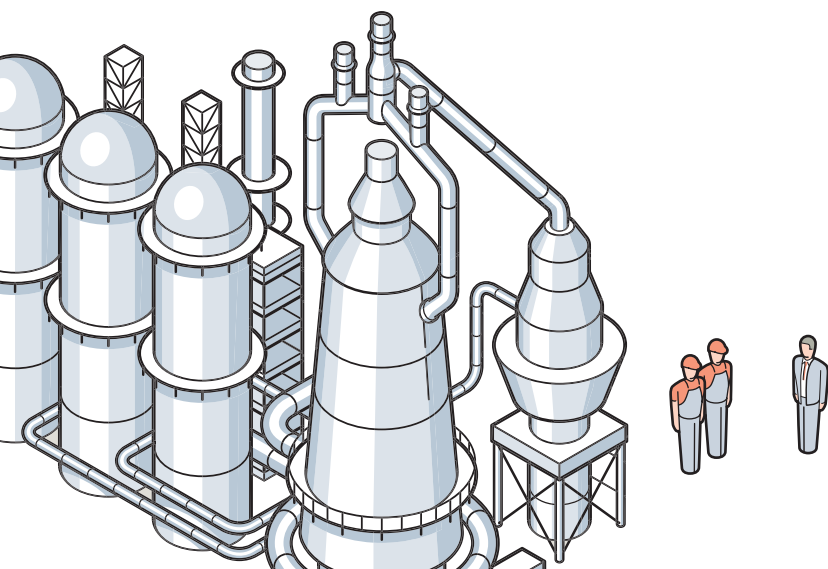
In the reporting period, the Steel and Rolled Products division focused on improving energy efficiency management. Its single methodology for assessing energy consumption at its enterprises is based on the EU approaches detailed in the document "Best Technologies for Energy Efficiency". Yenakieve Steel was the first to test the methodology. In particular, it determined the production stages where the main and indirect losses occur and where positive results are achieved.

Following the pilot project, the division approved a methodology for identifying the energy density of products across its business units. According to the document, the division:

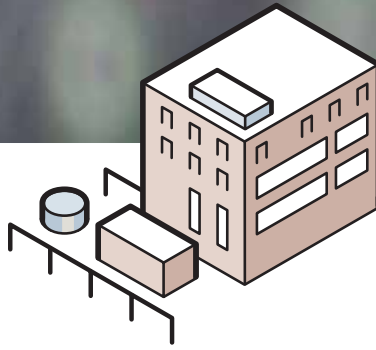
- analysed its energy consumption by purchased fuel resources over the past decade;
- determined the factors that significantly influence changes in energy intensity and began to develop a strategy to meet the highest European standards;
- set key performance indicators for enterprises for 2011.

Divisional managers monitor changes in energy consumption for each end product and control their influence on the aggregate indicator across the business units.

The division also approved a common form for describing the energy saving programmes of its assets. From 2011, long-term strategic energy saving measures will be included into division investment programmes.



The new Technology Strategy will determine concrete technical and technological solutions to reduce the energy intensity of production facilities



One important innovation was setting up energy committees comprising representatives of the Managing Company and enterprises. They hold meetings to consider investing in energy-saving measures and analyse their consistency.

In contrast to steelmaking, the enterprises of the Coke and Coal division have two different processes: producing coke and chemicals and mining coal. As such, their energy efficiency is improved in different ways. The division sets common goals that the enterprises align to their specific environment.

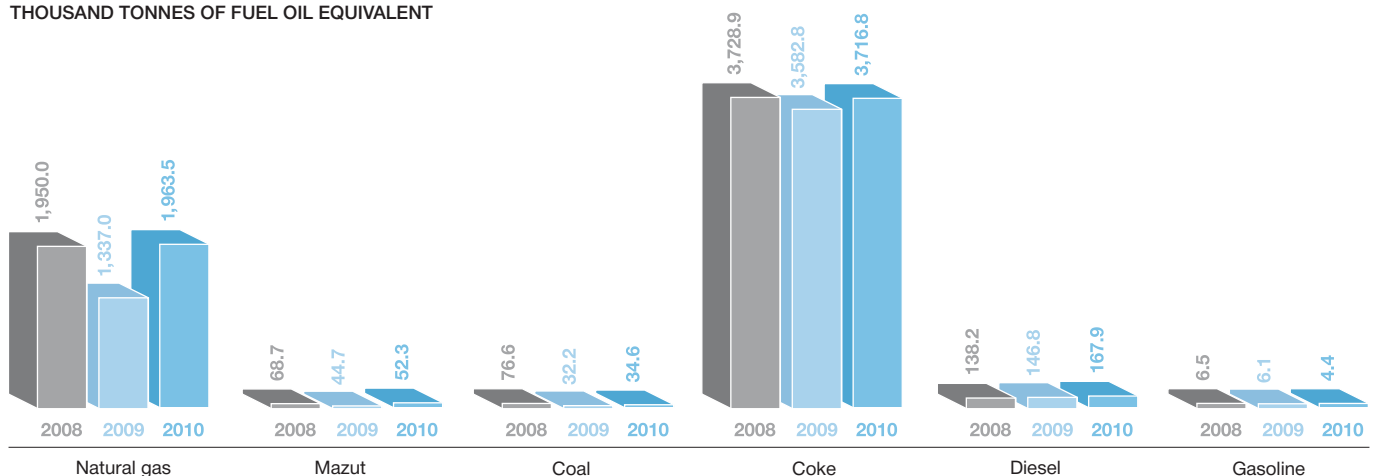
One of the objectives in coke production is increasing the efficiency of coke gas use. This secondary energy resource is produced during high-temperature coking of coal. At the date of publication, the Coke and Coal division had begun to develop a programme to maximise profits from

the use of excess coke gas. We are analysing several options for using it as an energy resource at the coke facilities (to produce electricity or use instead of natural gas in direct-reduced iron production) as well as an energy source at the steel businesses.

Another energy source is hot coke, which emits steam if cooled in coke dry-quenching plants. The steam can be used to produce electricity and thus recycle around 80% of the heat, which is otherwise lost.

Electricity is saved through greater efficiency of the combined heat and power (CHP) plant. Steam condensers are installed on turbine generators, increasing the capacity of the turbine and allowing more steam to be exploited.

DIRECT ENERGY CONSUMPTION,  
THOUSAND TONNES OF FUEL OIL EQUIVALENT





# ENERGY EFFICIENCY AND ENERGY SAVING

Energy saved as a result  
of energy efficiency programmes  
in 2009–2010:

## 61,323

**MW/HOUR**

electricity

## 311,958

**GJ**

thermal energy

## 3,180,426

**GJ**

fuel

Many electrical devices are used in coal mining (fans, water pumps, transport, etc). Krasnodon Coal's primary objective is to minimise energy expenses (in terms of cost and in absolute figures), which it does by enhancing the performance of fixed equipment at mines and optimising the operations of coal preparation plants. For example, the Duvanskaya coal preparation plant saved 1,361,000 kWh annually by installing energy-efficient electrical equipment. One particular focus for the enterprise is recycling methane as part of Kyoto Protocol projects (for more information, see the section on climate change).

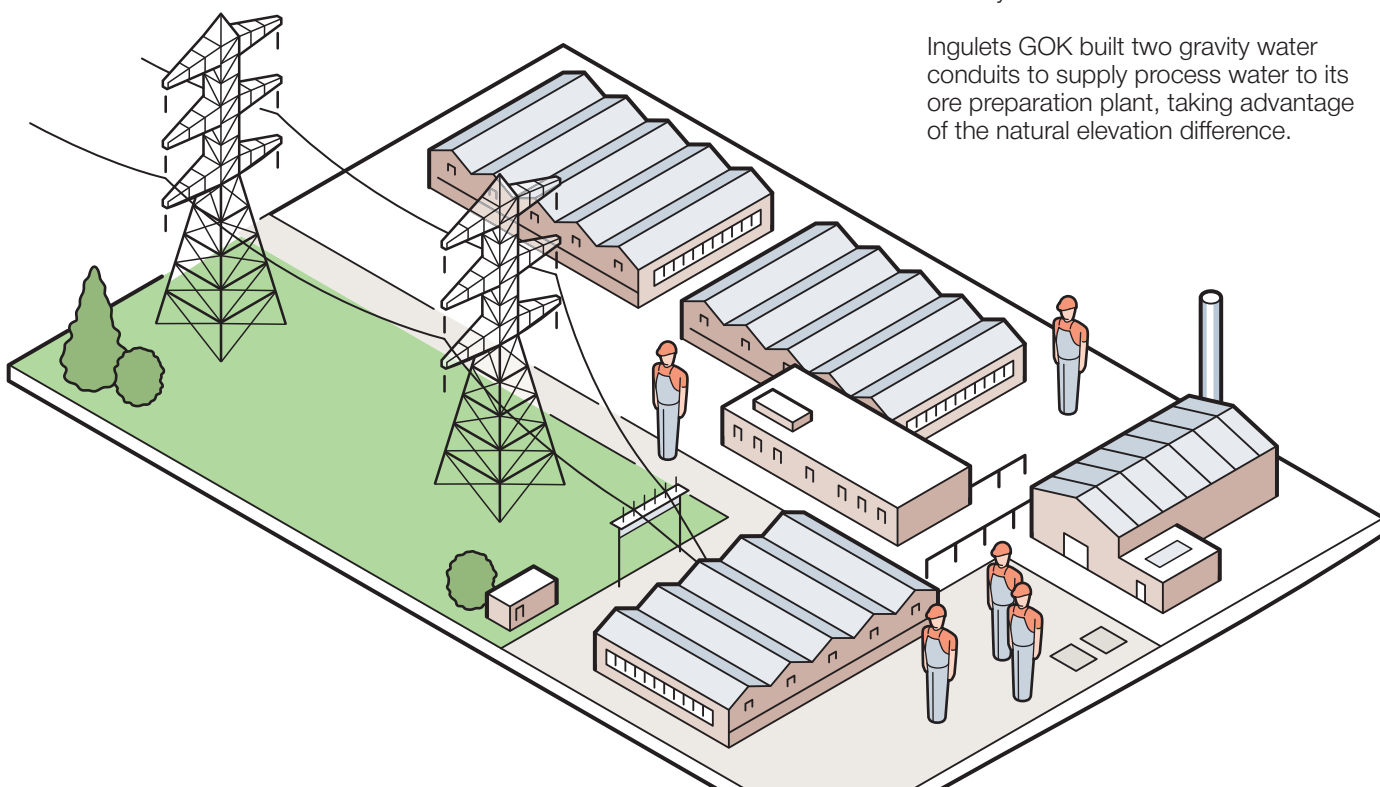
Pellet production is the most energy-intensive process at ore mining plants (the specific energy density of the product requires 95–140 kWh per tonne of concentrate).

Together with electricity (45–55 kWh/tonne), the pellet firing process consumes a lot of natural gas (11.5–19.5 cubic metres per tonne). Greater requirements for product quality (content of iron in the concentrate) and more complex mining conditions affect energy consumption indicators at ore mining and processing plants.

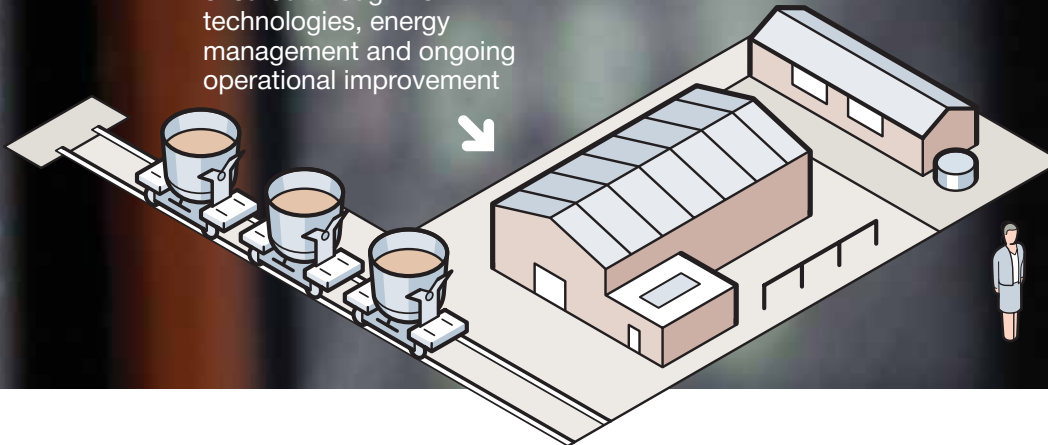
At the same time, unlike the steel businesses, ore mining technologies cannot be dramatically modernised. As a result, energy efficiency is ensured through energy management and ongoing operational improvements in the production processes.

For example, Central GOK and Northern GOK launched an experiment to replace steel coating with rubber coating on ball mills at the second and third crushing stages. The project does not involve any additional financial cost and reduces electricity consumption at mills by 5–7%.

Ingulets GOK built two gravity water conduits to supply process water to its ore preparation plant, taking advantage of the natural elevation difference.



Energy efficiency is ensured through new technologies, energy management and ongoing operational improvement



#### INVESTMENT PROJECTS AT AVDIIVKA COKE:

→ rebuilding the quenching unit in coke dry-quenching facility no. 3 will deliver 22.5 tonnes of power-generating steam an hour, or 3,750 kWh of electricity

→ installing an oil heating system on the electrode pitch granulation machine will yield an additional 1,000 kWh

#### INVESTMENT PROJECTS AT KRASNODON COAL:

→ an automated electricity metering system has been introduced that can measure electricity usage differentiated by day hours. It saves US\$ 1.3 million a year

This allowed some of the water to be delivered without using the pump house of the recycling water supply system, meaning that two pumps, with electric drives of 1600 kW and 1000 kW, could be placed on standby. As a result, the plant saved 22.3m kWh of electricity.

To cut consumption of natural gas, Northern GOK is upgrading its roaster. Its specific gas consumption has fallen by almost 2 cubic metres per tonne of products, or around 4 million cubic metres per year. At the second stage of implementation (in 2011), the enterprise is going to reduce its specific consumption by another 2 cubic metres per tonne.



Construction of two gravity water conduits to supply process water to the ore preparation plant in Ingulets GOK



# CLIMATE CHANGE



We regard Metinvest's work on Joint Implementation Projects (JIPs) as our contribution to meeting the Kyoto commitments of Ukraine: in 2008-09, the country topped the Point Carbon JI country rating



We expect to reduce greenhouse gas emissions by over 8 million tonnes of CO<sub>2</sub> equivalent, equal to 7 million MW/hour or 2.5 million tonnes of coke



## METINVEST RECOGNISES THE IMPORTANCE OF CLIMATE CHANGE

and intends to contribute significantly to resolving it.

We view joint implementation projects (JIPs) as an efficient way of minimising our environmental footprint.

Projects aimed at reducing greenhouse gases open new opportunities to both Metinvest and society. By implementing JIPs, we can minimise our environmental footprint, raise additional investment to modernise production, introduce energy-saving technologies at steelmaking facilities, improve H&S, and use alternative fuel (coalmine methane) at coal mining enterprises.



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# CLIMATE CHANGE

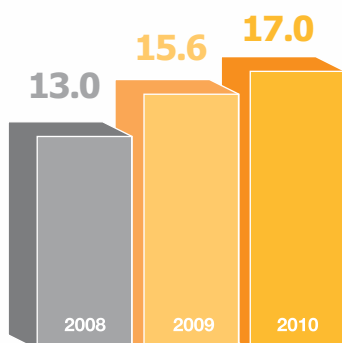
## JOINT IMPLEMENTATION PROJECTS

Since 2003, the Group has invested over

**€620<sub>m</sub>**

in JIPs

GREENHOUSE GAS EMISSIONS IN CO<sub>2</sub> EQUIVALENT, MILLION TONNES



The rise in greenhouse gas emissions in 2009 was due to the inclusion of new sources that had not been identified during the calculation in 2008.

In the reporting period, two divisions – Coke and Coal, and Steel and Rolled Products – implemented different stages of 10 JIPs. As regards coal projects, the Kyoto element is of paramount importance: most of the projects would not have been conducted but for Kyoto investments (for example, burning methane at the flare), as they would not have been profitable without the funds obtained from selling emission reduction units.

The main projects at Krasnodon Coal focus on dust catching and utilising coalmine methane to generate electricity and heat. The Sukhodolskoye-Vostochnoye mine launched a JIP back in 2006 (as detailed in our first social report), and it is expected to reduce greenhouse gases by around 300,000 tonnes of CO<sub>2</sub> equivalent overall by the end of 2012. At the first stage of the project, the enterprise received €598,000 following verification of the reduction in emissions, which took place in 2006-08. The buyer of the carbon credits was ING Bank (Holland). The proceeds will be used to develop degasification systems and improve occupational safety.

Under an EU programme, the Samsonovskaya-Zapadnaya mine developed a project to utilise coalmine methane through flare units to generate heat and electricity.

Our steelmaking facilities account for 80% of the reduction in greenhouse gases across the Group, so implementing JIPs at them is of strategic importance. Revenues obtained as a result of JIPs help to mitigate risks and overcome the barriers to implementing new technologies. Key activities being implemented within

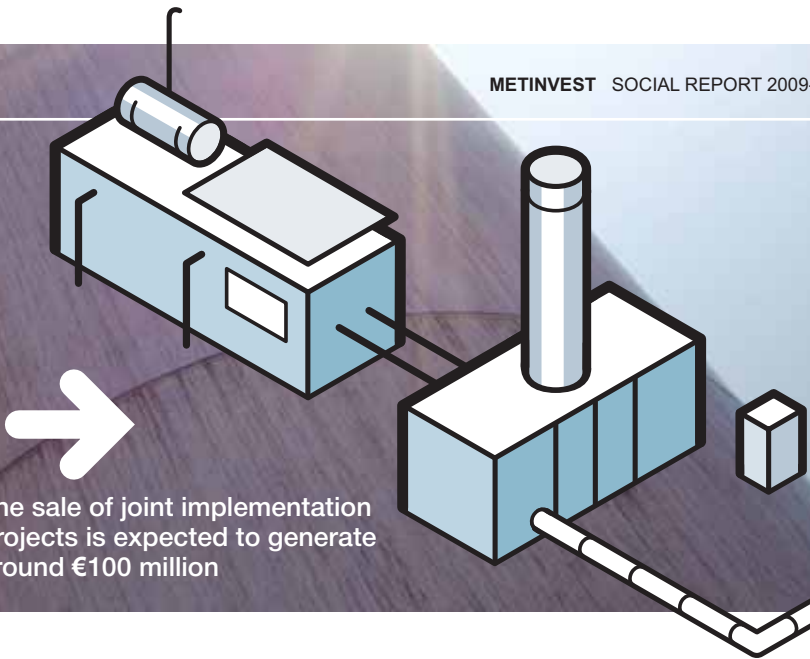
the framework of JIPs by our steelmakers (Azovstal and Yenakiieve Steel) include:

- modernising and reconstructing blast furnace shops (the key area, which reduces the specific consumption of coke per tonne of pig iron produced)
- upgrading oxygen shops
- modernising energy-generating facilities, etc

Azovstal has been implementing these activities since 2004 and Yenakiieve Steel since 2007. In 2009-10, all formal procedures were finalised. Following approval from the National Environmental Investment Agency of Ukraine, the projects were registered in early 2011.

We regard Metinvest's work on JIPs as our contribution to meeting the Kyoto commitments of Ukraine: in 2008-09, the country topped the Point Carbon JI country rating.





The sale of joint implementation projects is expected to generate around €100 million

The Group plans to continue implementing JIPs through 2012 (the Kyoto protocol period). In the long term, we also plan to keep implementing the projects under international rules, which will be applied after 2012.

We believe that the carbon market will continue to develop, despite the expiry of the Kyoto Protocol in 2012. For example, local and regional emission trading markets are in place and still new markets emerge.

We see real opportunities for Ukrainian emission reduction projects participating in European emissions trading after 2012 via bilateral agreements between Ukraine and the EU. We are also confident that the use of flexible market mechanisms to implement Kyoto principles is one of the most effective tools to combat climate change.

#### GREENHOUSE GAS REDUCTION THROUGH JIPs METINVEST STEELMAKERS IN CO<sub>2</sub> EQUIVALENT, MILLION TONNES

	2004-07 (early emission cuts, verified)	2008-12 (Kyoto period, expected reduction <sup>a</sup> )	2008 to the first six months of 2010 (verified)
Azovstal	4.7	4.5	2.6
Yenakiieve Steel	0.3	2.2	0.9

Source: JIP design documents and verification reports prepared by independent international auditors

<sup>a</sup>Emission reduction unit is equal to one tonne of CO<sub>2</sub>

#### INTERNATIONALLY VERIFIED GREENHOUSE GAS REDUCTION (WITHIN THE SCOPE OF THE JIP PROJECTS) IN CO<sub>2</sub> EQUIVALENT, MILLION TONNES

	2004-07 (early emission cuts)	2008	2009	2010 (six months)
Emission reduction	-	1.4	1.0	1.2
Overall volume in the period, verified	5.0		3.6	

## JOINT IMPLEMENTATION PROJECT AT YENAKIIIEVE STEEL

As part of a JIP, Yenakiieve Steel plans to modernise blast furnaces, implement pulverised coal injection technology, rebuild a central heat and power plant and steam blower, install a Linde oxygen block, and build a new compressor. As a result, production

will require less coke, natural gas, electricity and other resources and materials, while the volume of greenhouse gases will decrease.

All national and international approval procedures needed for the project were completed in 2011. The National Environmental Investment Agency of Ukraine issued a letter of approval to Yenakiieve Steel on January 26, and the project was registered on February 24. Bureau Veritas, an independent, UN-accredited international

organisation, verified the reduction in emissions as 1.2 million tonnes of CO<sub>2</sub> equivalent obtained over 2007-10 (six months of 2010). The potential revenues from selling these emission reduction units are over €10 million.

Over 2007-12, emission cuts from implementing the Kyoto project at Yenakiieve Steel are expected to total 2.5 million tonnes of CO<sub>2</sub> equivalent, worth over €25 million. The enterprise plans to use the funds to finance energy efficiency and energy-saving programmes.

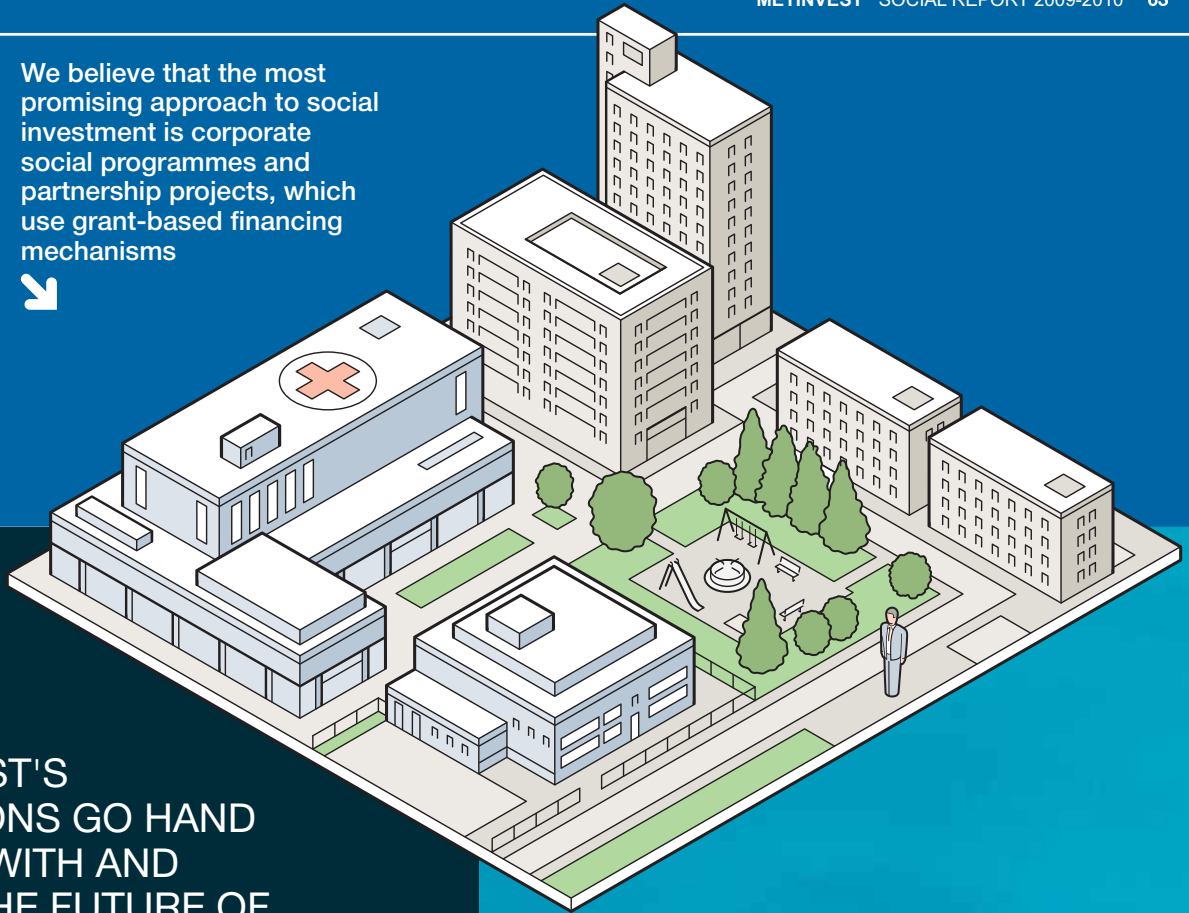


# SOCIAL INVESTMENT

Metinvest has always helped local communities by financing their needs. Despite the challenging economic situation, we have continued to provide this support



We believe that the most promising approach to social investment is corporate social programmes and partnership projects, which use grant-based financing mechanisms



## METINVEST'S OPERATIONS GO HAND IN HAND WITH AND DEFINE THE FUTURE OF THE VARIOUS TOWNS AND CITIES WHERE THE GROUP'S ENTERPRISES ARE MAJOR EMPLOYERS

This is of paramount importance for the Company, as responsibility to local communities also means responsibility to our employees.

METINVEST'S SOCIAL GOAL IS TO ACHIEVE THE FOLLOWING PUBLICLY IMPORTANT OBJECTIVES:

- create jobs and raise living standards in the regions where we operate
- implement modern management standards in activities related to social projects and programmes
- develop the competitiveness of the areas where we are present
- raise the quality of human capital



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■ FOR DETAILS →

# SOCIAL INVESTMENT

## THE PRIMARY AREAS OF METINVEST'S SOCIAL INVESTMENTS INCLUDE:

- social infrastructure development
- healthcare
- education
- culture and sports

In 2010, our Ukrainian enterprises employed over 67,000 people. Together with their families, they account for around one third of a million Ukrainian citizens. In Yenakieve, for example, one in six families is somehow connected with Yenakieve Steel. In this light, we are interested in increasing the social welfare of the people who live and work with us.

Metinvest's social goal is to achieve the following publicly important objectives:

- create jobs and raise living standards in the regions where we operate;
- implement modern management standards in activities related to social projects and programmes;
- develop the competitiveness of the areas where we are present;
- raise the quality of human capital.

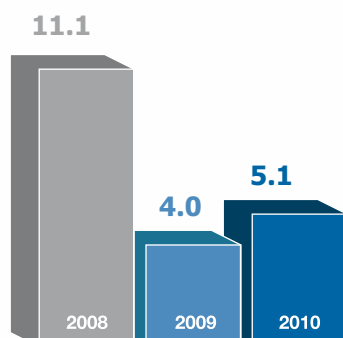
The Company does not regard social investment as charity: for us, it means economically viable participation in the life of local communities. This influences various public and private areas, as well as creates social and economic benefits for a wide range of stakeholders.

We believe that our investments should be in line with the Company's business goals and the long-term strategy and have a comprehensive effect (economic, social, and environmental). To ensure this, we have a systemic approach in place to deliver sustainable achievements, which can be applied to other areas and target groups.

For us, it is important that social investments are focused on implementing modern social technologies and solving real problems in which all stakeholders have an interest and wish to participate in the projects planned.

## SOCIAL INVESTMENT STRATEGY

### SOCIAL INVESTMENTS, US\$m



Metinvest has always helped local communities by financing their needs (for example, we buy medical equipment for municipal hospitals or improve city areas at the request of local councils). Despite the challenging economic situation, we have continued to provide this support: in 2009-10, our social investments totalled over US\$ 9.1 million.

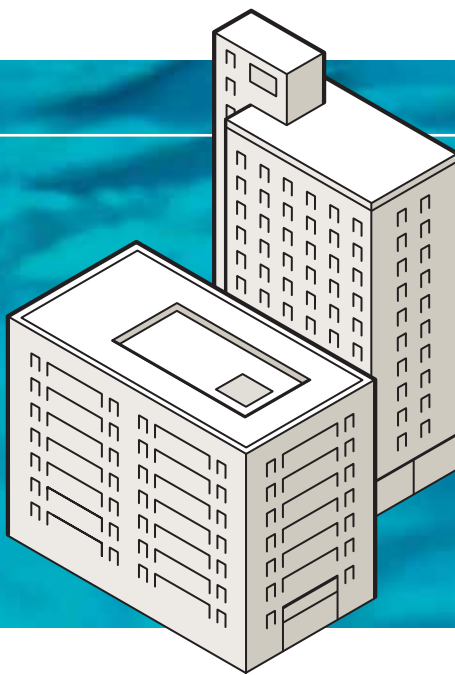
In the reporting period, our priority was to elaborate a plan for gradual changes in the social investment management system to boost its quality. In 2009, we analysed the approaches and social models used by our assets and assessed their strengths and

weaknesses. Based on the results for 2010, the "Strategy for Increasing The Efficiency of Social Investments to 2015" was developed.

Our immediate objective is to introduce a single approach to social investment at all enterprises and to switch from one-off initiatives and short-term projects to a systemic method using transparent and understandable mechanisms. One-off financing (for example, purchasing goods and services for third parties) is considered a transitional form of support for local communities.

The fall in social investments in 2009-10 compared with 2008 was due to the completion of major investment projects in Kryvyi Rih. As of 2009, the term "social investment" includes all types of assistance given to third parties.





We intend to help municipal authorities and public organisations to expand their opportunities and improve skills to manage or participate in the social development of their cities

## STRATEGY IMPLEMENTATION MECHANISMS

To implement the Social investment strategy, a task group comprising representatives of Metinvest's key businesses was established. Its primary objective is to implement modern approaches to social investment and develop new corporate social programmes.

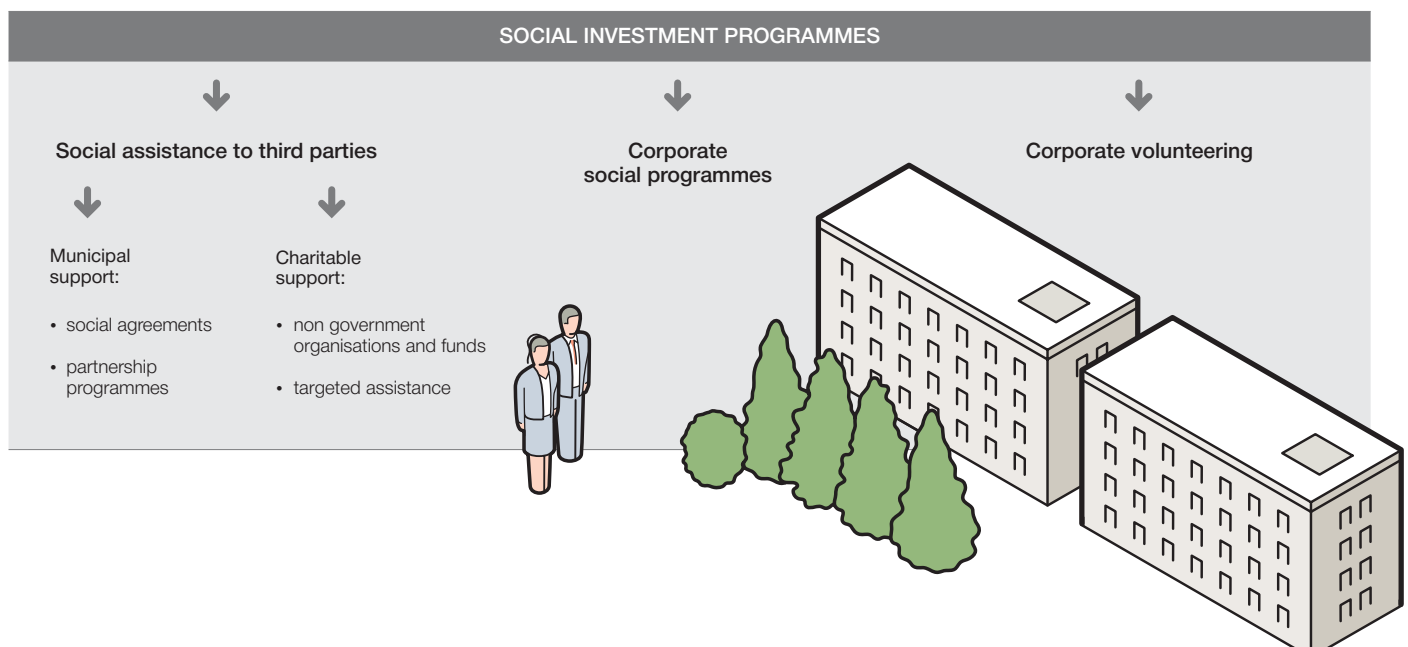
The group developed a single format for social investment budgets and drafts of social investment regulations and policy (both documents are subject to approval in 2011). As a result, enterprises will keep implementing programmes for social assistance to third parties using a more transparent and systemic approach.

Today, Metinvest uses several forms of social investment and is gradually switching to new advanced programmes, which envisage long-term development and more active engagement of people in the process.

As such, we are striving to ensure the most efficient distribution of resources by tackling the most pressing issues. We also intend to help municipal authorities and public organisations to expand their opportunities and improve skills to manage or participate in the social development of their cities.

We believe that the most promising approach to social investment is corporate social programmes, which use grant-based financing mechanisms, as well as partnership projects, involving multiple resources. The company has been implementing these since 2011. This year, there will be a particular emphasis on developing corporate volunteering.

### METINVEST'S SOCIAL INVESTMENT STRUCTURE



# SOCIAL INVESTMENT

## CORPORATE SOCIAL PROGRAMMES

In the reporting period, the Company's board approved a portfolio of corporate social programmes to be implemented simultaneously in all regions where we are present. These are brand-new programmes and programmes developed on the basis of best practices of Metinvest enterprises that had already shown a significant social effect.

In 2011-12, new pilot corporate programmes, such as the environmental programme "Our Environment is Everyone's Business"

and the infrastructure project "Our Town in Our Hands" will be launched in Avdiivka, Kryvyi Rih and Yenakiieve. Once the programmes are completed, we will assess and discuss the results with representatives of the public. The practice will be followed by other Metinvest enterprises. A new youth programme, "The World of Opportunities", launched in all regions where we operate at the time of publication, will be assessed in a similar way.

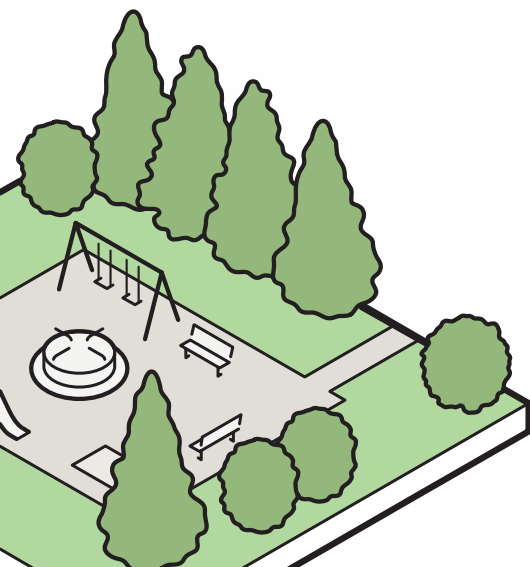
## SOCIAL AGREEMENTS WITH TOWNS AND CITIES

Businesses that are the main employer in particular location have traditionally played a significant social and economic role in the area, and they continue to do so, including by defining the principles and structure of city support programmes. In 2008, a new method for interaction was introduced: Metinvest enterprises started signing cooperation agreements with mayors<sup>11</sup>, making stakeholder engagement more systemic and consistent. The agreements are extended annually based on the results of the previous year. Four agreements were signed at the end of 2010 (between Khartsyzsk Town Council and Khartsyzsk Pipe, Avdiivka Town Council and Avdiivka

Coke, Krasnodon Town Council and Krasnodon Coal, and Mariupol City Council and Azovstal).

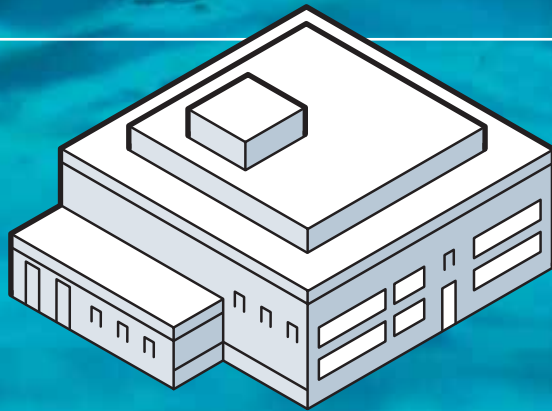
Each year, the enterprises and mayors meet to discuss the results of the previous year and cooperation prospects for the next one. Priority is given to large infrastructure and strategic projects that will have a significant and tangible social effect.

In 2008, based on opinions sought from citizens, a comprehensive programme was launched in Kryvyi Rih to create decent residential areas for Metinvest employees.



## BEST PRACTICE DEVELOPMENT: CHILDREN'S AND YOUTH FOOTBALL

<sup>11</sup>For a more detailed description, see our first social report



Consolidated efforts of partners who share the same goals and are ready to make commitments can create new incentives for the city's development



Metinvest's Social investments in 2009-10, over

**US\$9.1m**

The first stage of reconstruction included the Oktyabrskiy residential area, where the Company built the city's first kart-racing track and reconstructed the beach area, installing volleyball pitches. In 2009, Metinvest carried out reconstruction work in the Damanskiy residential area. For more detailed information, see our 2008 social report. The third stage of the programme is under way in city area 44. In the reporting period, the Company built a park with an

illuminated musical fountain and reconstructed sport sites, recreation zones and public gardens near residential houses. One major endeavour is the reconstruction of Musorgskogo Street, where Metinvest created a park and opened the Employee Alley of Fame. Wasteland was used to build volleyball and basketball pitches and the city's first rollerdrome for skateboarding and bike trials.

## CORPORATE VOLUNTEERING

Metinvest employees' contributions in 2010, over

**US\$113,037**

Metinvest employees participate in volunteer projects that provide support to people in need and carry out social activities: in 2010, the contribution to different programmes amounted to over UAH900,000.

Youth organisations of enterprises also develop and implement volunteer projects. The Council of Young Workers (Khartsyzsk Pipe) organises events to collect funds for gifts for children under 16 in the local orphanage. Another campaign ("A Nest for Every Bird") was enjoyed by both adults and children: journalists, young specialists from the plant, and children from the local orphanage installed nesting boxes.

Northern GOK employees donated

money to buy New Year gifts for young patients of the regional tuberculosis hospital, as well as for children under the patronage of the Chernobyl Union organisation.

In 2010, employees of the Managing Company participated in a campaign organised by the Foundation for the Development of Ukraine. The campaign was timed to coincide with Children's Day and aimed to raise funds for a children's heart centre.

In 2011, Metinvest launches a comprehensive Corporate Volunteering programme to provide employees with additional opportunity to develop and implement their own social projects.

Since 2007, in partnership with Shakhtar Football Club, Metinvest has been financing subsidiaries of children's and youth football academies in Kryvyi Rih, Yenakiieve and Mariupol, hiring professional coaches, maintaining existing football pitches and building new modern ones, providing team kits and meals to children, etc. As such, over 600 young people aged from 7 to 15 from the neighbouring villages and towns have the opportunity to participate in outdoor activities.

Football contributes to the development of leadership skills and the determination to win as a team: the children's and youth teams have won different competitions on many occasions.

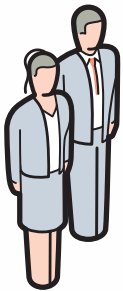
In 2010, this practice underpinned a corporate social programme that is more consistent than previous endeavours by enterprises: our businesses will support the opening of football classes in other towns as well. To strengthen the coaching collective,

there are plans to improve a methodology for training young coaches in-house. We also intend to hold an annual Metinvest Football Cup in cooperation with FC Shakhtar. This will involve all football clubs of enterprises and allow coaches and children to demonstrate their achievements.



# SOCIAL INVESTMENT

## PARTNERSHIP PROGRAMMES



Through its focus on partnership programmes, Metinvest has become a participant of a USAID programme to help city councils in strategic planning and raising their investment attractiveness.

In 2010, an agreement was signed by the mayor of Krasnodon city, Krasnodon Coal and the Head of the USAID project "Local Investment and National Competitiveness". Under the agreement, the parties will cooperate to update the regional strategy for the city's development to 2015. To achieve this, they plan to develop and implement a strategic plan for economic development and improvement of the city's competitiveness. This will help to create a favourable environment in Krasnodon, raise investment and develop small and medium-sized businesses.

The strategic plan is being developed with the involvement of all stakeholders. The project is run by the Coordination Council, headed by the city mayor. This body includes over 40 representatives of municipal and educational

institutions, small and medium-sized businesses, banks, utility companies, local government authorities and public organisations, as well as leaders of local communities and representatives of Krasnodon Coal.

An approach based on stakeholder engagement will allow particular features of the region, plans of municipal authorities, and the position of local citizens and businesses to be considered. Consolidating the efforts of partners who share the same goals and are ready to make commitments can create new incentives for the city's development. We believe that such systemic social investments are in line with the needs and values of a contemporary society.

In 2010, the first project committee meeting discussed the need to update and develop the Krasnodon strategic development plan and outlined areas for further cooperation.



In 2009-10, Metinvest continued to invest in public health, education, city infrastructure and sports projects that are important for the regions where it is present.

Inkor Chemicals financed the repair of a river bridge, which is now used to transport cargo between Donetsk and Dzerzhinsk.

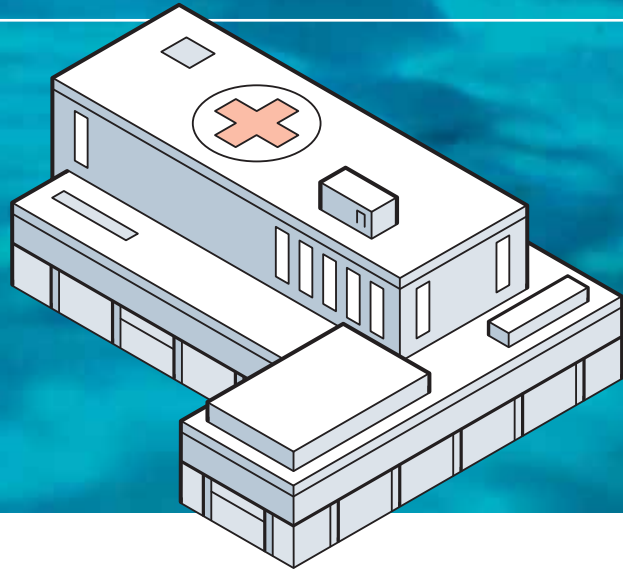
Yenakiieve Steel joined an initiative by the municipal authorities and the public organisation "Let's Build a

Children's Playground Together", which aims to improve recreational areas for children. It also bought a multi-media centre, by means of which school teachers can use modern educational methods.

Azovstal, Khartsyzsk Pipe and Krasnodon Coal continued to invest in long-term programmes aimed at developing their cities' roads, including repairs of tram tracks.



We are open to innovative ideas and joint projects proposed by experienced and well established organisations



## PARTNERSHIP WITH CHARITIES AND PUBLIC ORGANISATIONS

Metinvest promotes interaction with non-profit and non-governmental organisations. We are open to innovative ideas and joint projects proposed by experienced and well established organisations. The Company is a partner with local and international organisations.

For example, in cooperation with AIESEC, Azovstal launched the first joint environmental project "I Care!" in Mariupol in 2010. The project aims to foster environmental responsibility among young people. Students invited by AIESEC from the US, the Philippines, India and Georgia attended thematic training workshops in educational institutions, excursions, conferences, environmental project contests and other events. To develop the project, AIESEC representatives worked together with environmentalists of the enterprise.

In 2010, Metinvest was a partner in the project "Development of Training Case Studies on CSR in Central and Eastern

Europe". It was arranged by several organisations, including the Academy of Business in Society (EABIS), the CSR Ukraine Community and other.

Following the project, the organisers published a collection of case studies highlighting the best CSR practices for use in manager training programmes and corporate HR development programmes for mid-level and senior staff. The case studies have also been included in academic programmes on CSR by leading Ukrainian universities.

One of the best examples of interaction between businesses and universities was the "School-University-Enterprise" programme implemented by Azovstal. For more information, please see our 2008 social report.



# KEY RESULTS OF CSR WORK AND PLANS FOR THE FUTURE

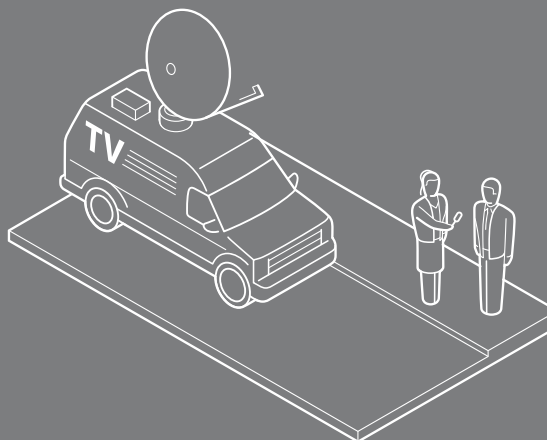
Core business areas	Achievements in the reporting period
Human resources	Completed the main stages of developing a common grade-based remuneration system
	Launched a development programme for managers and the talent pool
Health and safety	Developed various corporate standards based on international approaches. Two of these standards - Behavioural Safety Audit and Procedures for Identifying Root Causes of Accidents - were implemented at all Group enterprises within the reporting period
	Created an internal audit subdivision to deal with HSE issues
Environment	Approved the Strategy for Developing the Healthcare System at Group Enterprises
	Carried out an in-depth analysis and assessment of the environmental aspects of production processes at enterprises
	Developed a standard for HSE Management in Investment Projects
	Developed a single approach to waste disposal by steelmaking facilities
Improving the quality and efficiency of social investments	Rolled out Joint Implementation Projects
	Developed and approved a Strategy for Increasing the Efficiency of Social Investments to 2015
	Launched the project for the Krasnodon strategic development plan with USAID and the Krasnodon City Council
Non-financial reporting	Developed the Regulations and Policy of Social Investment
	Introduced a single format for collecting information for social reporting purposes
	Established a social report task group
	Extended the scope of the report
Engagement with consumers, product quality	Ensured independent assurance of the report
	Registered products of enterprises with the European Chemicals Agency in accordance with REACH requirements
	Established market groups
	Introduced regulations and procedures for technical audits





Objectives for the future	Timeline
Build a common corporate culture	2011-15
Introduce a common staff appraisal system	2011-13
Launch a single talent-pool building and development programme, which will cover both the Managing Company and all key enterprises of the Group	2011 - 13
Create a management training centre	2011 - 12
Implement the standards	2011
Conduct targeted HSE audits	Since 2011
Implement the Strategy for Developing the Healthcare System at the Group Enterprises	2011 - 15
Develop and implement environmental protection measures based on the analysis results	Since 2011
Implement the standard for HSE Management in Investment Projects	Since 2011
Launch MONTIS, a pilot project that focuses on processing steel slugs	2011
Implement existing and initiate new Joint Implementation Projects	Since 2011
Engage in greenhouse gas reduction mechanisms that are to be determined for the post-Kyoto period	Since 2011
Introduce a common approach to social investment	2011 - 13
Implement new corporate social programmes	2011 - 12
Expand the portfolio of partnership programmes based on joint resources	2011 - 12
Introduce the Regulations and Policy of Social Investment	Since 2011
Introduce regulations on social reporting	2011
Extend the scope of the report	2011
Prepare registration dossiers for products that are subject to registration in 2013 or 2018	2013, 2018
Prepare registration dossiers for new products to be delivered to EU	2013, 2018
Launch the customer care and after-sales service	2011

# ABOUT THE REPORT AND REPORTING PROCESS



## GRI REPORT LEVEL APPLICATION

	C	C+	B	B+	A	A+
Self-declared				✓		
Externally assured				✓		
GRI assured						

This report ("Report") is Metinvest's second such CSR publication about the Group's work in sustainable development.

The first report covered 2008, while this one looks at the period from 1 January 2009 to 31 December 2010. As of 2009, the Company will follow a two-year reporting cycle.

The Report has been prepared using the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI; version 3.0) and meets the GRI's B+ Application Level. Publication of the next report, covering 2011-12, is planned for 2013.

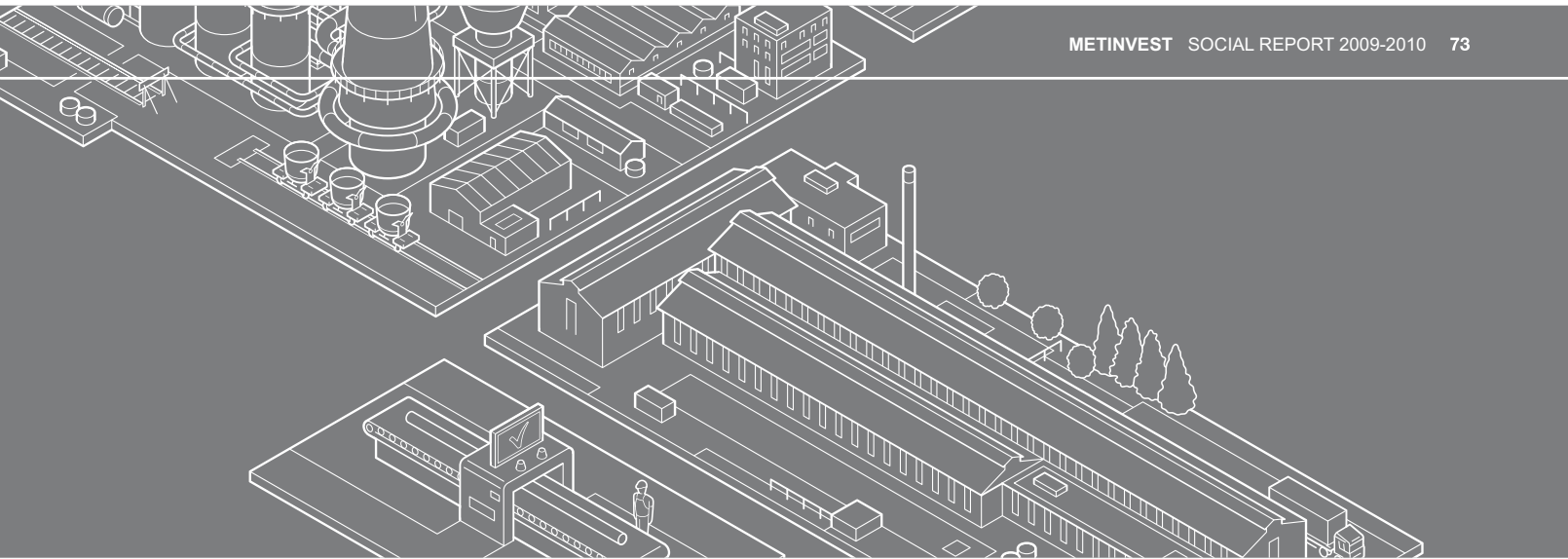
The Report incorporates information on Managing Company (some indicators) - METINVEST HOLDING, LLC – and on major Metinvest enterprises (Table 1)

### CALCULATING QUANTITATIVE INDICATORS

The quantitative indicators used in this Report have been prepared in accordance with the information provided annually to state statistics bodies.

### STREAMLINING THE PROCESS OF NON-FINANCIAL REPORTING

Based on the results of the first CSR report, the Group's system of non-financial reporting has been streamlined: the Company has devised and approved a procedure for preparing social reports that details how to organise the collection and review of information, while various responsibilities have been allocated.



Managing Company (METINVEST HOLDING, LLC)		
Coke and Coal Division	Iron Ore division	Steel and Rolled Products division
Avdiivka Coke and Chemicals Plant	Northern Iron Ore Enrichment Works	Azovstal Iron and Steel Works
Krasnodon Coal	Ingulets Iron Ore Enrichment Works	Yenakieve Iron and Steel Works
Inkor Chemicals	Central Iron Ore Enrichment Works	Khartsyzsk Pipe
		Makiivka Steel Works

Table 1

#### DETERMINING SIGNIFICANT ISSUES

The following approaches are used to determine significant issues:

- the foundation consists of the priorities for CSR activity enshrined in the Group's policies and regulations;
- results of interactions with stakeholders, found in the corresponding section of the Report, are used;
- opinions of managers in functional areas and global best practice in the sector are considered;
- results of monitoring reports in leading Ukrainian socio-political publications have been taken into account.

#### MEETING GRI REPORTING PRINCIPLES

**Completeness of information provided.** This publication reflects the most significant results of the Company's CSR activities in the reporting period. It covers all of the Group's main business areas.

**Balance.** This Report details the main events in the reporting period without excluding any significant developments or facts.

**Reliability.** The reliability of the information given in this Report has been confirmed by an independent appraisal by a third party.

**Clarity.** Information is provided in an accessible and understandable way for readers, while prevailing definitions and terminology has been used.



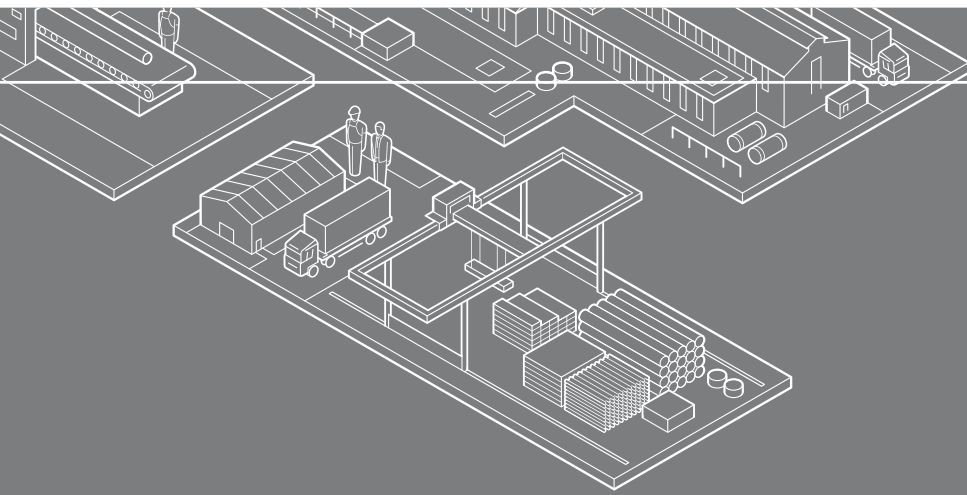
# ABOUT THE REPORT AND REPORTING PROCESS

## TABLE OF GRI INDICATORS

For more about the indicators and elements of GRI reporting, visit the GRI website: <http://www.globalreporting.org/ReportingFramework/G31Guidelines/>

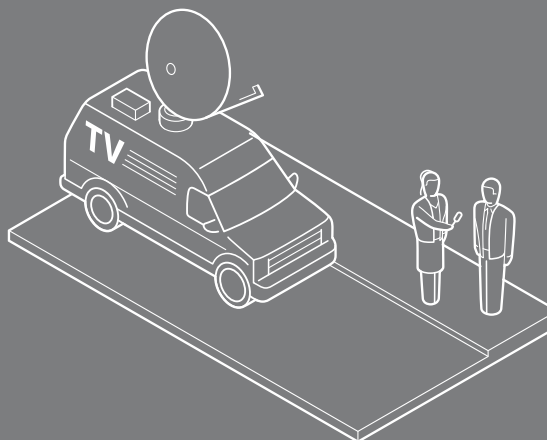
For more about the principles of the UN Global Compact, visit the Global Compact website: <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>

GRI indicators	Compliance with the principles of the Global Compact
1.1	Principle 10
1.2	
2.1-2.10	
3.1-3.3, 3.5-3.8, 3.10-3.11, 3.13	
3.4	
3.9	
3.12	
4.1-4.4 4.6, 4.8	Principle 10; Measures taken to fulfil Global Compact principles
4.5	
4.7	
4.9 and 4.10	
4.11	
4.12	
4.13-4.17	
EC1	
EC2	
EC5	
EC8	
EN3, EN5	Principle 9
EN8, EN10	Principle 7, Principle 8
EN13	Principle 7, Principle 8
EN16, EN18	Principle 7, Principle 8
EN20	Principle 7, Principle 8



Section of the Report, other sources and comments	Page number
Letter from the CEO	4-5
"Metinvest Today" subsection. The indicator has been partly reflected, while an evaluation of risks and opportunities has been included in the introduction for each of the thematic sections.	8-9
"Metinvest Today", "How We Work" subsections. Corporate website <a href="http://www.metinvestholding.com">www.metinvestholding.com</a>	8-11
"About the Report and Reporting Process" section, "How We Work" subsection. Information is also given in notes to separate diagrams.	72-77, 10-11
Feedback Survey	81
Information is given in the explanations to corresponding indicators.	74-77
Table of GRI indicators	74-77
"Metinvest Today", "How We Work", "Company Development Strategy and CSR Activity" subsections. Metinvest Annual Report 2009 – <a href="http://www.metinvestholding.com">www.metinvestholding.com</a>	8-13
Remuneration of the senior management is linked to the Company's financial and economic results. This indicator is met in part.	
Metinvest Annual Report 2009 – <a href="http://www.metinvestholding.com">www.metinvestholding.com</a>	
"How We Work" subsection. The process for determining results is also included in the procedures defined by management systems (for example, the HSE integrated management system; see the section on Health and Safety). Metinvest Annual Report 2009 – <a href="http://www.metinvestholding.com">www.metinvestholding.com</a>	10-11
The principle of caution is ensured by the corporate standard "HSE Management in Investment Projects" (see the section on Health and Safety). Metinvest Annual Report 2009 – <a href="http://www.metinvestholding.com">www.metinvestholding.com</a>	32-41
"How We Work" subsection, "Product Quality" section	10-11, 18-23
"How We Work" subsection, "Stakeholder Engagement" section	10-11, 14-17
"Metinvest Today" subsection. This indicator is met in part.	8-9
"Climate Change" section	58-61
"Employment Relations" section. The indicator has been renamed.	24-31
"Social Investment" section	62-69
"Energy Efficiency and Energy Saving" section	52-57
"Water Management" subsection	48-49
"Reclaiming land and green planting" subsection	51
"Climate Change" section. The indicator EN16 is met in part.	58-61
"Air Emissions" subsection	46-47

# ABOUT THE REPORT AND REPORTING PROCESS



## TABLE OF GRI INDICATORS CONTINUED

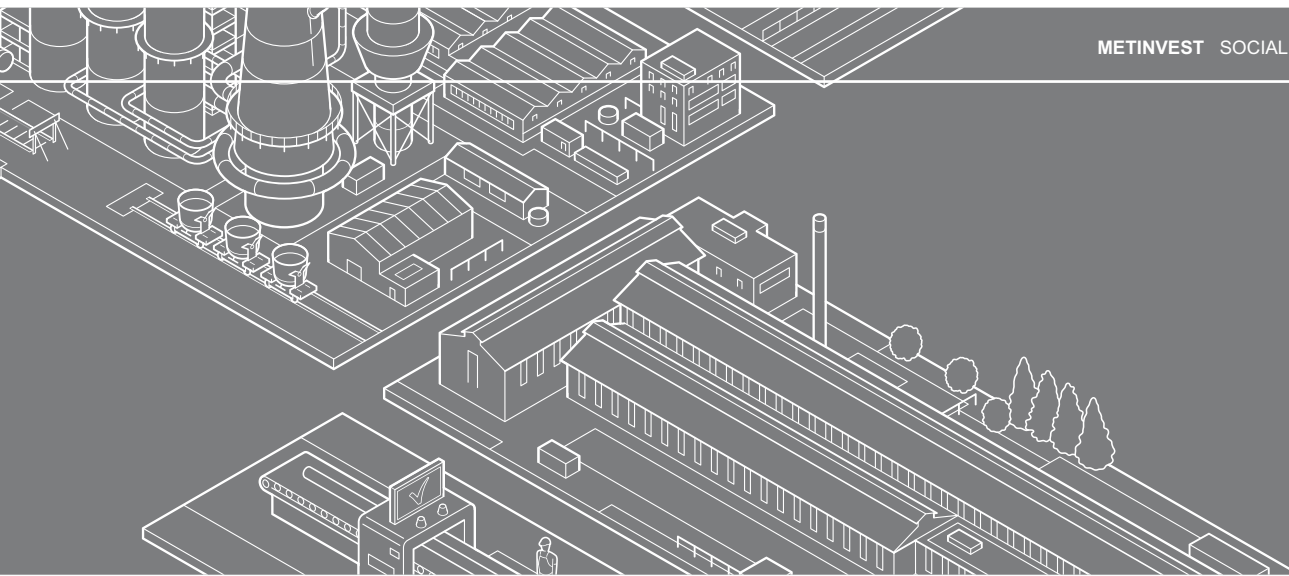
GRI indicators	Compliance with the principles of the Global Compact
EN21	Principle 7, Principle 8
EN22	Principle 7, Principle 8
EN26	Principle 7, Principle 8
EN30	Principle 8
LA1	
LA3	Principle 1
LA4	Principle 3
LA5	Principle 3
LA7	Principle 1
LA8, LA9	
LA10	
LA11	
LA12	
LA13	
HR4, HR6, HR7	Principles 1, 2, 4, 5, 6
SO1	
PR2, PR4	
PR3, PR5	

**Note:**

The Company considers the following GRI indicators as irrelevant to its business:

- EC7 (almost all employees are local residents, including managers);
- HR1 (The Company does not have investment agreements);
- HR9 (The Company does not operate in regions that are home to indigenous people or minorities).





Section of the Report, other sources and comments	Page number
"Environment" section. This indicator is met in part.	42–51
"Waste Management" subsection	50–51
"Environmental Control" subsection	45
"Environment" section. This indicator is met in part.	42–51
"Employment Relations" section	24–31
"Employment Relations" section	24–31
All of the Group's employees are covered in collective agreements in accordance with existing legislation.	
In line with the Ukrainian Labour Code, the minimum notice period for employees is two months.	
"Metinvest's Philosophy", "Employee Healthcare" subsections	34, 40–41
"Employee Healthcare" subsection. Collective agreements of all Group enterprises feature a section dedicated to occupational health and safety (H&S). They include the administration's obligations regarding H&S policy; measures to ensure safe working conditions; the provision of social guarantees; a range of measures to meet occupational H&S requirements; and the reduction of risks and dangers in the area of H&S.	40–41
"HR Training and Development" subsection. The indicator has been reformulated.	28
"HR Training and Development", "Remuneration and Motivation Programmes" subsections	28–29
"Employee Performance Appraisal" subsection	30
"Social Support for Employees" subsection The supreme executive body of the Group is the Supervisory Board. For more information about its members, see our website: <a href="http://www.metinvestholding.com">www.metinvestholding.com</a>	30
In the reporting period, Metinvest did not receive any complaints regarding the violation of human rights or discrimination. The Company does not use child or forced labour.	
"Social Investment" section	62–69
In the reporting period, Metinvest did not receive any complaints and was not the subject of any lawsuits regarding the violation of requirements about the effect of products on consumer H&S or about the information and classification of product characteristics.	
"Customer Service" subsection	21

# ABOUT THE REPORT AND REPORTING PROCESS



## INDEPENDENT ASSURANCE REPORT ON THE 'SOCIAL REPORT OF METINVEST GROUP FOR 2009-2010'

TO THE MANAGEMENT OF "METINVEST HOLDING" LLC

### ENGAGEMENT

At the request of "METINVEST HOLDING" LLC (hereinafter 'Metinvest') we have performed an assurance engagement. The subject matter of our engagement is the information disclosed in the 'Social Report of Metinvest Group for 2009-2010' (hereinafter 'the Report') except for the following matters:

- Data relating to the prior years;
- Forward-looking statements on events or planned activities of Metinvest;
- Independent statements made by third parties which Metinvest 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 Metinvest during 2009 and 2010.

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

### CRITERION

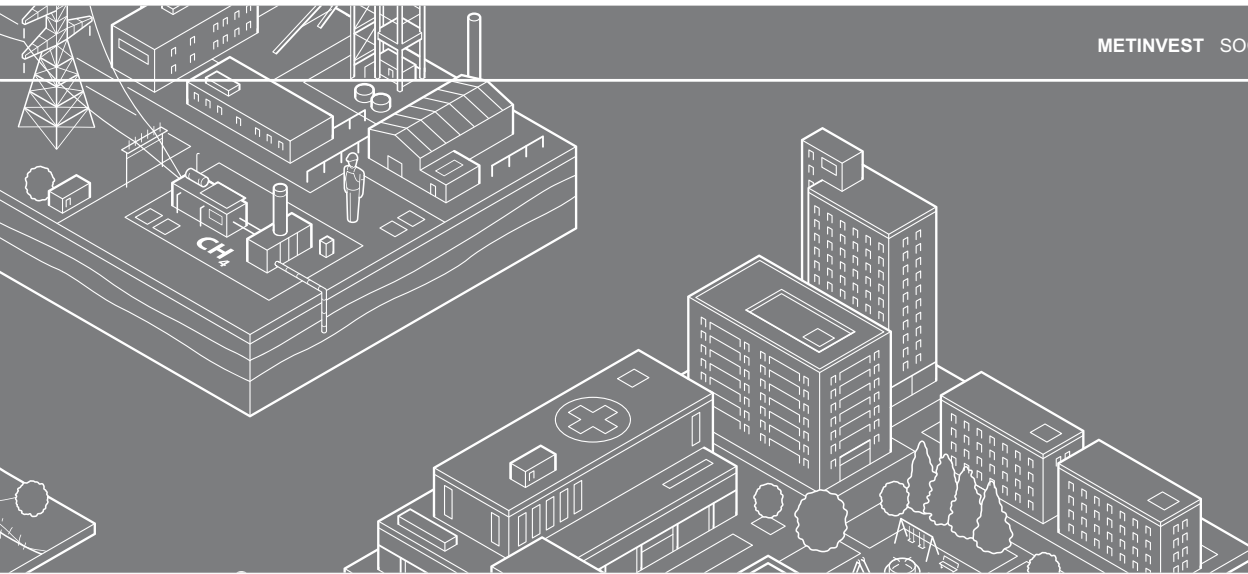
We have assessed the Report against the Sustainability Reporting Framework issued by the Global Reporting Initiative (hereinafter 'GRI Framework'), as indicated in section 'About the Report and a reporting process' on page 72 of the Report. We believe that this criterion is appropriate given the purpose of our assurance engagement.

### RESPONSIBILITY OF THE MANAGEMENT OF METINVEST

The management of Metinvest 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 and a reporting process' on the page 72 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 Metinvest's management responsible for its sustainability policies, activities, events, performance and relevant reporting;
- Analysis of key documents related to Metinvest's sustainability policies, activities, events, performance and relevant reporting;
- Benchmarking of the Report against sustainability reports of selected national and international peer companies;
- Review of a selection of publications with respect to Metinvest's sustainability policies, activities, events, and performance in 2009 and 2010;
- Identification of material issues based on the procedures described above and analysis of their reflection in the Report;
- Review of data samples for key indicators related to human resources, environment, health and safety, and social investment as well as data collection processes to assess whether these data have been collected, collated and reported appropriately at the central office level;
- Collection on a sample basis of evidence substantiating the qualitative and quantitative information included in the Report;
- Visits to 5 Metinvest entities to gather evidence supporting the assertions made in the Report on Metinvest's sustainability policies, activities, events, and performance. The following entities were visited: "METINVEST HOLDING" LLC (Managing Company), JSC "Ingulets GOK", JSC "Khartsyzsk Pipe Plant", JSC "Krasnodon Coal", JSC "Azovstal Iron and Steel Works";
- Assessment of the sustainability reporting principles used by Metinvest;
- 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 Metinvest during 2009 and 2010 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.

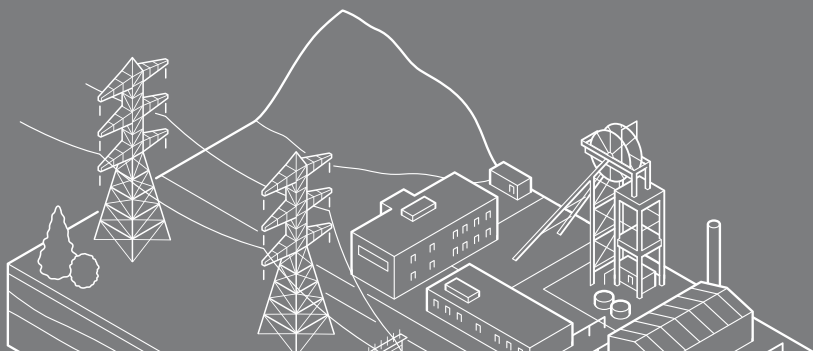
Ernst & Young LLC

Kyiv

30 June 2011



# ABOUT THE REPORT AND REPORTING PROCESS



## LIST OF ABBREVIATIONS

### **METINVEST SUBDIVISIONS AND ENTERPRISES TITLES:**

Azovstal – JSC Azovstal Iron and Steel Works

Avdiivka Coke – JSC Avdiivka Coke and Chemicals Plant

Central GOK – JSC Central Iron Ore Enrichment Works

Ilyich Steel – JSC Ilyich Iron and Steel Works

Ingulets GOK – JSC Ingulets Iron Ore Enrichment Works

Inkor Chemicals – Scientific and Manufacturing Association «Incor and Co», LLC

Khartsyzsk Pipe – JSC Khartsyzsk Pipe Plant

Krasnodon Coal – JSC Krasnodon Coal Company

Makiivka Steel Works (MMZ) – CJSC Makiivka Iron and Steel Works

Northern GOK – JSC Northern Iron Ore Enrichment Works

UCC – United Coal Company, LLC

Yenakiieve Steel – JSC Yenakiieve Iron and Steel Works and JV Metalen, LLC

### **OTHER TERMS:**

EU – European Union

HSE – Health, Safety and Environment

IFRS – International Financial Reporting Standards

IMS – Integrated Management System

IRCA – Identifying Root Causes of Accidents

JIP – Joint Implementation Project

PPE – Personal Protective Equipment

USAID – the United States Agency for International Development

WSA – World Steel Association

# FEEDBACK SURVEY

Thank you for taking an interest in Metinvest's CSR report. Your views about its contents and form are important to us, so we would be grateful if you could answer the questions below.

**1. On a scale of 1 to 5, where 5 is the most positive, what is your overall impression of the Report?**

- 5 ☐ Positive  
4 ☐ Mainly positive  
3 ☐ Neutral  
2 ☐ Mainly negative  
1 ☐ Negative

**2. Have you learned anything new about Metinvest from the Report?**

YES ☐ NO ☐

**3. On a scale of 1 to 5, where 5 is the most positive, what is your view of the parameters below for the Report?**

Completeness of information	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Comprehensiveness of information	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Veracity of information	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Ease of reading	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Design	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

**4. Would information from the Report help you in interacting with Metinvest?**

YES ☐ NO ☐ NO NEED ☐

**5. Would you like to receive regular information about CSR from the Company?**

YES ☐ NO ☐ NO NEED ☐

**6. Would you like to receive the next CSR report from Metinvest?**

YES ☐ NO ☐ NO NEED ☐

**7. What is your relationship with the Company (choose one):**

- ☐ Employee  
☐ Supplier  
☐ Partner  
☐ Journalist  
☐ Representative of a state body  
☐ Resident of a town (region) where the Company is present  
☐ Independent expert  
☐ Representative of a not-for-profit organisation  
☐ Representative of an industry association  
☐ Other (please specify)\_\_\_\_\_

[illegible]

csr@metinvestholding.com



## NOTES

**NOTES**



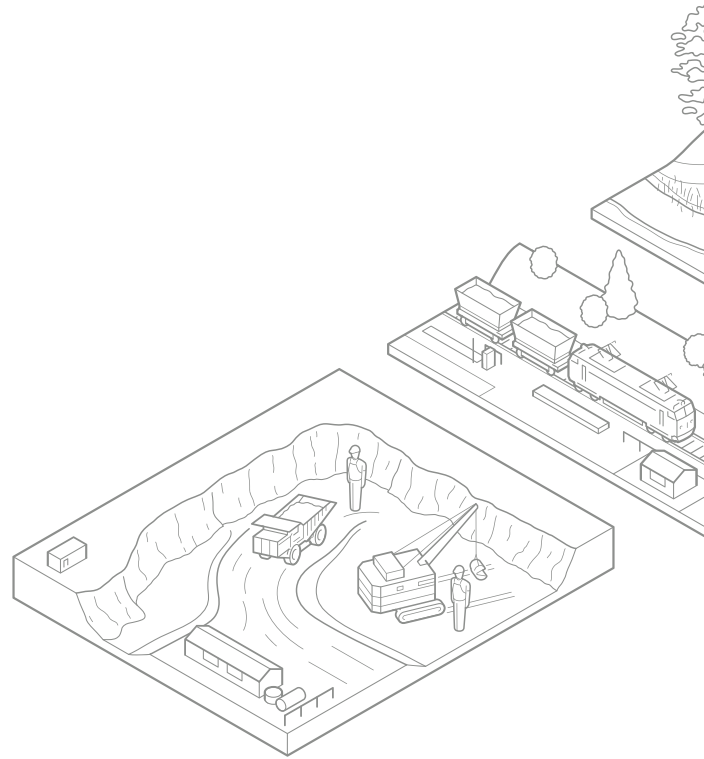
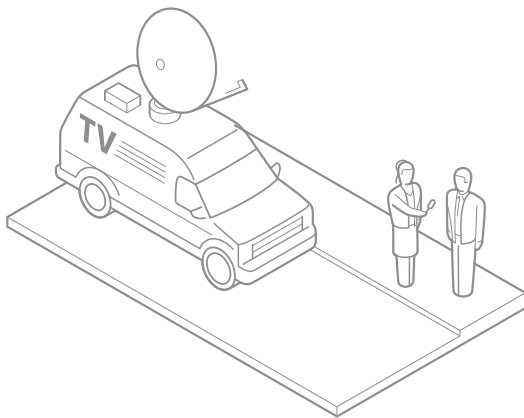
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