



 **METINVEST**<sup>®</sup>

METINVEST GROUP SOCIAL REPORT 2011-2012

**Metal** *for life*



METINVEST GROUP  
SOCIAL REPORT

***2011-2012***

**Steel is the most commonly used material on the planet.**

**Just imagine if it all disappeared.**

**We are always surrounded by steel-based items.**

**The world around us would change drastically.**

**At work and at home. In health clinics and stores.**

**We would find ourselves with a dilemma. Because a lot of things we got used to would be beyond our reach.**

**When we are on vacation or work in the garden.**

**Metinvest Group is engaged in mining, steelmaking and manufacturing steel products.**

**Our report will tell you how we do it and what we want to achieve in the future.**

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## Metinvest Group profile in figures

Metinvest topped Forbes' list of the largest Ukrainian companies and ranked

**4<sup>th</sup>** among the largest companies in Central and Eastern Europe in Deloitte's list of the largest 500 companies in 2011 and 2012

Sales revenue in 2012 stood at

**\$12.57**  
BILLION

The Company supplies products to more than 1,000 customers located in almost

**100**  
COUNTRIES

**\$1.93**  
BILLION

was invested in business development and modernization in 2011 and 2012

Spending on environmental protection over the two year period amounted to \$926 million, and for health and safety - more than

**\$250**  
MILLION

Metinvest Group's Ukrainian enterprises employ about

**100**  
THOUSAND PEOPLE

**\$18.6**  
MILLION

was allocated for training workers in 2011-2012

Social partnership programs were implemented in nine cities of Ukraine where live

**1.7**  
MILLION PEOPLE

Metinvest Group's social investments in regions where it operates amounted to

**MORE THAN**  
**\$18.8**  
MILLION

in 2011 and 2012

## Statement from the CEO

Metinvest is a leading steelmaking company and the largest company in Ukraine. The Group operates in more than ten cities and has a hundred thousand employees. That comes with a lot of responsibilities – professional, individual and social.



### Dear readers,

Metinvest is a leading steelmaking company and the largest company in Ukraine. The Group operates in more than ten cities and has a hundred thousand employees. That comes with a lot of responsibilities – professional, individual and social.

In recent years, we had to work in difficult market conditions. The crisis affected all steel producers, including our Company. We revised some of our approaches to management. Metinvest launched Cost Reduction and Energy Efficiency Improvement programs at all of its enterprises.

A state-of-the-art blast furnace equipped with the latest process control automation and environmentally friendly facilities was commissioned at Yenakieve Iron and Steel Works in 2011. Furthermore, Yenakieve Iron and Steel Works started engineering work on a new sinter plant that will be constructed using the best available technologies and environmental protection measures.

The construction of the pulverized coal injection plant at Ilyich Iron and Steel Works of Mariupol was the largest project in Mariupol in 2011-2012. We also mothballed the old sinter plant at Azovstal, and decommissioned its open hearth furnaces and coke batteries. All of this enabled us to significantly improve environmental conditions in the region.

We intend to keep moving in this direction. Jointly with city governments in Yenakieve and Mariupol, we developed long-term environmental programs to 2020 and started implementing them. In Mariupol, the fulfillment of planned investment projects will lead to a twofold decrease in emissions, i.e. more than 28% of the Group's total emissions.

Metinvest seeks to arrange for a comprehensive set of activities in cities where it operates and cares about local residents, many of whom are Metinvest employees. Every year we conclude social partnership agreements with regions, under which infrastructure facilities are refurbished, hospitals and schools are supported, and land improvement projects are implemented. We can see how our investments really make people's lives better and help cities develop.

Being a large business comes with an ability to create comfortable conditions for all stakeholders. For us, our stakeholders are city residents, employees and partners. Concern for people means caring about their living standards. And we try to improve them on a continual basis. I'm sure that this particular approach is the most important for the creation of a sustainable and successful Company.

**Igor Syry**  
CEO

# Metinvest Group in 2011-2012



Metinvest is an international vertically integrated group of steel and mining companies. It includes enterprises in Ukraine, Europe and the U.S. The Management Company METINVEST HOLDING LLC controls every stage of the production chain: ore and coal mining, coke production, steelmaking and finished steel stock production.

## Changes in business structure and size

The Group grew significantly in recent years. The integration of two key assets, Ilyich Iron and Steel Works of Mariupol (an integrated iron and steel producer, one of Ukraine's leading steel producers) and Komsomolske Flux (one of the largest fluxing limestone suppliers in Ukraine), was finalized in 2011-2012. Metinvest purchased 49.9% of Zaporizhstal, another large steelmaker specializing in the production of coils, in 2012.

This development vector corresponds to the long-term strategy of Metinvest Group aimed at strengthening vertical integration, attaining maximum efficiency from its production facilities in Ukraine and reinforcing market positions.

The organizational structure of the Company was changed: two divisions were created - Mining and Metallurgical. Makiivka Metallurgical Works became a branch of Yenakiieve Iron & Steel Works in 2011.

Metinvest became the owner of CJSC Belgorodmetalloznab and a large sales network in Western Ukraine (in Ternopil, Lviv, Khmel'nitsk and Ivano-Frankivsk). The new acquisitions will optimize logistics, improve the timeliness of supplies, and enhance service for clients.

## Financial and production performance in 2011-2012

Metinvest Group increased the production of steel and coking coal in 2011, while iron ore concentrate output remained at the same level as in 2010. The increase in steel production was caused by higher pig iron output as a result of better productivity at Ilyich Iron & Steel Works of Mariupol's (MMKI) blast furnaces and the commissioning of Yenakiieve Iron & Steel Works' new blast furnace #3.

In accordance with Metinvest Group's strategy to focus on the production of high value-added products, the share of finished goods grew in 2011 compared to 2010. The increase in flats output in 2011 was mainly the result of the acquisition of MMKI in November 2010. The production of rail and pipe products went up as well (due to improved demand) as a result of order fulfillment under long-term contracts.

In 2012, the major financial indicators reflected the overall state of the industry - the situation in steel and raw materials markets remained difficult. At year-end, Metinvest's consolidated revenue and operating income decreased compared to 2011. Steel output dropped, while coking coal and iron ore concentrate production increased.

### Key financial indicators

Indicator	2010	2011	2012
Consolidated revenue, US\$ mln.	<b>9,358</b>	<b>14,189</b>	<b>12,565</b>
Capital investments, US\$ mln.	<b>582</b>	<b>1,165</b>	<b>765</b>

### Key production indicators

Indicator	2010	2011	2012
Pig iron production, ths. t	<b>11,850</b>	<b>12,385</b>	<b>11,010</b>
Steel production, ths. t	<b>13,835</b>	<b>14,375</b>	<b>12,459</b>
Semi-finished products (slabs, square billets), ths. t	<b>3,018</b>	<b>2,974</b>	<b>2,146</b>
Finished products (flats, longs, rails), ths. t	<b>4,902</b>	<b>9,317</b>	<b>8,601</b>
Pipe products, ths. t	<b>317</b>	<b>678</b>	<b>435</b>
Iron ore concentrate production, ths. t	<b>35,726</b>	<b>35,741</b>	<b>36,224</b>
Iron ore products (concentrate and pellets), ths. t	<b>23,207</b>	<b>18,793</b>	<b>21,007</b>

## Group's development strategy

Metinvest Group's Development Strategy to 2020 was updated in 2011-2012. To implement it, Technological, Financial and Product Strategies were developed that are realized via strategic initiatives and projects.

The Financial Strategy and Investment Program ensure the implementation of plans. The Financial Strategy defines the tools and methods for financing investment projects needed to implement the Technological Strategy.

The Technological Strategy provides for the systematic updating of equipment and technologies at the enterprises.

This will lead to an incremental decrease in environmental impact, resource consumption (including non-renewable resources), a higher quality and wider product mix, and better working conditions for employees at the enterprises.

Product Strategies define plans for the production and promotion of goods in sales markets. The production of new high-quality products will enable the Company to strengthen its positions in the domestic market and reduce costs for our clients in various industries. We also intend to expand our scope of services and improve their quality.

A continuous improvement system based on lean manufacturing principles is aimed at achieving strategic objectives. Therefore, an important role is delegated to employees to be the source of continuous improvements

in areas such as saving resources and improving product quality, labor conditions and safety.

We consider improving the safe work culture an important strategic initiative. The task is being done through the creation of a health & safety system.

Personnel development is also a top-priority task. A corporate-wide training system is charged with this task. The creation of this system was started in the reporting period.

## Our products

Metinvest Group produces a wide range of steel products, including:

- plates;
- hot-rolled and cold-rolled stock, coils and sheets;
- profiles and structurals;
- steel pipes with external and internal anticorrosion coatings.

The production of new several products began during the reporting period: new long products, four new shapes, high-strength carbon and welding wire rod.

The quality of Metinvest's products is tracked at every production stage. Quality management systems are in place at all of the enterprises of the divisions, which are certified



for compliance with international standard ISO 9001. Product quality is controlled by in-house accredited laboratories. When necessary, products are accredited on standards in the countries or industries for which they are intended.

Metinvest registers its products in accordance with European regulation #1907/2006 (REACH). As a result, the Company has been permitted to supply products to clients in countries in the European Economic Area since 2010.

The Company sells steel products, iron ore raw materials, coke-chemical products and by-products (metallurgical

- technical visits and audits;
- market groups for flats and longs;
- joint conferences;
- technical support and post-sales service (established in 2010).

During the reporting period, Metinvest has been developing a technical support service since post-contract support is of no less importance to our clients than the price and dates when products are supplied. Technical customer support means that the client communicates not only with the sales department, but also employees at the manufacturing enterprises (from quality directors to the heads of core facilities and foremen).

## Strategic development objectives of Metinvest Group:

1. Sustain competitive advantage in steelmaking.
2. Strengthen positions in strategic markets.
3. Achieve world class business excellence.

slag, industrial gases). Most supplies are sent to foreign countries via an international sales network. Metinvest Group's enterprises are located near large transportation hubs and sea ports, making it convenient to supply products to consumers in Ukraine, the CIS, Europe, the Middle East and Southeast Asia. Ukraine accounts for 20% of sales.

## Customer focus

Metinvest regards focusing on its customers' interests to be the basis of its activities. We develop productive relationships with client companies based on the following instruments for cooperation<sup>1</sup>:

In this way, our enterprises get a better idea of the details of our customers' businesses and, therefore, can improve the compliance of our products with their requirements. Operating tools include regular meetings with clients and their involvement in all stages of the production with the order.

In case claims are received from customers, the Company analyzes the causes of the issues and takes prompt remedial measures. For example, our achievements include decreasing the claim handling period by almost twofold to 20 days. This became possible due to the implementation of a procedure that consolidates all claims and appoints the people in charge of handling them at the enterprises. In addition, a claims committee was established consisting of representatives of the enterprises, Management Company and trade organizations. Our objective is to reduce the claim handling time up to two weeks.

<sup>1</sup> These types of cooperation are described in detail in the Company's previous Social Report for 2009-2010.

## Our values:

Professionalism

Customer focus

Teamwork

Leadership

Life, health and environment

## Distribution network and logistics

We develop existing and implement new distribution models to be closer to our customers. In these two years, our number of service metal centers increased from 12 to 17 while our number of warehouses went up to 30. Our clients are now provided with a higher level of service, including:

- decreased product supply period;
- more flexible supplies – it is possible to get small lots of products;
- wider variety of products: the complete portfolio of goods produced is available;
- more supplementary services: metal cutting, wire rod uncoiling, coil slitting and transverse cutting, and the production of profiled flooring.

Thus, our clients are able to reduce their own stocks, optimizing working capital. This has a positive effect on their financial condition, especially in times of instability.

Logistics traditionally plays an important role in the production cost of steelmaking enterprises. For example, according to experts, the steelmaking industry accounts for a third of all cargo transportation in the world.

The optimization of logistics produces multiple positive effects for manufacturing companies (reducing costs), partners and local communities. Less logistics-related costs mean more attractive product prices can be offered to customers. For local

communities, an effective logistics system means, for example, lower utilization of highways to help maintain roads in cities and make the air cleaner.

In the reporting period, all logistics functions underwent qualitative changes: the logistics and main utilities purchasing functions were centralized, a process to centralize the logistics flow planning process and reporting was implemented, and logistics cost reduction measures were taken.

When analyzing the system of logistics links, we found the causes of inadequate performance and sought to eliminate them and create value for our clients so they can pay a fair price without overpaying for unnecessary intermediaries in the supply chain.





## Cooperation with suppliers

Metinvest is a key buyer for a large number of Ukrainian and foreign companies.

In view of the scale of the business, we are interested in reliable supplies of purchased materials, goods and services at optimum prices, quality and dates. We, therefore, indirectly facilitate the enhancement of efficiency and the development of production by our partners so that they can offer good value for the money.

We promote transparency and fair competition when working with suppliers. In 2012, the Company adopted a purchasing policy that established a common set of rules for all entities across the Group. A Shared Purchasing Calendar<sup>1</sup> and Common Tender Procedures were introduced to ensure a level playing field for all potential bidders.

We established the collective Appeals Committee that deals with appeals by suppliers that question the fairness of decisions taken by tender committees.

By establishing a common, transparent set of rules for cooperation, we promote reasonable competition among local and overseas producers, create conditions to introduce best practices and technologies in Ukraine, and help attract foreign investments in the country.

The Holding's enterprises<sup>2</sup> spent nearly \$7 billion to purchase materials, goods and services from third parties in Ukraine in 2011. According to experts, the purchases ensure the employment of nearly 700,000 people in Ukraine.



<sup>1</sup>Shared Purchasing Calendar - a section of the corporate website containing the information about current and future raw materials procurement and services provision tenders of Metinvest Group's enterprises.

<sup>2</sup> Located in Ukraine

## New operations in Ukraine

The Company signed a long-term contract in 2011 to construct an air separation plant for Metinvest's manufacturing facilities with Air Liquide, a French company that operates in 80 countries.

The productive cooperation and high level of trust between Metinvest and Air Liquide during joint work on the project made it possible to attract the new major investor to the national economy. The foreign company will invest nearly EUR 100 million, while Metinvest will contribute over EUR 30 million.

The arrival of another major foreign investor helps to promote the image of the country as a safe destination for investment. For local residents, it is important that new operations will create new jobs. More taxes will be paid to local budgets. Air Liquide will also supply industrial gases to other Ukrainian producers.

The plant is scheduled to be commissioned in 2014.

## Corporate responsibility

Metinvest's concept of social responsibility is based on the integration of social, economic and environmental principles of sustainable development into the Company's strategy and operations.

We think it is necessary to:

- be accountable for our own actions and evaluate their potential impact on the local community before a final decision is made;
- voluntarily contribute to the development of local communities;
- maintain an open and constructive dialogue with all stakeholders;
- introduce sustainable development principles into all areas where we conduct business.

The Company has identified priority areas for developing corporate social responsibility:

- health and safety;
- environment;
- social support and staff development;
- improvement of the quality and efficiency of social investments in the regions where we operate.

By investing in people, equipment and technology, we ensure a sustainable future for Metinvest and communities.

We are committed to a more open and cooperative approach to our relationships with stakeholders (investors and creditors, clients and suppliers, employees, local communities where we operate, environmental and other public organizations, and municipal administrations).

The appropriate sections of the report provide more detail on the groups that we cooperated with during the reporting period. The table illustrates core stakeholder groups that Metinvest cooperated with in 2011-2012 on matters of importance.

In June 2012, Metinvest took part in Rio+20, the United Nations Conference on Sustainable Development (UNCSD). We presented work undertaken by Metinvest in the area of corporate social responsibility and learned about the

experience of our peers in different countries. As the conference was attended by delegates from more than 100 countries, this exchange of ideas has been a great driver of further development in this area.

## Cooperation with core stakeholder groups in 2011-2012

Stakeholder group	Nature of cooperation	Outcomes
Investors and financial institutions	Perception study to look at how the Company is perceived by financial institutions.	Metinvest is building a concept for working with investors and creditors; methods for communicating with them were improved.
Employees of Metinvest Group's enterprises	Employee loyalty and engagement survey.	Strengths and development opportunities were identified within the Company and its enterprises.
Trade unions	Establishment of one organization representing employers from Ukraine's metals and mining sector for collective bargaining with the Trade Union of Steel and Mine Workers of Ukraine.	Metinvest became a member of the organization. A representative of the Company joined a task force established to develop a new agreement for the industry on behalf of employers.
Local communities	Local communities were surveyed to identify priority areas for social partnership programs. The company's management met with community representatives from Mariupol.	Communities' preferences were considered when developing the social partnership programs of each city. Arrangements were made for cooperation on environmental issues. A long-term municipal environmental protection and rehabilitation program was developed.
Clients and suppliers	Development of the customer support service.	Enhancement of claim management. Introduction of the common set of rules for procurement.



**Building a new:  
strategy,  
modernization  
and environment**

In 2011-2012  
Metinvest  
Group  
invested<sup>1</sup> a  
total of

# \$1.93

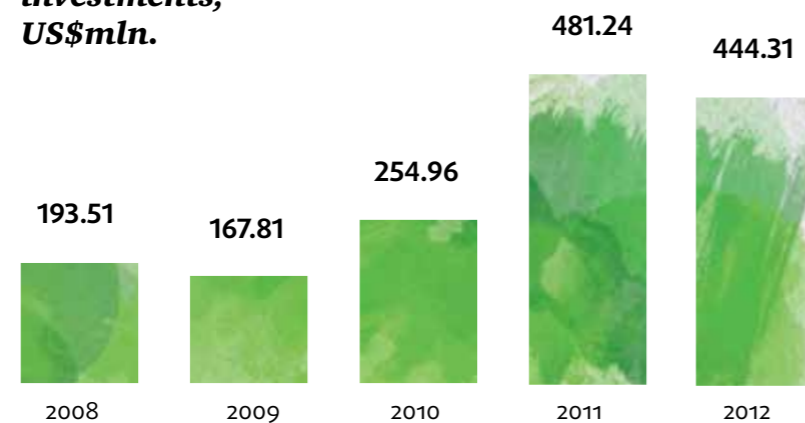
BILLION

The construction of the steel and enrichment plants that are now part of Metinvest gave jobs and contributed to the growth of surrounding cities. With that mind, the impact of the operations on the environment was not being evaluated at that time. Today the Company is making a significant effort to make operations at our plants more environmentally and community-friendly.

Metinvest's Technological Strategy outlines plans for the reconstruction, modernization and construction of major equipment that will bring drastically change not only

operations, but also the environmental situation in cities. We opt for state-of-the-art technologies and reputable suppliers for our projects.

### Environmental investments, US\$mln.



Note. The reduction in investments in 2012 was the result of decreased capital expenditures. In 2012, Ilyich Iron & Steel Works of Mariupol accounted for 15.2% vs. 11.9% in 2011; Komsomolske Flux accounted for 1.6% in 2012 vs. 1.4% in 2011.

<sup>1</sup> Investments in purchasing/modernizing plant and equipment

## Yenakiieve Iron & Steel Works

Yenakiieve Iron & Steel Works is one of the oldest plants in Ukraine: the country's first sinter plant (1938), first casting machine and the biggest blast furnace in Europe at the time were built here. To date, the plant remains one of the world's leading producers of billets, providing employment to thousands of local residents and ensuring a stable flow of taxes to the municipal budget.

Yenakiieve Steel started upgrading its manufacturing facilities after it became part of Metinvest in 2006. We invested over \$0.5 billion in the plant, in particular, in the construction of two state-of-the-art blast furnaces that are unmatched by other blast furnaces in Ukraine, in the infrastructure for a new oxygen plant that is being built, and in preparatory works for a new sinter plant that are underway.

The new equipment is more environmentally-friendly. Thus, after blast furnace #5, which has a modern gas cleaning system, was commissioned in 2007, dust emissions decreased by 20%.

One of the plant's biggest and the country's most modern facilities - blast furnace #3 - was launched in 2011. The new

vicinity of the plant's slag dumps, protect the river bank, and build modern waste water treatment systems.

Aside from the aforementioned major projects, major overhauls are performed annually on the gas cleaning systems of various equipment and new environmental facilities are built (e.g. installation of an electrostatic precipitator).

However, the most important event is yet to come. A new modern sinter plant will be built. Currently, the sinter plant accounts for 75% of the plant's atmospheric emissions. The new sinter plant, together with reconstruction of the blast furnace, will significantly reduce the environmental impact on the city.

Preparatory works for the new sinter plant commenced during the period under review. In June 2012, a contract for basic engineering was signed with Siemens VAI (Austria), a tender was held to select the main equipment supplier, and design documentation was developed.

We plan to submit the project for review by governmental experts and place contracts for the main process equipment in 2013-2014. The sinter plant is due to be launched in 2016. The old sinter plant will be decommissioned. These projects take at least five years to implement, but we will shorten the timing.

The project's organizers selected Austria's Siemens VAI,

The atmospheric emissions of the new sinter plant will be seven times less than those of the existing one, while the sinter plant's productivity will be almost twice as high.

furnace is complete with modern dedusting systems<sup>1</sup>. Compared to older plants, it collects dust more efficiently. The new recirculation system of the blast furnace gas treatment plant was launched, enabling a reduction in water consumption and decreasing the volume of discharged waste water. The furnace is cooled by specially treated water in a closed loop.

Due to the reconstruction of blast furnace #3, atmospheric emissions decreased by 1,969.5 tons from 2008 to 2012<sup>2</sup>, while iron output was maintained; the discharge of waste water into the Bulavin River was reduced by 648,000 cubic meters per year. We plan to restore the bed of the Bulavin River in the

which has a track record of more than 50 years in designing and building sinter plants in many countries. Its experience suggests that steelmaking facilities can be eco-friendly enough to operate in cities. The Austrian engineers offered solutions and technologies to minimize the environmental footprint of the new sinter plant. The contractor believes that the concept for Yenakiieve Steel's sinter plant uses "the best available international technology and be a benchmark both for Ukraine and the CIS in terms of sinter quality, productivity and environmental protection"<sup>3</sup>.

Based on a rough estimate, nearly \$400 million will be

<sup>1</sup> A dedusting system is a set of equipment that removes dust from the air. Dedusting systems usually include a network of air ducts and gas cleaning facilities.

<sup>2</sup> The blast furnace was shutdown in 2008 for reconstruction.

<sup>3</sup> According to Siemens VAI Vice President Christoph Aichinger in Yenakiieve in June 2013 during the signing of the contract.

2007

**Commissioning of new blast furnace #5 with modern gas cleaning systems**

invested in the new sinter plant. In early stages, the project was estimated at \$250 million. Metinvest made a conscious decision to approve the increase in the project's cost due to the inclusion of a Meros waste gas cleaning system in view of the environmental value of the project. This technology will enable the plant to reduce dust emissions to less than 10 mg/cubic meter and recycle captured dust back into production.

Dust collection solutions will be implemented in all process areas ranging from ore preparation to the charging of sinter to the blast furnace. For instance, the new stockyard, as one of the biggest sources of dust emissions, will be indoors to avoid dust generation during stockpiling. Raw materials will be unloaded by machinery (a wagon tippler) equipped with a dedusting system.

The new sinter plant is not the only major project to be implemented in the near future. Metinvest, together with local governments, developed the Environmental Program for 2013-2020. We plan to implement such projects as:

- major overhaul of basic oxygen furnace #1, which will reduce emissions of solid particles into the atmosphere;
- construction of treatment systems at water outlets of the plant to the Bulavin River, coupled with the installation of devices for measuring the discharge of waste water, which will decrease the pollutant concentration to expected limits under Ukraine's environmental law;
- reconstruction of a sludge pond, which will reduce the amount of landfilled process waste (sludge) by 2.459 million cubic meters/year.

2011

**Commissioning of the most innovative facility in the country – blast furnace #3**

Yenakiieve Iron & Steel Works will keep the local community informed of its progress on the program on an ongoing basis.

## Improvement of the Environmental Situation in Mariupol

Two large integrated steel plants - Azovstal Iron & Steel Works and Ilyich Iron & Steel Works of Mariupol - are located in Mariupol. The construction of the former plant started 83 years ago, while the latter plant celebrated its 115th anniversary in 2012. These two plants made Mariupol the largest industrial center in the region and also had a significant impact on the environmental situation in the city.

Current environmental standards have encouraged producers to modernize their manufacturing facilities and decommission obsolete equipment and inefficient technologies.

Blast furnace #1 at Azovstal was decommissioned and demolished in 2008. Three years later, the plant decommissioned its open-hearth steelmaking facilities. The transition to basic oxygen steelmaking improved steelmaking efficiency and steel quality, decreased natural resource consumption and production costs, and reduced

2012

**Commencement of the project to establish the new sintering plant**

environmental pollution. Gross emissions from steelmaking decreased by 1,181 t/year.

With local communities in mind, Metinvest decommissioned coke oven batteries #5-7 ahead of time to improve the environmental situation in the city. At Azovstal, emissions from its cokemaking facilities dropped by 29%.

At the end of 2012, as smog became more common in the city, Metinvest decided to mothball Azovstal's sinter plant and transfer sinter production to Ilyich Iron & Steel Works of Mariupol. This difficult step was taken deliberately to improve the environmental situation in Mariupol and the well-being of city residents regardless of the substantial expenses incurred by the Company.

The plant also strives to reduce discharge into the Sea of Azov and intake of seawater. The discharge of waste water

- Install a closed-loop water supply system for the rail and structural mill.
- Gradually install dry-type blast furnace gas cleaning systems. This will enable us to reduce the consumption of seawater and discharge of pollutants into the Sea of Azov.

**The decommissioning of the coke oven batteries and mothballing of the sinter plant reduced gross emissions of the plant by**

# 20%

**y-o-y in 2012.**

### Examples of major overhauls and modernization of equipment at Azovstal

- The major overhaul and modernization of dedusting systems at blast furnace #6, as well as a series of other projects, enabled us to sustain a waste gas cleaning level of up to 92%.
- As a result of the modernization of the dust-free coke pushing plant at coke oven batteries #3 and #4, emissions are almost dust-free (96% treatment efficiency).

decreased by 10.6% in 2012 compared to 2011, including due to the mothballing of the sinter plant.

As obsolete equipment and inefficient technologies are decommissioned, new equipment is installed at Azovstal. An accelerated cooling unit for plates was built at the 3600 rolling mill in 2011. This allowed the plant to expand its range of electric-welded steel pipes for aggressive chemical environments.

#### Azovstal's plans to 2020:

- Conduct a study to investigate if the plant can be switched to a closed-loop water supply.
- Build gas cleaning systems at blast furnaces #3 and #5.
- Reconstruction the fume extraction systems of the casthouses at blast furnaces #4 and #6.

**Ilyich Iron & Steel Works of Mariupol** was integrated into Metinvest Group in 2010 during a recession in the steel industry in Ukraine and the world. Nevertheless, the plant was immediately included in Metinvest's investment program. Between 2011 and 2012, major projects included the construction of the pulverised coal injection plant and major overhauls in the blast furnace shop and sinter plant.

A repair was performed on blast furnace #4 at Ilyich Iron & Steel Works of Mariupol in 2011 with assistance from experts of Yenakiieve Steel and Azovstal. A new technology preventing the cracking of the blast furnace stack was applied for the first time. This helped to reduce coke use and atmospheric emissions. Almost all assemblies and mechanical equipment of the dust arrester in the bottom house, as an area exposed to high dust levels, were replaced in 2012.

A nitrogen-based dust suppression technology was introduced at the casthouses of all five blast furnaces at the plant. Blast furnace casthouses are major sources of atmospheric emissions (mainly reddish-brown fumes from the aeration lanterns of the blast furnaces). Nitrogen supplied to points, where hot metal is tapped into ladles, prevents the generation of brown fumes without a long and costly modernization of the entire casthouse.

#### Plans of Ilyich Iron & Steel Works of Mariupol to 2020:

- The reconstruction of the sinter plant will be the most significant project. The project includes the reconstruction of all of the gas cleaning systems of the sinter plant. At this point, potential technical solutions are being investigated. One of the options involves reconstructing sinter off-gas treatment

Azovstal and Ilyich Iron & Steel Works of Mariupol's major investment projects to be implemented by 2020 will halve gross emissions of both of the plants (by more than 150,000 tons of pollutants per annum, i.e. more than 28% of the Company's total emissions) and reduce the discharge of pollutants in waste water by 40%.

into two stages. In the first stage, dust is captured. In the second stage, fine cleaning of sinter off-gas is done to remove gaseous pollutants. As a result, according to expert estimates, sinter plant emissions will decrease by 73,000 t/year. This is the most expensive investment project, estimated at over \$200 million.

- Modernization of the gas cleaning systems of the Basic Oxygen Furnace Shop.
- Reconstruction of the treatment plants at industrial water outlets #1 and #2 to the Kalchik River.

Reconstruction of the pumping station at industrial water outlet #2, which will allow the plant to recycle up to 800 cubic meters of water/hour back to the plant and reduce discharge. The plant plans to clean the sludge pond at industrial water outlet #1 and recycle retrieved sludge.

#### Dialogue with local communities in Mariupol

A series of meetings between Metinvest and representatives of local governments and the community were held in 2012 in Mariupol to discuss the environmental situation in the city. Following the meetings, the Environmental Protection and Rehabilitation Program for Mariupol in 2012-2020 was developed and approved by the city council. Action items by Metinvest's two plants account for more than 70% of the items in the program.

The program also includes items to reduce other types of exposure (emissions from vehicles, noise control, etc.) and raise the environmental awareness of local residents.

The estimated cost of the program's environmental activities is over \$800 million, of which Metinvest accounts for nearly \$620 million.

## Khartsyzsk Pipe and Avdiivka Coke's environmental initiatives

Khartsyzsk Pipe commissioned new waste gas cleaning equipment. Two old gas cleaning plants - roto clones (with a design treatment efficiency of up to 75%) - were replaced with modern cassette filters with 99% treatment efficiency designed to remove solid fine particles from the air<sup>1</sup>. The replacement of the treatment equipment at two emission sources allowed for a 40% reduction in gross dust emissions in 2012 compared to 2011.

The system for recycling sludge pond waste water back into the process at the coal washing plant is running at Avdiivka Coke Plant. As a result, 190,000 cubic meters of drainage water (more than 8% of gross discharge) is reused annually and amounts of pollutants have been reduced by 18.3%. In addition, waste water treatment to remove phenol was improved and the risks of releasing untreated waste water into water bodies were mitigated thanks to measures taken in recovery shop #2.

<sup>1</sup> Fine particles up to 5 microns in size.



## Mining and enrichment enterprises

The mining and enrichment enterprises are implementing a comprehensive program to modernize dedusting equipment. The purpose of the program is to steadily reduce dust emissions in the atmosphere from the main emission sources to the level of international standards.

These activities were included in the Environmental Improvement Program for Dnipropetrovsk Region in 2007-2015 to Reduce the Environmental Impact of the Main Enterprises and the Program to Address Environmental Issues in Kryvbass and Environmental Improvement in 2011-2022.

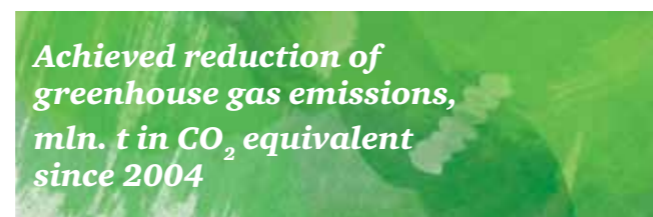
Northern GOK launched this program in 2009. The current financing plan for gas cleaning equipment construction/modernization in 2012-2016 amounts to over \$37 million. At the time this report was published, roasting machine precipitators had already been commissioned in Pellet Shop #1 to reduce dust emissions into the atmosphere by 245 tons per year.

The repair and reconstruction of dedusting systems at Central GOK will continue in 2013, and the construction of precipitators for the Lurgi 552-B roasting machine at Northern GOK is in progress. Dust emissions are expected to decrease by over 100 t/year.

## Elimination of greenhouse gas emissions

Metinvest became one of the first Ukrainian companies that supported global initiatives to reduce greenhouse gas emissions.

The Company currently has 14 joint implementation projects<sup>1</sup>, which have helped to prevent the emission of a significant amount of greenhouse gases (over 30 million tons in CO<sub>2</sub> equivalent since 2004). Should these projects not be implemented, the aforementioned quantity of greenhouse gases would have been

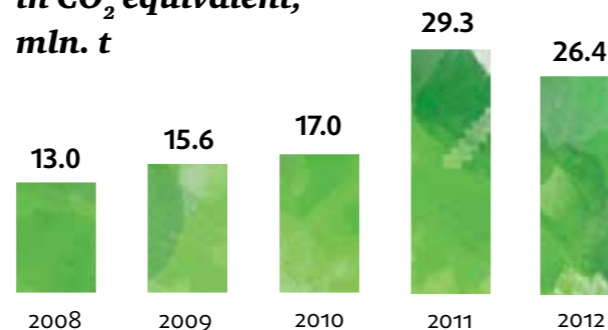


released into the air on top of those the enterprises had released since 2004.

The future of joint implementation projects (in 2013-2020) in Ukraine is not yet certain. However, we will continue to annually reduce greenhouse gas emissions even if the opportunity to receive a return on these investments through the sales of carbon units is not available.

We are currently considering the possibility of using alternative (non-Kyoto) schemes (standards) to register emissions reductions. These schemes are voluntary and confirm a company's commitment to the goals of sustainable development. Carbon units provided within these standards can also be sold to other companies. The main voluntary standards considered by Metinvest include the Gold Standard, VCS, and VER+<sup>2</sup>. However, Ukraine does not yet have a legislative framework for these standards.

**Greenhouse gas emissions in CO<sub>2</sub> equivalent, mln. t**



**Note** The growth in emissions in 2011-2012 is related to the integration of new enterprises into the Group. Ilyich Iron & Steel Works of Mariupol accounted for 42.9% in 2011 and 41.5% in 2012.

## Environmental management system

Metinvest is developing an environmental management system for all of the Group's enterprises that integrates environmental objectives into strategic initiatives.

The enterprises are free to have their management systems certified for compliance with ISO 14001. The table shows that seven enterprises and the Management Company have been certified.

Environmental subcommittees were organized in 2011 under the central health, safety and environment committees. The subcommittees coordinate searches for optimal environmental solutions and oversee the execution of environmental actions. The most important decisions made by subcommittees can be considered by central committees that include the Company's management or by the Company's investment committee. This ensures that decisions are made promptly.

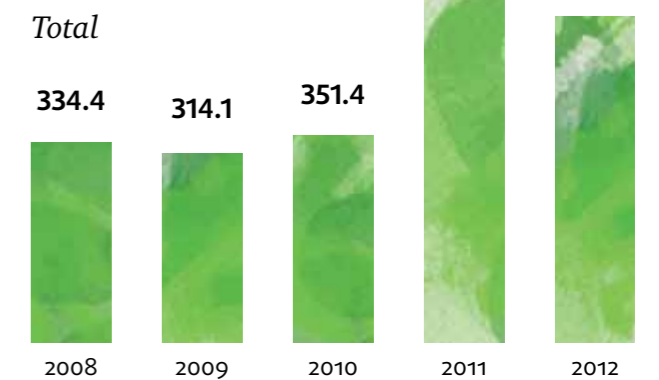
The Company's Strategy and Investments Committee approves a list of the most significant environmental projects every year. Additions to this list in 2012 included MMKI's sinter plant reconstruction, Azovstal's overhaul of its cast house dedusting system at blast furnace #4 and Yenakieve Steel's reconstruction of the gas exhaust duct of vessel #1.

Metinvest's enterprises conduct in-house target environmental audits in different environmental areas that go beyond applicable legislative requirements. These audits were started in 2011 at all enterprises of the Group. They checked, among other things, the availability of internal systems for condition monitoring and the efficiency of gas cleaning facilities.

**Status of the certification of management systems on international standards**

Enterprise	OHSAS 18001	ISO 14001
Metinvest Holding, LLC		✓
Azovstal	✓	
Ilyich Iron and Steel Works of Mariupol	2013–2014	
Khartsyzsk Pipe	✓	
Yenakieve Steel and Yenakieve Steel's Makiivka Branch	Yenakieve Steel's Makiivka Branch 2013/2014	<b>Yenakieve Steel</b> ✓
Inkor & Co	✓	✓
Komsomolske Flux	✓	✓
Ingulets GOK	✓	✓
Northern GOK	✓	✓
Central GOK	✓	✓
Krasnodon Coal	✓	

**Gross emissions into the atmosphere, ths. t**



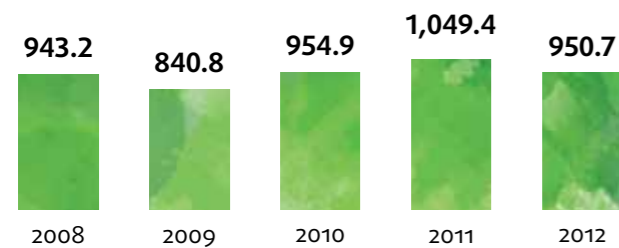
**Note.** The growth of total emissions in 2011-2012 is related to the integration of new enterprises into the Group. Ilyich Iron and Steel Works of Mariupol accounted for 40.4% in 2011% and 39.2% in 2012. Excluding Ilyich Iron and Steel Works of Mariupol, total emissions decreased.

<sup>1</sup> These projects were described in detail in the previous report.

<sup>2</sup> For a more detailed list of voluntary standards, see <http://www.co2offsetresearch.org/policy/VoluntaryStd.html>.

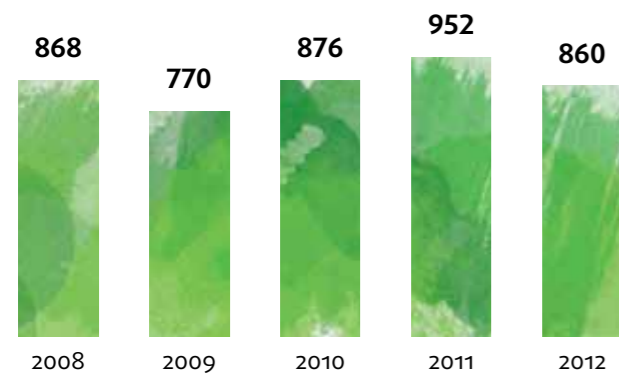
<sup>3</sup> Of which 8.6 million tons were verified and confirmed as part of Kyoto Protocol emissions reductions.

### Water consumption mln. m<sup>3</sup>



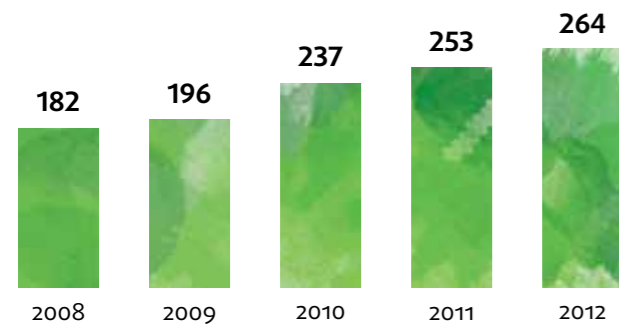
Note. Minor growth in water consumption in 2011 is related to the integration of new enterprises into the Group. MMKI accounted for 6.4% in 2011% and 6.3% in 2012. The reduction in the indicator in 2012 was driven by the decommissioning of obsolete technologies (see sections "Yenakieve Iron & Steel Works" and "Environmental Improvements in Mariupol").

### Effluent discharge, mln. m<sup>3</sup>



Note. The growth of effluents discharged in 2011 is related to the integration of new enterprises into the Group. Ilyich Iron and Steel Works of Mariupol accounted for 5.0% in 2011% and 5.8% in 2012.

### Volume of waste, mln. t



Note. Ilyich Iron and Steel Works of Mariupol accounted for 2.6% in 2011% and 2.4% in 2012.

## Reduction of product energy intensity

The Technological Strategy defines the long-term energy performance of Metinvest's enterprises. The mid-term objectives are stated in the operational improvement program for 2010-2016. The goals are achieved through the completion of annual energy saving actions. To ensure the optimal use of energy resources, the enterprises develop annual programs. This contributes to the systematic reduction of energy costs and improvement of product competitiveness.

The annual programs include the commissioning of new equipment with better performance parameters and cost-free organizational and technical actions (e.g. changing the mode of operation of equipment) targeting improvements in the existing process flow.

Objectives to improve energy performance (reduction in the use of utilities like electricity, gas and coke) are especially important for the enterprises of the Metallurgical Division, where energy costs of the full process cycle make up to 40% of the production cost. To identify areas where utilities are not effectively used by Metinvest's enterprises, an Automated Energy Control and Measurement System was developed. Systems for measuring all utilities are designed and being gradually implemented at the enterprises of the Metallurgical Division as per the program. This project targets reliable, accurate and prompt managerial and accounting control of materials and utilities. The Automated Energy Control and Measurement Systems are expected to be installed at all metallurgical enterprises of the Group in 2012 - 2015.

The Metallurgical Division has an Energy Committee as part of its energy saving initiative. The consideration of operational performance helped identify and eliminate significant overconsumption of fuel and energy.

Modernization programs also contribute to reducing the energy intensity of the enterprises. Thus, the shutdown of open hearth operations and transition to basic oxygen-based steel production caused the overall energy intensity of Azovstal to go down by 11% in 2011 compared to 2010.

Metinvest's employees plan to have an active role in energy saving programs. Since in 2011, the enterprises of the Metallurgical Division held a competition for the best energy

### Energy saving targets for 2010-2016

Enterprise	Reduction of specific electricity consumption in iron ore concentrate production	Reduction of specific natural gas consumption in iron ore pellet production
Northern GOK	<b>-3.8%</b>	<b>-11%</b>
Central GOK	<b>-2%</b>	<b>-10%</b>
Ingulets GOK	<b>-9%</b>	<b>No pellet production</b>

saving proposals and effective uses of fuel and energy resources. To be accepted to the competition, proposals need to have been implemented and proven effective. Every quarter, the panel selects the five best proposals, which receive monetary prizes. The effect of the proposals submitted and implemented was \$8.6 million in 2011 and \$9.3 million in 2012.

Energy saving projects implemented at the mining and enrichment enterprises are developed according to the corporate requirements for investment projects. Two comprehensive investment projects were implemented in 2011-2012, which, in total, helped reduce energy intensity by more than 22 million kWh per year:

- Energy saving lighting equipment was installed at all GOKs and at Komsomolske Flux as part of the first phase of the project, which reduced electricity consumption by 9.2 million kWh per year.
- The second project envisages the modernization of electric drives of the main process facilities. Implementation of the project will continue through the end of 2013. The modernization will cover 146 drives, which will reduce electricity consumption by 12.9 million kWh per year.

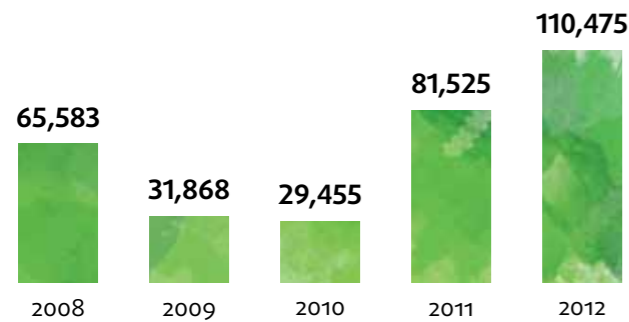
Preparation of energy management systems for ISO 50001 certification was started in 2011 at the enterprises of the Metallurgical and Mining Divisions. This standard was implemented to set in place systems and processes that

The analysis of oxygen consumption at Azovstal indicates the possibility for supplying oxygen to the process shops with one oxygen block. With that purpose in mind, a number of technical and organizational actions were developed (such as gas pipeline inspection) including a procedure to align Oxygen and BOF Shop dispatchers. As a result, direct oxygen loss was reduced from 15% to 2% and the cost of oxygen from \$82 to \$76/ths. m<sup>3</sup>, which saves \$230,000 per month. An additional effect was received after two air compressors consuming 7.5 MWh each were shutdown.

The study in 2011 showed that sinter production at MMKI consumes 1.84 GJ/t, with natural gas the major element of energy intensity. The program to modernize sintering machine ignition furnaces along with operational improvements brought average energy intensity to 1.69 GJ/t in 2012 and natural gas consumption from 5.0 to 4.6 m<sup>3</sup>/t or \$180,000 per month. This indicator has the potential to decrease even further.

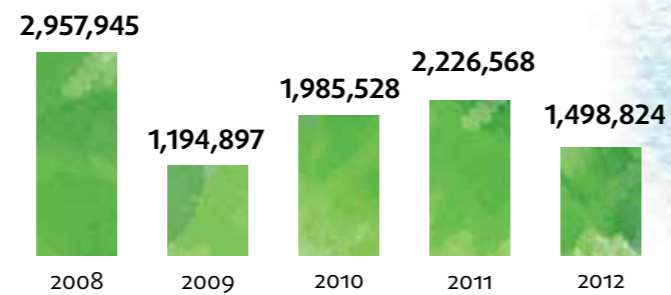


### Electricity savings, MWh



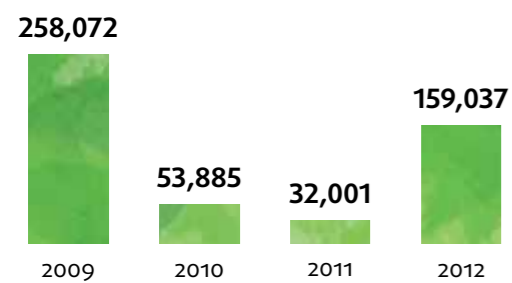
Note. Ilyich Iron and Steel Works of Mariupol accounted for 10.0% in 2011 and 10.9% in 2012; Komsomolske Flux accounted for 9.6% in 2012.

### Fuel savings, GJ



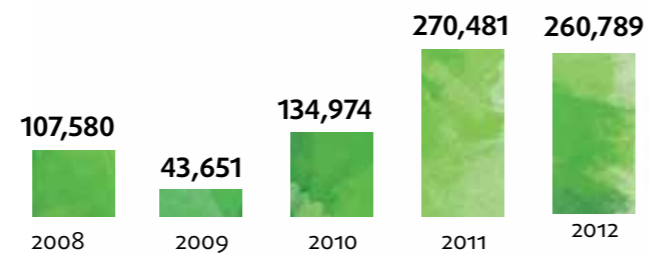
Note. Ilyich Iron and Steel Works of Mariupol accounted for 30.4% in 2012.

### Thermal power savings, GJ



Note. Significant growth in thermal power savings in 2012 compared to 2011 was primarily the result of maintenance (e.g. cleaning the heat exchangers' heating apparatuses). Ilyich Iron and Steel Works of Mariupol accounted for 4.3% in 2011 and 46.3% in 2012.

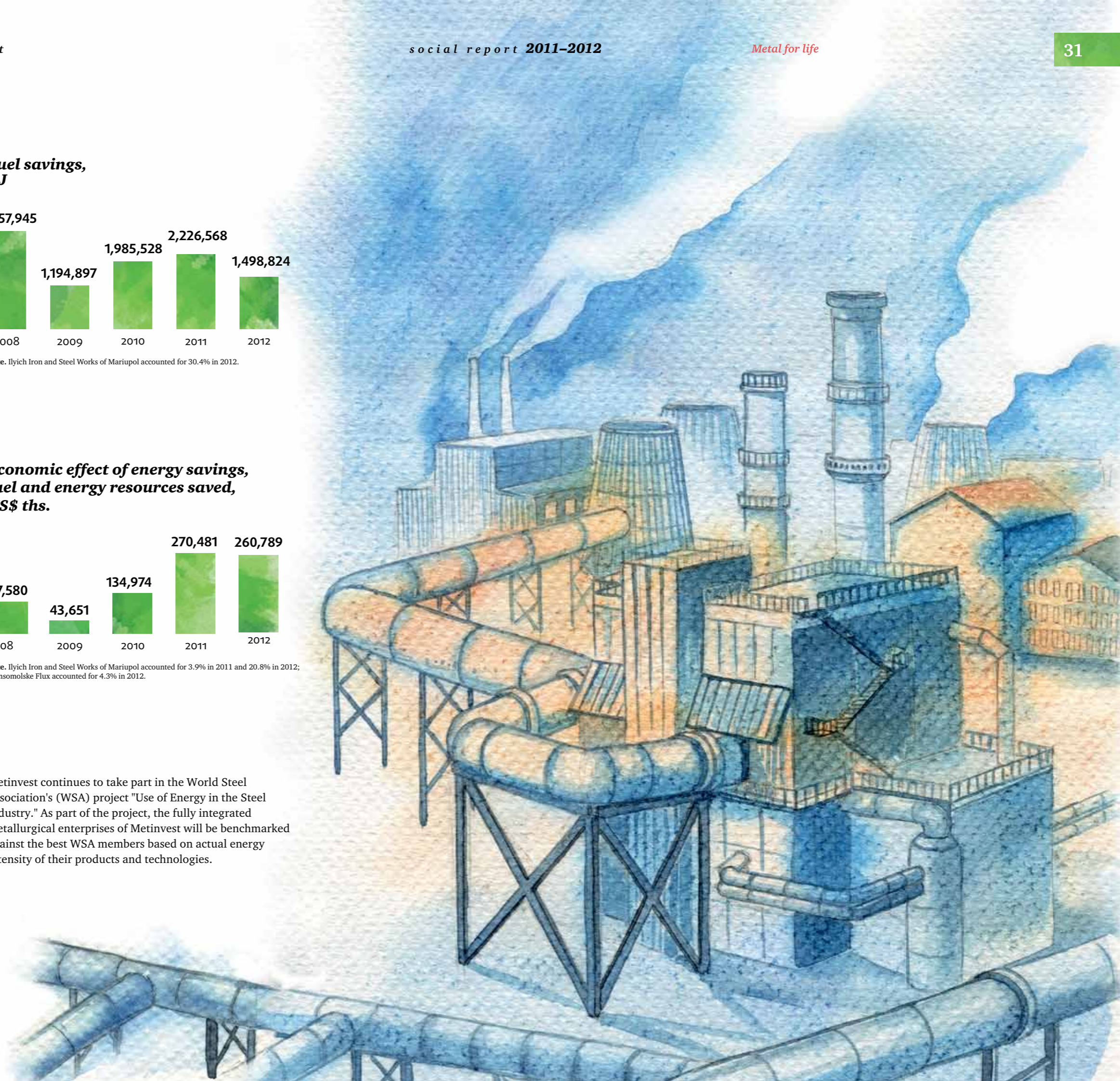
### Economic effect of energy savings, fuel and energy resources saved, US\$ ths.



Note. Ilyich Iron and Steel Works of Mariupol accounted for 3.9% in 2011 and 20.8% in 2012; Komsomolske Flux accounted for 4.3% in 2012.

are required to improve energy performance, including energy saving, consumption and usage. The standard implementation and certification process was launched in 2012 at Azovstal, MMKI, Yenakieve Steel, Khartsyzsk Pipe, Northern GOK, Ingulets GOK and Central GOK. In 2013 certification audits are planned in both divisions.

Metinvest continues to take part in the World Steel Association's (WSA) project "Use of Energy in the Steel Industry." As part of the project, the fully integrated metallurgical enterprises of Metinvest will be benchmarked against the best WSA members based on actual energy intensity of their products and technologies.



# Safety



Coal and ore miners and steel makers work in high risk areas. Safety is one of the most important issues in Metinvest. Safety improvement work is directed at the prevention of injuries and incidents.

Our goal is to achieve zero injury and incident rates. This is an area where we do not limit ourselves to the requirements of legislation, but build a safety at-work culture by putting in place additional levers to ensure business reliability.

## Safety management system

### Philosophy and approaches

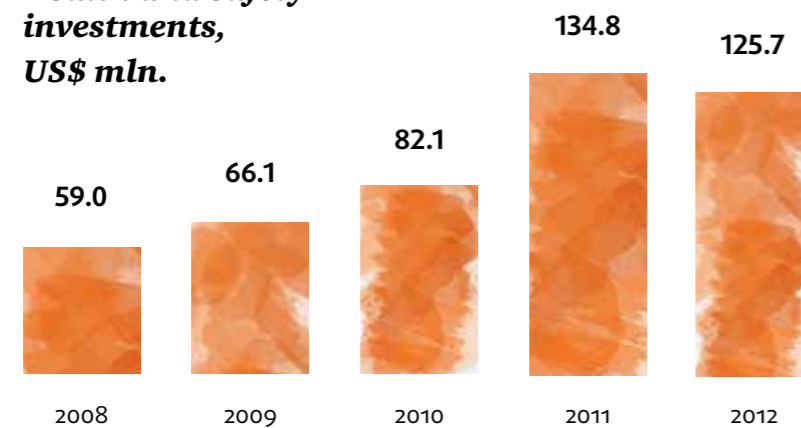
We started building a unified health and safety system in Metinvest five years ago using international best practices. We defined the architecture of this system over time and it includes 20 elements (see figure on p. 35). Some of them have been implemented and the others still have to be put

in place. The figure shows all elements of the management system and provides a description of Metinvest's actions with regard to the key elements.

The management system is improved on a continual basis. Despite the success we achieved in reducing the injury rate, there is still a lot to do.

This is the reason we invest significant funds in health and safety. Safety expenditures are viewed by the Company's management as investments that ensure stable and incident-free operations at its enterprises. According to studies by the Liberty Mutual Research Institute for Safety, every dollar that is invested in safety provides for almost \$3

**Health and safety investments, US\$ mln.**



Note. The growth in safety investments in 2011 compared to 2010 was mainly due to significant expenditures by the enterprises (Avdiivka Coke, Central GOK and Azovstal) to repair sanitary premises and integrate Ilyich Iron and Steel Works of Mariupol into Metinvest. Ilyich Iron and Steel Works of Mariupol accounted for 10.6% in 2011% and 20.0% in 2012.

in savings for the Company. Therefore, an effective safety system justifies the investments and contributes to the stable future of the business.

### Leadership

The key to our success and the key element of the health and safety system is the leadership of the senior managers working in the Management Company and at the enterprises. This year we made significant progress. All managers believe that the life and health of employees is a necessary priority along with production targets and set an example by demonstrating high personal commitment to safety.

This conviction is demonstrated during safety audits (the audit procedure is described in the 2009-2010 Social

Report). The purpose of the audits is to identify hazards and prevent incidents in the future. Pursuant to the CEO's order and according to Senior Management Audit Regulations, since 2012 managers at all levels of the Management Company and enterprises must participate in these audits and make recommendations based on their results.

For example, during an audit at one of the enterprises senior management saw that an employee was not using PPE<sup>1</sup> according to the corporate standard. The reasons for the lack of PPE were identified and the incident was marked as one that required the special attention of the relevant department of the enterprise.

The number of audits conducted by line managers at Metinvest's enterprises is in the thousands.

### Elements of the HSE management system



<sup>1</sup> PPE - Personal Protective Equipment

We believe it is important to continuously improve the quality of these activities by training the employees who introduce the procedure and conduct the audits. Group trainings were mainly conducted by internal trainers. Individual trainings were additionally offered to each line manager, which also involved the leading specialists in this field. Main shop managers at all levels conduct safety audits with the specialists from the Health, Safety and Environment Directorate.

### Policy and Central Committees

The Company's position on health and safety is set out in the policies, vision and principles of Metinvest Group<sup>1</sup>.

The last social report contained detailed information on

# 9,871

## LINE MANAGERS

*in 2011-2012 were trained on how to implement safety audits and conduct them*

the establishment of the management vertical in the form of Central Committees. Management through Central Committees ensures a careful elaboration of solutions and operating control over their execution.

Representatives of the Company's senior management conducted 17 safety audits in 2012, following which 53 safety improvement recommendations were issued, of which 51 have been implemented.



<sup>1</sup> Published on the Company's official website (<http://www.metinvestholding.com/ru/csr/hse>).

## Occupational safety standards

**2009-2010**  
*The following standards were implemented:*

- "Safety Audits at the Industrial Sites of Metinvest Group"
- "Root Cause Analysis Procedure"
- "Works Safety Analysis"

**2011**  
*The following standards were implemented:*

- "Lock-Out, Tag-Out and Check-Out"
- "Requirements for Work Clothes, Work Shoes and Other Personal Protective Equipment for Enterprise Employees..."
- "Contractor Safety"
- "Assessment and Mitigation of Operational Risks"
- "HSE Management During Investment Projects"
- "Safety Assurance for High Risk Operations Using a Work Permit System"
- "Prehospital and Emergency Medical Aid"

**2012**  
*The following standards were developed and implemented:*

- "Safe Working at Heights"
- "Fundamental Health and Safety Rules for Metinvest Group's Enterprises"

### Corporate standards

Corporate standards have been put in place to improve safety in the workplace. They contribute to existing regulations and requirements associated with equipment operation and human behaviour. Regulations and standards that are a top priority in terms of the prevention of injuries are to be developed first.

For example, the "Safe Work at Heights" standard became necessary after many serious injuries associated with working at heights were reported. These incidents accounted for approximately 30% of all injuries. The next step in this area is to develop a corporate standard called "Safe Work in Confined Spaces."

Some standards (e.g. "Lock Out - Tag Out - Check Out") were used only by overseas companies until Metinvest introduced them. The standard says that before maintenance or repair works on equipment, employees shall turn it off and fix the point for turning it off. By doing this, the equipment cannot be set in motion by accident.

As a result of standards implemented between 2009 and 2012,

all of Metinvest's enterprises moved to new more convenient corporate PPE with higher protection against hazardous production factors. For example, new PPE includes coldproof trousers and half-masks with a changeable filter cartridge. Although we have achieved a lot, our focus is on the further development and improvement of PPE.

### Rules and instructions

The implementation of "Fundamental Occupational Safety Rules across Metinvest Group enterprises" or as we informally call them "Lifesaving Rules" was an important milestone for the Company in 2012. Not following these rules can result in serious consequences for the lives and health of employees. Five of the ten rules are common for everyone and another five have been put in place, taking into account the specifics of each operation.

Not following the rules is a major violation of workplace disciplinary rules. Disciplinary measures, up to dismissal, are applied to employees who have violated these rules, in accordance with legislation. All employees have been informed of the document and have had to sign it. A broad communication program is undertaken, such as information in

corporate and local media. The initiative was supported by the trade unions of the enterprises. Employees were given some time to study and adapt to these rules.

### Assessment of occupational hazards

In 2011-2012, the new standard "Assessment and Mitigation of Occupational Hazards" introduced a risk assessment procedure based on international HAZID (hazard identification) methodology. Now each production process is subject to a hazard description and mitigation action

as part of the tender. Cooperation results are recorded in the single register of contractors.

This standard helped achieve an important result, namely in 2012 the rate of injuries to contractors' employees at Metinvest's sites declined compared to 2011.

We believe this approach contributes to the development of contractors, i.e. by increasing the requirements for safety in the workplace, they can provide their services not only for our enterprises but for other clients in a safe manner and save the lives of their employees.

The implementation of "Fundamental Occupational Safety Rules across Metinvest Group enterprises" or as we informally call them "Lifesaving Rules" was an important milestone for the Company in 2012.

development. We plan to finalize this process at all of Metinvest's enterprises over a five year period. The adoption of this standard is the best available practice for Metinvest's industrial enterprises.

### Training

The adoption of all of these standards is accompanied by staff training at all enterprises.

Training on occupational health and safety standards will be provided by 53 in-house coaches. In-house coaches, together with the HSE Directorate, trained 15,324 employees (79,451 human/hours) in 2012 alone.

### Contractor safety management

The standard introduces a common approach and safety requirements for in-house employees and contractors' employees. According to the standard, all contractors shall be pre-qualified for compliance with occupational health and safety requirements. This helps exclude organizations that do not comply with safety requirements during pre-selection

### Industrial community recognition

A real highlight was two International Conferences on Health, Safety, and Environment initiated by Metinvest, which were held for the first time in Ukraine in 2011 and 2012. These conferences were attended by nearly 300 specialists from more than 90 industrial companies such as DuPont, Shell, RAG, ArcelorMittal, Celsa Group, SUEK, DTEK and international experts and consultants, and representatives of government bodies.

The participants discussed ways to introduce a workplace safety culture and improve safety management at industrial sites, existing obstacles and challenges faced along the way, and the important role of cooperation between business, government and society in addressing environmental issues.

Metinvest Group's achievements in health, safety and the environment have been highly regarded by peers. The open exchange of opinions and information arranged by the Company allowed Metinvest to outline ways to improve safety at production sites.



## Injury rate analysis for 2011-2012

Workplace injuries decreased in general in 2012 (compared to 2011). Total lost time accidents (injuries) declined thanks to the more attention managers at all levels paid to safety in the workplace, safety audits, the adoption of new corporate safety standards, and gradual changes in people's attitudes.

Notably, Metinvest Group's headcount in the reporting period increased as a result of the acquisition of Ilyich Iron and Steel Works of Mariupol and Komsomolske Flux, whose safety management differed from the approaches we use at our enterprises.

Unfortunately, we failed to prevent fatalities. We thoroughly investigated all accidents, identified root causes, and undertook appropriate actions to prevent such accidents in the future.

In February and December 2012, two fatal incidents happened at Ilyich Iron and Steel Works of Mariupol, as a result of which five people were killed. In the first incident, after a power blackout in the boiler house, workers, violating safety requirements, decided to manually close the valves of the gas pipelines in the boiler house. As a result, three people died from CO poisoning. In the

second incident, for reasons not attributable to the enterprise - due to a defect the original manufacturer of the machine made - a ladle fell down when works were in progress.

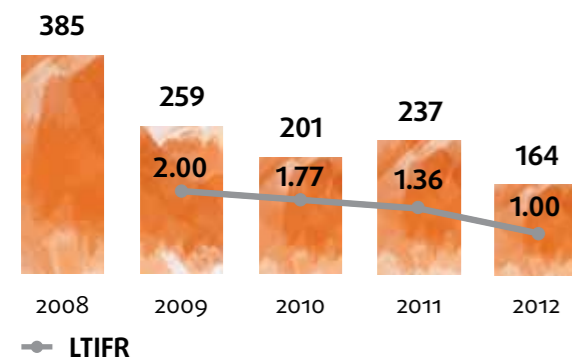
The most tragic incident happened at Krasnodon Coal in 2011. As a result, 28 people were killed: 19 workers from the Sukhodolsk Vostochnoye Mine Group and nine contractor workers.

A thorough investigation showed that this tragedy might not have happened if all appropriate safety measures had been followed. Root causes of the emergency:

1. Explosion safety clearances were not observed with the electric start-up equipment (a starter motor section cover was open). The contact started sparking during starter initialization, resulting in methane ignition. As the cover was opened, the flame exited to the mine working.
2. The high concentration of coal dust in the mine working resulted in an explosion of coal dust, intensifying the methane sparks.
3. Rock dust barriers, which should have stopped the blast wave, failed to be triggered as a result of built up rock dust.
4. Gas control equipment failed due to the very high methane concentration and did not control the gas level in the mine working.

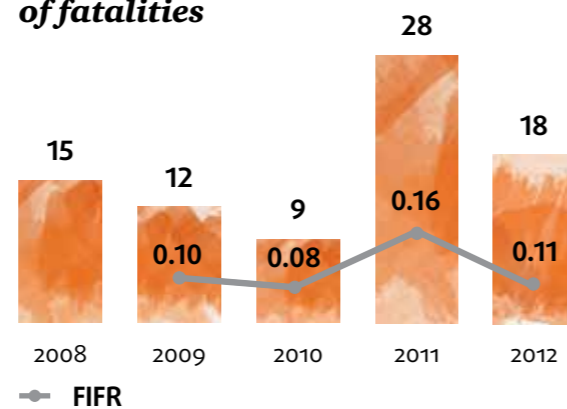
The Company's management took control of the situation. Two technical and one behavioural audit was conducted to assess the situation by third party international consultants. As

### Total number of LTI incidents



Note. Ilyich Iron and Steel Works of Mariupol accounted for 30% in 2011 and 39% in 2012; Komsomolske Flux accounted for 2.1% in 2011. The LTI rate<sup>1</sup> excluding Ilyich Iron and Steel Works of Mariupol and Komsomolske Flux equalled 1.56 in 2011 and 1.01 in 2012.

### Total number of fatalities



Note. Ilyich Iron and Steel Works of Mariupol accounted for 4% in 2011 and 50% in 2012. FIFR<sup>1</sup> excluding Ilyich Iron and Steel Works of Mariupol and Komsomolske Flux equalled 0.3 in 2011 and 0.09 in 2012.

<sup>1</sup> A factor of 1,000,000 is used to calculate LTI rate and FIFR.

recommended by the auditors, action plans to improve safety have been put in place and are being implemented.

To avoid such emergencies in the future, an integrated coal mine safety system is being implemented at the Sukhodolsk Vostochnaya mine. It includes an alarm system and a miner location tracking system that helps track the location of miners underground in real time and prevents them from being in hazardous areas, and process equipment monitoring in mine workings. Furthermore, a multi-step aerogas control system is being implemented. As opposed to the existing system, this system is complete with highly reliable gas metering equipment, automatic controls on the operation of all components, and high speed data transfer and analysis. The investments totalled \$7 million.

Implementation of the integrated system is planned to be completed in 2013. The installation of a similar system will start at Krasnodon Coal's other mines in 2014.

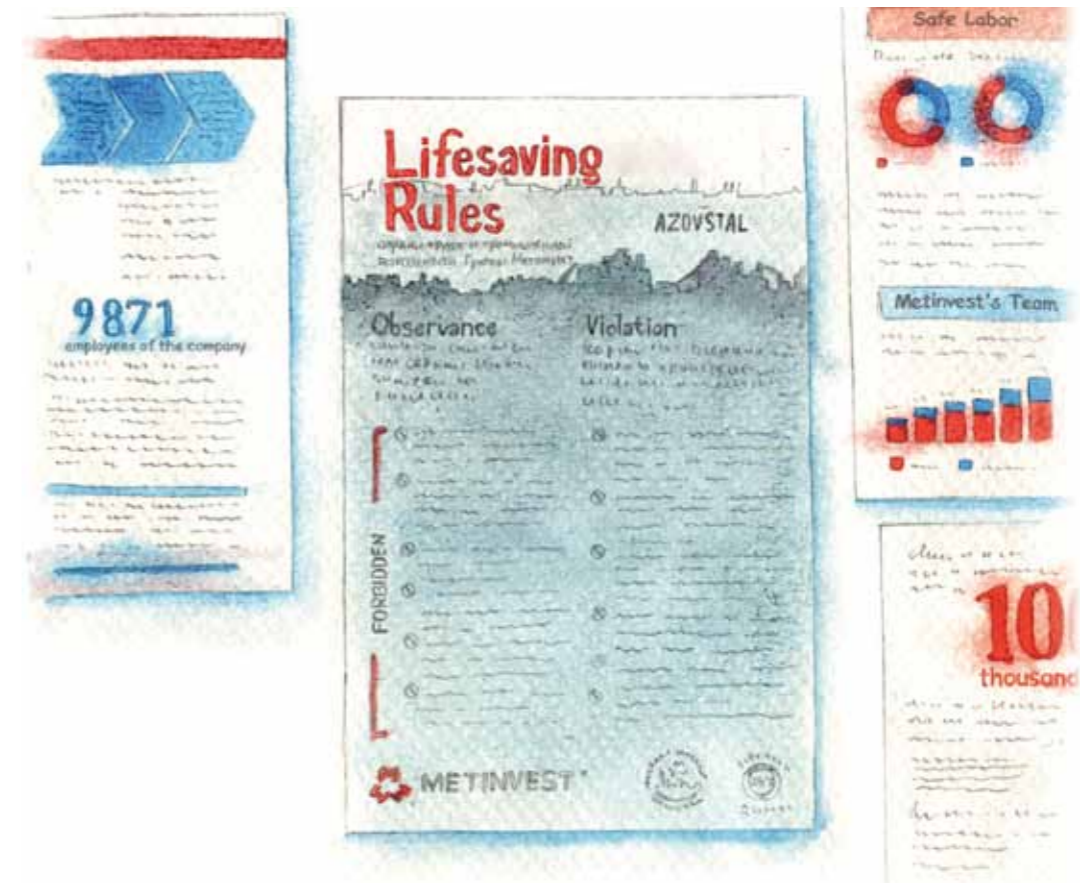
The enterprise is also implementing a totally new dust suppression system that will prevent explosive coal dust accumulation. The implementation of the explosion isolation

system is underway in mine workings. This system is designed to suppress explosions of methane and coal dust in their early stages.

In addition, the following actions have been undertaken at the enterprise to prevent injuries to workers:

- Safety barriers with remote controls were installed within the receiving and dispatching areas in inclined mine workings. They help prevent the uncontrolled motion of rolling-stock.
- Mine workings also were equipped with luminescent direction signs. They are clearly visible in poor lighting conditions and make workers aware of hazards in a timely fashion.
- Actions were undertaken to ensure the explosion-safe operation of mining electrical equipment in underground workings.

Subject related videos were shot for training purposes. Each video consists of several parts that recreate real-life emergencies. After videos are shown, they are discussed with workers to solidify their knowledge. Starting from 2013, these actions will be rolled out across all of Krasnodon Coal's enterprises.



## Health of employees and support of active, long lives

Metinvest pays special attention to preserving its employees' health, their capability to work productively and be socially active.

The Company approved the Health Protection Development Strategy for the Group's enterprises in 2010. It is aimed at preventing work-related diseases and protecting employees' health. Actions to improve the quality of medical care are carried out on a regular basis, namely, first aid treatment, cardiovascular disease prevention, and healthy lifestyle promotion.

Equipping first aid stations with modern equipment for emergency care such as stretchers, vacuum splints, defibrillators, etc. was an important achievement in 2011-2012.

Four underground first aid stations were arranged at Krasnodon Coal. In addition, there are special medical kits consisting of bandages, splints, and tourniquets in areas located far from first aid stations.

Azovstal purchased two ambulance cars that meet European standards in 2012. It is planned to purchase similar cars for other enterprises in 2013.

The next step in the Health Protection Strategy is to conduct extensive medical examinations of workers in critical jobs<sup>1</sup>. We are doing this on top of legislative requirements.

From the point-of-view of HSE, critical jobs are ones where sudden incapacitation can threaten the life the life and health of one or several workers, leading to an emergency or environmental incident with significant material damage. This means, for example, drivers of buses or heavy vehicles.

Extensive medical examinations will make it possible to:

- identify hidden risks associated with the development of danger to workers' lives that are impossible to detect during routine examinations;
- undertake actions in due time to mitigate those risks (put in place treatment and changes to healthy lifestyle plans);
- increase the motivation of workers to follow treatment regimens and reconsider their habits and lifestyles.

We are proud of the fact that over two years 409 mid-level medical employees and doctors of different disciplines were trained at all of the Group's enterprises with relief medical employees (more than 20 enterprises in Donbass and Krivorizhya). They gained knowledge and hands-on experience with modern practices in emergency care.

### Examples of fast response actions undertaken by medical departments

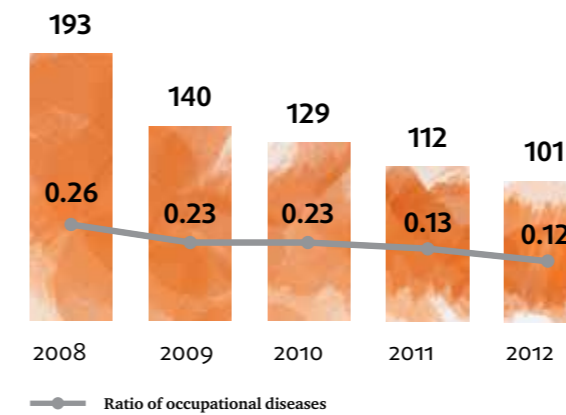
A worker suffered heart failure. Four minutes later, the enterprise's medical team arrived with appropriate medical equipment. They managed to resuscitate the worker and saved their life.

In another case, a worker had an internal head injury that could not be detected by visual examination. The quick transportation of the worker to an in-patient hospital saved their life, despite immense blood loss.

We got the first evidence that we are moving in the right direction: we managed to save several lives in 2011-2012 thanks to professional, confident and rapid action by medical employees.

<sup>1</sup> The "Extensive Pre-shift and Periodic Medical Examination" corporate standard was adopted.

### Total instances of occupational diseases



Note. Occupational disease rate excluding Ilyich Iron and Steel Works of Mariupol and Komsomolske Flux equalled 0.21 in 2011 and 0.20 in 2012.

At Krasnodon Coal, where the program was launched as a pilot project, first aid training was provided to

# 4,700

WORKERS

In-house coaches, selected among trained medical employees, started training the first workers as medical assistants. These people were located close to the injured and the outcomes of emergency care depend a lot on their actions.



**Metinvest's  
team**





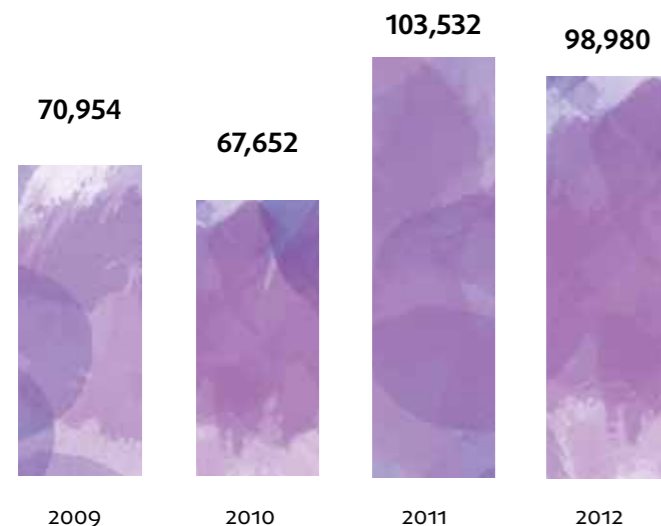
Today  
Metinvest's  
enterprises in  
Ukraine employ  
about

100  
THOUSAND PEOPLE

The future of the Company depends a lot on its people, their skills and readiness to work toward common goals. Key elements of our corporate culture are partnership, professionalism, open communication, feedback, team spirit, performance and a drive toward common goals.

Metinvest was among the top three national companies in "The Most Respected Employers of Ukraine in 2010" survey conducted by Reputation Capital in cooperation with Head Hunter in 2011.

### Number of full-time employees



Note. Ilyich Iron and Steel Works of Mariupol accounted for 35.7% in 2011 and 36.3% in 2012; Komsomolske Flux accounted for 2.9% in 2011 and 2.5% in 2012.

## Cooperation with youth

We are interested in youth, specialists, and workers from various disciplines and qualifications joining our Company. This is what Metinvest's HR policy is focused on. We communicate our approaches and practices in staff recruitment in regions openly and candidly and undertake special activities and programs.

Metinvest believes it is necessary to establish traditions for the new generation of workers and continue previously established ones. Several years ago, Ingulets GOK initiated a Take Your Child to Work Day. This practice was embraced by other enterprises too. More than 5,000 people participate each year. We hope many of these people will become our employees in the future.

Metinvest's employees participate in programs initiated by the youth-led organizations AIESEC and Enactus: sharing their knowledge and experience and acting as mentors and experts at conferences. Hands-on experience, which can be more valuable than theoretical knowledge, is shared through direct communication. This information might be critical for young specialists as they decide on a workplace.

The enterprises have traditionally closer partnerships with schools, educational institutions, and vocational schools.

For example, Azovstal's "School - Higher Education - Plant" program is widely known in Ukraine. Similar programs have been launched at Northern GOK and Ingulets GOK. Metinvest plans to build regular cooperation with educational institutions in Ukrainian regions in the future.

The Company was involved in a project to develop professional standards for higher educational institutions when this report was being prepared. This effort is intended to adapt the training of young professionals to the needs of producers to the maximum extent possible. In this way, graduates will be in high demand and secure jobs.

Metinvest recognizes the importance of supporting and developing promising, creative, and "out-of-the-box" young thinkers. To this end, many enterprises within Metinvest Group have programs for young professions to help them learn the specific features of production and demonstrate their skills in the future, such as at corporate conferences

and via contests for young professionals. Conference participants develop and present projects. The best ideas are made into reality.

Various contests are also conducted by the enterprises, including Best Young Manager, Best Young Professional, Best Young Fitter, Best Young Excavator Operator, etc.

The "Metinvest-2011" international scientific and technical conference for young professionals took place in 2011. Employees from enterprises from Ukraine, Russia, Moldova, and Belarus took part in the conference. Participants made presentations on a wide range of topics covering all aspects of steelmaking operations and innovations in process improvements. 24 young employees from Ilyich Iron & Steel Works of Mariupol, Azovstal, Yenakiieve Steel, Yenakiieve Steel Makiivka, and Khartsyzsk Pipe were among winners and honorees at the conference. The best projects were put into practice at the enterprises.



## Making careers

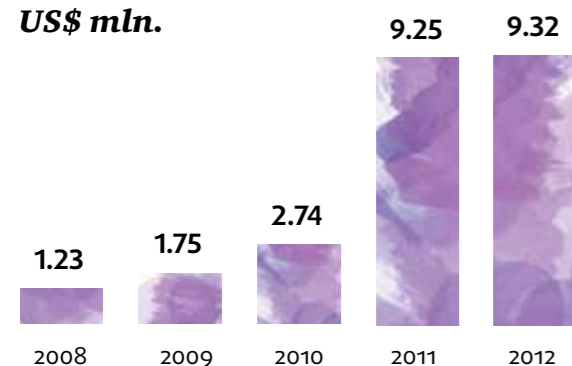
At Metinvest, we offer all employees opportunities for professional advancement to senior positions. This holds true for executives, specialists and workers. Internal candidates have priority in terms of senior appointments, according to Company policy. For this, they should achieve top performance and show initiative and personal responsibility. We assist our employees in developing these qualities.

Metinvest continues to implement a common corporate training system for various categories of employees. All programs are tailored to the actual needs of the enterprises and are unique. Trainees acquire practical knowledge that is relevant now and will be relevant in the future when moving up the career ladder. In the future, the specific types of training used at the Company's enterprises will be integrated into a single model and duplicate programs will be removed.

The Corporate University, a network of training centers that operate at the enterprises within the Group based on a common philosophy, opened in mid-2012. Between 2011 and 2012, we continued to implement the succession pool development program and focused training programs for junior and middle management.

For example, the ad-hoc training program for junior and middle management called Management DNA. The aim was to form

### Investments in staff training, US\$ mln.



**Note.** The sizable increase in investments in employee training in 2011 and 2012 was the result of including the employee training expenses of the Management Company and Ilyich Iron & Steel Works of Mariupol. The Management Company accounted for 44.0% in 2011 and 40.5% in 2012; Ilyich Iron & Steel Works of Mariupol accounted for 11.4% in 2011 and 18.3% in 2012.

an understanding of the economic and financial picture of the Group's business, as well as a manager's role in running the business, developing core management skills and an understanding of lean principles. Three modules made up of five programs were developed in 2012. More than 9,000 employees were trained in each module of the program.

Succession pool activity is focused on identifying high-potential (talented) employees. All enterprises across the Group, including the Management Company, are involved in the program. The first members of the succession pool graduated from the Skolkovo School of Management in 2012.

More than 10,000 employees were trained in management programs in two years. Surveys and questionnaires suggest the training was viewed positively since the programs addressed practical professional tasks.

## Remuneration

We appreciate the efforts of our employees when they perform their duties. That is why one of the key areas of Metinvest Group's HR policies is building a fair remuneration system.

The remuneration system at our enterprises is composed of two main elements: a grading system and staff appraisal system. Grades determine the range of remuneration for each position and enables comparisons of positions, providing internal fairness and external competitiveness.

The Company incentivizes each employee to achieve the performance results set for their team, shop or the enterprise in general. According to annual performance results, salaries can be revised - the better an employee performs, the higher the salary they can get. This includes both the size of salaries and bonuses.

The bonus system is based on the principle of the Company's strategic goals cascading to each employee. For example, fulfillment of the high-quality products production plan and specific material consumption rates shall be taken into account during performance appraisals.

Systems for awarding bonuses for the submission of proposals to organize production or improve business efficiency are being developed at the enterprises.

Traditional competitions are held between labour collectives. They help promote two of the Company's values - professionalism and teamwork. Typically, these are competitions

### Average salary dynamics, US\$



**Note.** Average salary within Metinvest Group without MMKI and Komsomolske Flux was \$560.9 in 2011 and \$611.0 in 2012.

in terms of professional excellence, leadership or fulfilling production plans.

Despite the difficult market situation, the Company managed to retain the same level of employee remuneration and increase the average salary at its enterprises (see the chart).

## Social programs for employees

Metinvest Group aims to establish a positive social climate at its enterprises through the provision of various types of social support. Forming combined programs for employees and their families was an important event in the reporting period. We extended the scope of privileges for enterprises where some types of support were not available. Social payments and privileges include: material aid to working employees, medical support, one-off bonuses and incentives, presents on anniversaries and important dates, improving amenities, corporate events, and support to ex-employees and various organizations at the enterprises.

Based on the enterprises' history, we determined three priorities for the programs:

- improving employees' health;
- aid to employees' children and former workers;
- aid to enterprises' pensioners and war veterans.

It is planned to evaluate and update programs in accordance with the actual needs of employees.



### Health improvement program

Annually about 60,000 employees and 10,000 of their family members, including children, visit the Company's social facilities.

We started making over recreation centers, children's health centers and rehabilitation facilities in order to maximize the value of their services. In 2012, a decision was made to incorporate all of the Metallurgical Division's rehabilitation facilities into a unified organization (Zdravnitsa Plus LLC). They are located on the coast of the Sea of Azov in Kherson and Kharkov regions and in other resort areas in the country. Previously, employees could only visit the recreational facilities of their enterprises; now they can rest in any Zdravnitsa Plus LLC recreation center.

Corporate sports are one way to improve employees' health and serve as preventive health care. In 2012, the Metinvest Olympics were conducted and included several sports: mini-football, basketball, volleyball, and ping-pong. Representatives of 15 enterprises and the Management Company took part in the competitions (520 people in total) and the winners received awards.



### Workers' Amenities program

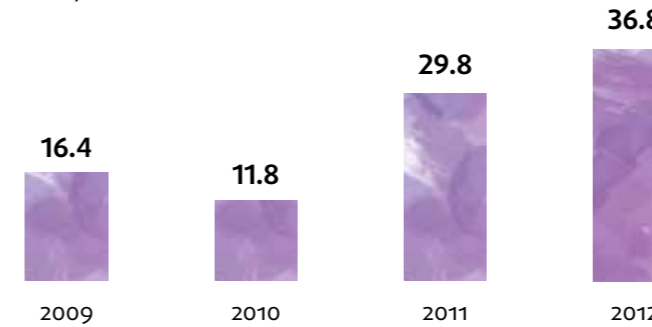
It is important for the Company that the employees of our enterprises work in decent conditions and have comfortable amenities (bathrooms, lunchrooms, etc.). In 2011, the Workers' Amenities program was started to repair and equip the amenities of administrative and work buildings.

The supply of pure drinking water to all production premises was one of the most critical results of the program, since this is important to support employees' health. A comprehensive audit of production amenities and the organization of improvements will be conducted twice a year starting from 2013 and social certificates will be awarded to the best enterprises.

### Children and veterans

The "Childhood" program includes various measures to involve employees' children and provides support to socially disadvantaged children. For instance, in 2012 A Day with Metinvest was organized for the first time for children at the Northern Health Center and Zdravnitsa Plus LLC. Competitions and entertainment events highlighting the Company's business

### Social payments and benefits provided to employees, US\$ mln.



Note. MMKI accounted for 38.4% in 2011% and 44.7% in 2012; Komsomolske Flux accounted for 5.2% in 2011 and 3.7% in 2012.

were arranged for participants. In the future, it is planned to pass organization of this program to the youth organizations of Metinvest enterprises: young employees will come up with events for children.

Metinvest has traditionally taken care of veterans and pensioners (we have more than 100,000 of them). The "Hello, Veterans!" program provides for annual presents and domestic support for veterans. In addition to material aid, we also provide fellowship to older people. We also depend on youth organizations' initiatives and the corporate volunteering program.

## Responsible approach to restructuring

Metinvest takes a responsible approach to reorganizing its assets<sup>1</sup>: we pay maximum attention to keeping employees' and the Company's interests balanced.

In March 2011, a decision was made to make Makiivka Iron & Steel Works a branch of Yenakieve Steel. The merger of the two enterprises was based on a number of facts. First, their convenient geographical location enabled Makiivka to be supplied almost 100% with billets from Yenakieve Steel, which is equal to 50% of Yenakieve Steel's merchant product sales. Second, semi-finished products (billets and ingots) are the main merchant products of Yenakieve Steel; finished products account for less than 5%. Re-rolling billets at Makiivka's mills, among the most modern in Ukraine, facilitates the earning of additional income. Cooperation between the specialists of both plants will facilitate the prompt mastering of new types of finished rolled products. All of this will promote more stable performance at both enterprises and increased earnings by employees in the future. After the merger, headcount was reduced, but the core teams continue to work both in the Makiivka branch and at Yenakieve Steel.

During the restructuring of Yenakieve Steel, all of its employees had the opportunity to get trained on the new technological requirements of the enterprises. For example, in 2012 groups were established for employees to learn a second professional occupation or to be retrained on required production jobs and areas that were in short supply. Training was provided at the enterprise's expense. After training, the employees could have combined jobs, expanded their services areas (in the case of maintenance jobs), or been transferred to other positions.

The Group uses this type of restructuring to outsource functions. In general, 3.2% of employees and about 1% of registered staff were involved in this process in 2011 and in 2012. In 2012, a corporate standard was adopted that established unified rules for restructuring different enterprises, including:

- criteria for evaluating the feasibility of this process;
- determination of authorities and responsibilities;
- implementation of a unified decision making procedure and tracking of the efficiency of outsourcing functions.

Thus, employees obtained clearer and more detailed rules and subjectivity in decision making was reduced. This standard was applied to all of the Ukrainian enterprises of the Group and to all categories of employees.

<sup>1</sup> Note. The approaches to restructuring and main tools were described in detail in Metinvest's previous social report for 2009-2010 in the section "The culture of work relationships: responsible restructuring (p. 31)".

# People and cities

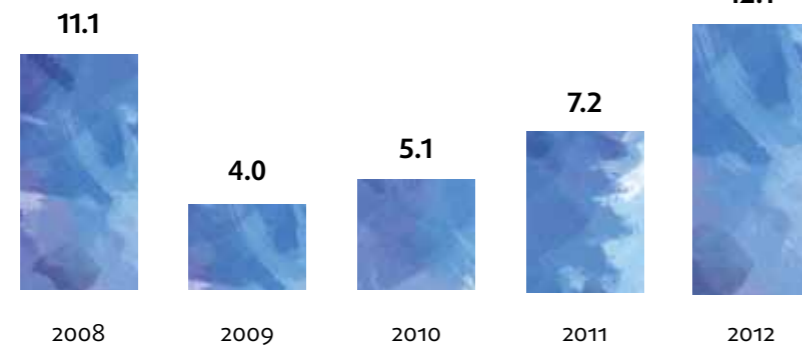


We want our investments to be useful to people, improve the quality of their lives and help cities develop. Our corporate social programs and social partnership programs are intended to do this.

Over the past two years, we started paying even more attention to working with communities. Social investment commissions started working at the enterprises and the people in charge (regional

development managers) were appointed. The priorities and principles for this work were established together with the residents of cities and local administrations.

**Social investments, US\$ mln.**



**Note.** The growth of social investments in 2012 compared to 2011 was due to increased contributions to social infrastructure in the cities where Metinvest operates (for example, purchase of trams, reconstruction of streets, etc.). Ilyich Iron and Steel Works of Mariupol accounted for 13% in 2011 and 14% in 2012; Komsomolske Flux accounted for 2.5% in 2011 and 3.5% in 2012.

### Organization of social investments

	Social partnership programs	Corporate social programs
Format	Social partnership agreement projects are in each city where we are present.	Programs: The City – Our Hands, A Healthy Environment is Everyone’s Business, Development of Child & Youth Football, Corporate Volunteering.
Management approaches	The projects correspond to the long-term development strategies or the economic and social development programs of each city. The specific character of the cities and the opinion of city residents are taken into account.	The programs are unified for all enterprises of Metinvest Group.
Implementation mechanisms	In each city, projects are reviewed by expert boards of representatives of local governments, communities, and Metinvest and are financed from the approved budget.	Grant competitions are held as part of two programs (The City – Our Hands and A Healthy Environment is Everyone’s Business). Corporate events and corporate volunteering projects are implemented both at the Company level and at the local level.

## Planning our future

In the cities where Metinvest Group's enterprises operate, they are the largest employers and key taxpayers. Nevertheless, the real social needs of these cities are much larger than their current income. That is why clear plans are necessary, the implementation of which will facilitate the social and economic development of the communities. Metinvest helps the cities to develop long-term strategies.

The pilot city strategic social and economic development plan to 2015 was implemented in Krasnodon in cooperation with the city council, the USAID project "Local Investments and National Competitiveness" and Krasnodon Coal.

The document was approved at a Krasnodon City Council session in 2011. Since 2012, cooperation between Krasnodon Coal and Krasnodon has been based on the city's adopted strategic development plan.

The following activities were implemented in a year and a half:

- Some procedures were simplified for entrepreneurs. Now people, who want to start a business, can get their company registered and obtain necessary permits more promptly.
- A land inventory was taken. This will allow for the possibility to evaluate the usage of various land areas and find options to optimize and obtain additional proceeds for the budget.
- A register of free areas and land with unused facilities was developed. This will allow for the identification of locations for new facilities or changing designated land use. Thus, there is a possibility to attract the investors with, for example, construction projects, etc.

The development of strategic plans to 2020 for Avdiivka and Khartsyzsk was also started in 2012. Strategic planning committees were established with representatives of Metinvest, local governments, businesses and the community. During this work, city profiles were developed, statistical data was analysed and citizens and small and large



business representatives were surveyed.

The development of small and medium businesses and establishment of favorable conditions for investments were determined as the main priorities for both cities. In Avdiivka, the development of high-quality social services, city improvement and environment protection were also identified as priorities. The establishment of comfortable living conditions and the development of individuals' potential and citizen activism in resolving of the community's issues were additional areas in Khartsyzsk.

Taking into account the relevance of small business development in almost all cities where Metinvest operates, the Company is helping to involve the younger generation into entrepreneurship. In 2012, the Territory of Entrepreneurship competition of youth projects was announced. As part of the competition, 23 ideas were reviewed by an expert commission and grants were awarded to 10 of them. Each project team had a mentor employee from Metinvest. The projects were implemented in Donetsk, Kriviy Rih, Kyiv, Odesa, Kharkiv, Khmelnytsky, and Zhytomyr. In 2013, the results will be reviewed.

## Social partnership programs

Social partnership programs are our format of cooperation with communities and local administrations. Through joint efforts, we want to achieve a European level of comfortable living in cities where we operate.

In all cities where we operate, Metinvest signs annual cooperation agreements with the heads of district, city or regional administrations. As part of these agreements, the Company provides support for beautiful and accessible recreational areas, cultural event centers, parks, playgrounds and sports facilities. We also help to improve the quality of medical services for citizens; for this purpose, hospitals, clinics and medical centers are repaired and fitted with new equipment. Kindergartens, schools and playgrounds are being restored. Many other projects are also being implemented.

In 2012, we surveyed public opinion in order to identify the most relevant objectives and development areas in the cities

### Kriviy Rih

A comprehensive program to reconstruct the areas where the employees of Northern GOK, Central GOK and Ingulets GOK live continued. During implementation of the program in Damansky microdistrict (in Ternovsky district where many Northern GOK employees live) and in the 44th quarter (in Zhovtnevy district where Central GOK employees live) building facades were refurbished, roads were repaired, squares were improved, and dozens of sports and play grounds were built, etc.

The fourth phase of the program (2011) was the largest one in terms of improvements and reconstruction. In the 44th quarter, building facades were refurbished, two new gardens were planted and an alley in honor of Central GOK workers was opened. Volleyball and basketball courts and a mini-football pitch were built. Roads and sidewalks were repaired and traffic lights and speedbumps were installed near School #93 and School #111. Musorgskogo St. and adjacent areas have a European look according to citizens.

In 2012, Ukraine Komsomol Park was reconstructed in Ternovsky district: two zones were arranged for cultural and sporting events. On Pobeda Ave., the central street of the Ingulets residential area, flower beds, walkways and alleys were arranged in the park and a grass and flower watering system were installed. In 2013, it is planned to continue improving Pobeda Ave. and reconstruct the alley at the Cultural Centre.

### Drinking water supply to city residents

The most relevant issue for Komsomolsk (Donetsk region) was drinking water quality. The municipal water system was in poor condition. The quality of water at intake to the municipal system did not meet sanitary requirements. Metinvest allocated another \$188,000 to resolve the issue and supported the city's participation in the national program Drinking Water for Ukraine. Thanks to this allocation, another almost \$125,000 was attracted to the project.

Komsomolske Flux took responsibility to implement the project. The purchase of a water treatment plant for the city in 2011 was the first step in this process. The first phase to construct the plant has been completed and modern treatment equipment has been installed as of the preparation of this report. This work will be continued in 2013.

The residents of Sukhodolsk (Krasnodon City Council) were experiencing water supply interruptions. Due to the failure of priming pumps, the entire city was without water supply: houses, hospitals, schools, and kindergartens. Krasnodon Coal financed the replacement of water booster pumps. As a result, 20,000 residents now have continuous water supply.

where we operate. Over 11,000 citizens answered questions about the issues they considered the most important for their cities. The survey results were used when planning the social partnership program for 2013. Social infrastructure development and territorial improvement, healthcare, and social services improvement were identified as the top priorities. In each city, an expert council was established that selects practical projects for implementation.

### Comfortable cities for work and rest

To improve the cities, Metinvest implements large comprehensive programs that provide the most useful and visible outcomes for residents. \$7.4 million was invested into the development of social infrastructure in 2012.

We already have good experience in this area. The program



### **New life for a health center**

The Oncologic Health Center in Yenakiieve has not replaced its medical equipment and or repaired its sterilization centre in more than 30 years. Sanitary services insisted that the health center should be closed due to its poor condition. However, the health center is the only medical facility of its type in the region, thousands of people from Yenakiieve, Debaltsevo, Zhdanovka and Kirovskoye receive treatment there; 72 medical employees work here.

The following equipment was purchased as part of the project: two modern medical sets, surgical lights, a machine for artificial lung ventilation, and a unique machine for bonding tissues. In addition, the autoclave room underwent a major overhaul, two new autoclaves were installed, and the facilities were equipped with ventilation and water treatment systems. Seventy percent of the health center's equipment was replaced.

"Establishment of Areas of Comfortable Living in Kryviy Rih" was started in 2008. A comprehensive reconstruction of residential districts was one of the few similar initiatives in Kriviy Rih and Dnipropetrovsk region.

We decided to do this because during the survey many citizens noted large issues for the majority of the cities: poor condition of roads and utilities, poor street illumination and a lack of cultural places. In 2012, projects were implemented to resolve some of these issues.

Sea access, adjacent streets and squares were fixed up, sidewalks were installed, tens of thousands of square meters of roads and sidewalks were repaired, flower beds were established and playgrounds were setup in Mariupol in 2012. It is planned to improve Leporsky Park in 2013.

The long-term project to improve Generations Park was completed in Khartsyzsk in 2012. Metinvest also gave four modern public transport stops to the city.

Komsomolsk got new street lighting and a city park was revamped and monuments were refurbished. The project to supply drinking water to the city was the most critical (see the case).

Metinvest replaced an abandoned waste site with a modern football pitch. Now about 3,500 children and adults play sports there.

Improvement works are being continued in other cities. For instance, in Novhorodske settlement (Dzerzhinsk), roads were repaired and exterior lighting was upgraded using energy-saving technologies in 2012. In Avdiivka, a

project to improve park areas (to be expanded in 2013) by installing fully functional recreational zones in the most densely populated districts was started.

### **Development of transportation infrastructure**

All of us use municipal transport and we believe that comfortable and reliable transportation services are very important for convenient living in the city.

In Mariupol, MMKI invested \$1 million to purchase two new trams in 2012. The tram and trolley depot of Yenakiieve was presented with two modern tram cars (the project cost more than \$0.9 million) that will operate on the busiest route between the two residential districts around the plant - Vatutin and Krasniy Gorodok. The new trams are equipped with necessary equipment including pullout ramps for disabled people. The new trams also consume 40% less power than the old ones.

We also helped keep transport routes in good condition. In these two years, Azovstal provided Mariupol's tram and trolley depot with more than \$0.5 million in rail products to replace old tracks. In 2012, Avdiivka Coke helped Avdiivka's tram transport administration refurbish four kilometers of trolley line and replace wornout sections.

### **Improved quality of medical services**

Health is the most valuable thing a person has. We do our

best to provide high-quality medical aid to employees and their families both at the plant and in the community. For this reason, the Company annually invests into the medical services system in the cities where it operates. All city residents will benefit from this.

Metinvest allocates funds to repair hospitals: wards, labs and operation rooms. Modern equipment purchased for hospitals and medical centers allows for timely diagnoses and the administration of effective treatments. In 2012, the volume of investments into health amounted to more than \$1.2 million.

Top priorities have included upgrading the services of primary health care centers, emergency care hospitals, intensive care units and admissions. This is because effective treatment and, sometimes, saving human lives depends on efficient responses and professionalism by people in the aforementioned functions.

Krasnodon Municipal Hospital was provided with an artificial respirator and X-ray machine, set of diagnostic and preventative equipment and ambulances (investments amounted to \$350,000). \$200,000 was invested into the

burns center of the Lugansk Regional Clinical hospital to purchase special equipment. This is the only medical center in the region that specializes in the treatment of burns.

Municipal Hospital #1, Municipal Hospital #4, the Emergency Hospital and some other centers in Mariupol are supported every year. The trauma and surgery departments of the hospitals, primary health care centers and the Emergency Hospital were repaired in 2012. Two modern ambulances were purchased to promptly deliver injured people to the medical centers and institutions of the city and Donetsk region. Therefore, medical service conditions were improved for more than 120,000 people in Ordjonikidzevskiy district, the city of Mariupol and adjacent settlements.

Funds to repair an X-ray unit were allocated for Yenakiieve City Hospital #2 in 2012 and a computerized tomograph was purchased several years ago. The X-ray unit is equipped with a digital system that can scan almost all human organs and view an anatomical picture at any level of scanning, enabling doctors to make more accurate diagnoses.



## Bringing ideas and efforts together: corporate social programs

The residents of our cities are creative and proactive people. They really care about how they live. They have a lot of ideas on how to make their cities better. Our corporate social programs provide them with these opportunities. Each organization or initiative group with a useful idea for the city

has an opportunity to realize it. If we really want our cities to meet European standards, everybody will do this.

### The City – Our Hands

The City – Our Hands program is a contest for projects developed by local residents. Any ideas are welcomed as long as they are useful for cities. The more people that benefit from the project, the better.

The first two contests were very successful. There were 300 applications from eight cities in 2012. Sixty-five projects were financed in the last two years. Thanks to the project initiators, their streets, squares and yards have been changed.

### Examples of financed projects

In the Yelenovka Settlement's (city of Yenakiieve) 7-Ya Municipal Youth Center, the Limpopo Aqua City for children was opened. The 1,600 m<sup>2</sup> facility has seven attractions. In summer it is filled with filtered water and in winter it goes dry and has trampolines.

In Avdiivka, at the suggestion of the Viktoriya apartment block's joint owners association, a playground was opened.

A recreational zone on Nogina Street in Kriviy Rih was reconstructed: playgrounds were built, a central walkway was developed, lights were installed, and an alpine garden was created.

In the Novgorodskoe settlement (Donetsk region), a group of residents, in cooperation with the settlement's council, replaced an old electrical line with modern LED lights.

An environmental path was setup on the territory of an early childhood center in Khartsyzsk. Trees and bushes were planted along the path, and flower beds and sculptures of fairy-tale characters were added.

Students from Krasnodon School #19 (Lugansk region) provided the school in the Izvarino settlement with potable water. The potable water was brought by vehicles to Izvarino. Parents helped to drill a well on the territory of the school. However, the water could be used only after filtration.

Due to the grant, the school's water mains were equipped with a cleaning system. Now, thanks to the project, 80 students have access to quality potable water and the conditions in the school's cafeteria are suitable for proper nutrition.

## Metinvest's volunteer project was awarded the best in the "Life Improvement" category in the national "Corporate Volunteering in Ukraine 2012" competition.

Metinvest decided to continue implementing the program. Other companies in SCM Group duplicated the initiative.

### A Healthy Environment is Everyone's Business

This program is targeted at teenagers and youth. It is aimed at instilling an environmental culture among the younger generation. It involves contests for environmental project in three categories:

- Eco-House (competitive projects must demonstrate how to take advantage of as many various resources at school and home as possible);
- Clean City (category for landscaping, planting trees and shrubs, and taking care of them);
- Eco-Lesson (projects in this category are submitted mostly by teachers and their students; they develop lessons on ecology).

The Project Team Award is given to some program participants. They can use it to arrange scientific and educational trips and to equip physical science classrooms.

We think this program is important not only for environmental reasons. Through involvement in projects, students gain experience in communicating with people of different ages and occupations. This skill will come in handy soon, after they finish school and start adult life.

### Development of Child & Youth Football

Youth and amateur sports help encourage children and teenagers to pursue healthy lifestyles and leisure activities. Football also instills team spirit and a drive for victory. These abilities will be helpful for young people even if they do not become professional athletes.

In partnership with the Shakhtar Football Club, branches of football academies, football schools and centers were opened in Kriviy Rih, Mariupol, Yenakiieve, Khartsyzsk, Makiivka, Avdiivka and Dzerzhinsk. The Shakhtar Football Club trains the young athletes and Metinvest's enterprises provide material and technical assistance. About 1,500 children attended football centers and schools as of the end of 2012.

Every year children and youth teams participate in city,

regional and national competitions. The annual competition among children and young people for Metinvest's Cup is the highlight event for program participants. The tournament began in 2011 and has become a tradition; it is held annually in September in Mariupol. The tournament includes three age groups. The winners receive awards at Donbass Arena in Donetsk during the half-times of FC Shakhtar home games.

### Corporate volunteering

The corporate volunteering program helps our employees find time for good deeds and helps those who are in need. Metinvest's employees can try new work by helping public organizations or carrying out their own volunteer projects.

The program started with the corporate Goods Deeds Campaign in 11 Ukrainian cities. The campaign included three phases, with each phase the same day at all enterprises.

The first phase was called There's Nothing We Can't Do. Volunteers helped improve and repair social institutions and helped needy people in their homes.

During the second phase, Step Forward, participants passed on knowledge and taught others: some instructed children on to make toys, others held trainings on leadership development.

During the third phase, Helping Dreams Come True, volunteers helped make the dreams of children in low-income families come true. If, for example, a child wanted to go roller skating, they received roller skates and a volunteer taught the child how to use them. The expenditures associated with that event were covered by the enterprises of the Group.

Seventy-seven volunteer teams including employees, their family members and friends participated in Metinvest's campaigns over five weeks. Almost 2,000 people worked a total of 18,973 hours. Volunteers visited social institutions, orphanages, schools and higher educational institutions, and organized New Year parties for children. Assistance was rendered to over 3,000 people and about 100 social institutions and organizations. We were joined in the campaign by 69 partner organizations.





**METINVEST®**



**Annexes**



## About the report

The current report (hereinafter - the Report) is Metinvest Group's third social report<sup>1</sup>. The report covers the period from January 1, 2011 to December 31, 2012. The report was prepared in accordance with the "Guide on Reporting in the Area of Sustainable Development" of the Global Reporting Initiative (version 3.0). The Company defines its degree of GRI compliance at the B+ level. A two-year reporting cycle was approved by the Company. It is planned to publish the next report (2013-2014) in 2015.

The report includes information on the Management Company and major manufacturing enterprises of Metinvest Group.

PJSC Zaporizhstal is beyond the scope of the Report due to the fact that Metinvest did not control the plant as of the end of 2012, but subject to inclusion within the next reporting period.

Reporting since 2011 includes Ilyich Iron and Steel Works of Mariupol and Komsomolske Flux Plant. To ensure consistency, notes on tables and diagrams specify the share of these enterprises in the consolidated values across the Group for 2011-2012. When the share is low, less than 1%, no note is specified for the enterprise.

Data on the Metinvest Holding, LLC management company are included into all quantitative indices except for environmental and energy data, injury rate and occupational diseases due to the inapplicability of the indices. In addition, data on average salary and welfare payments are not included to ensure compatibility with data across the industry and related branches of Ukraine.

The report is focused on Metinvest Group's contribution to sustainable development in Ukraine. For this reason, foreign companies and enterprises are beyond the scope of this report.

In this report, the terms Metinvest Group, Group,

Metinvest, Company, and We refer to the companies of Metinvest Group that are included into this report, unless stated otherwise. Metinvest Holding, LLC refers to the management company of Metinvest Group.

### Identification of key issues.

The following techniques were used to identify key issues:

- senior management of functional subdivisions of the Management Company and enterprises were interviewed;
- policies of Metinvest Group were reviewed;
- results of feedback from stakeholders were used;
- the reporting practices of international leaders in the sector were considered.

Information was taken from reporting forms filed annually with state statistics agencies. A number of indicators were collected and calculated based on internal reporting forms

that were verified when this report was produced. Data on greenhouse gas emission include only direct emissions with insignificant amounts of indirect emissions. The conversion factor used to convert nitrogen oxide (N<sub>2</sub>O) into equivalent amounts of CO<sub>2</sub> was revised in 2011 (296 before 2011 and 310 since 2011).

The total average registered headcount of all assets (as reported) was used to calculate the average salary of the Holding's enterprises and average monthly salary in Ukraine (EC5) across industries. The indicator LA10 was altered in view of internal reporting systems; the indicator "number of actual trainings and advanced trainings" is reflected.

The report outlines the highlights of the period under review and does not exclude any significant milestones or facts. The credibility of the information given in the report was verified by a third-party.

### Management Company (Metinvest Holding, LLC.)

Full name	Abbreviation	Full name	Abbreviation
Mining Division	MD	Metallurgical Division	MetD
PJSC Northern Iron Ore Enrichment Works	Northern GOK	PJSC Azovstal Iron & Steel Works	Azovstal
PJSC Central Iron Ore Enrichment Works	Central GOK	PJSC Mariupol Ilyich Iron & Steel Works	MMKI
PJSC Ingulets Iron Ore Enrichment Works	Ingulets GOK	PJSC Khartsyzsk Pipe Plant	Khartsyzsk Pipe
PJSC Krasnodon Coal Company	Krasnodon Coal	PJSC Yenakieve Iron and Steel Works	EMZ
PJSC Komsomolske Flux Plant	Komsomolske Flux	PJSC Avdiivka Coke Plant	Avdiivka Coke
		Inkor & Co Scientific and Manufacturing Association, LLC	Inkor & Co

<sup>1</sup> Metinvest B.V. (the Netherlands) is the holding company of Metinvest Group. The major shareholders of Metinvest B.V. are SCM Group (71.25%) and Smart-Holding (23.75%), who partner in the Company's management. 5% of shares are owned by Clarendale Limited (Cyprus).



# Annex 1.

## Corporate Social Responsibility

### Key Results and Future Plans

Key areas	Achievements during the reporting period	Objectives for 2013-2014
<b>HR management</b>	Building a shared corporate culture: <ul style="list-style-type: none"> <li>• Approval of the values of Metinvest Group.</li> </ul>	Implementation of existing and the introduction of new programs to build a shared corporate culture: <ul style="list-style-type: none"> <li>• Development of non-financial incentive systems.</li> <li>• Development and introduction of the Code of Ethics.</li> </ul>
	Establishment of the personnel appraisal and performance management system: <ul style="list-style-type: none"> <li>• Development and adoption of the Goal Setting and Annual Staff Appraisal Standard.</li> </ul>	<ul style="list-style-type: none"> <li>• Further introduction of the annual appraisal process at new assets.</li> <li>• Improvement of annual performance appraisal methodology and procedure.</li> </ul>
	Launch of the succession pool program at the Management Company and at 10 enterprises of Metinvest, such as Yenakiieve Steel, Azovstal Iron & Steel Works, Khartsyzsk Pipe, Khartsyzsk Pipe, Inkor & Co, Ingulets GOK, Northern GOK, Central GOK, Krasnodon Coal, and Komsomolske Flux Plant.	Execution of the 2012 and 2013 succession pool development programs.
	Involvement in the project focused on developing professional education standards for higher education institutions.	Development of common approaches to cooperating with higher education institutions, vocational schools and other schools.
	Launch of the Corporate University. Launch of programs, such as Management DNA, Leadership Academy and Skolkovo.	Development of new Corporate University programs and training of in-house coaches.
		Systematization of training programs at the Group's entities.
	Introduction of grade-based remuneration system at Krasnodon Coal and Inkor & Co.	Further introduction of the grade-based remuneration system at the Group's new assets.
	Execution of social programs, such as Zdravnitsa Plus, Metinvest Olympics and Welfare at Work.	Development and execution of company-wide social programs and projects, such as Metinvest Youth Organization, Childhood, Hello Veterans, Metinvest Comedy and Wit Clubs, and Employer-supported Childcare.
Launch of the Corporate Volunteering program.	Implementation of the Corporate Volunteering program at all enterprises across the Group.	
<b>Occupational health and safety</b>	Definition of the architecture of the occupational health and safety system.	<ul style="list-style-type: none"> <li>• The health and safety management system was evaluated at all enterprises within the Group.</li> <li>• Introduction of the Corporate HSE management system at the Group's new enterprises.</li> </ul>
	Between 2011 and 2012, new standards were developed, such as "Fundamental Rules of Occupational Health and Safety for Metinvest Group Enterprises," "Safe Working at Heights," "Lock-out, Tag-out and Check-out," "Contractor Safety," and "Safety When Performing High Risk Works with Work Permits."	<ul style="list-style-type: none"> <li>• Introduction of standards at the Group's new enterprises.</li> <li>• Development of corporate standards "Safe Working in Confined Spaces" and "Safety Signs."</li> </ul> Risk description and development of risk mitigation measures at the Group's enterprises in accordance with the production risk assessment and mitigation standard.

Key areas	Achievements during the reporting period	Objectives for 2013-2014
<b>Healthcare protection</b>	Implementation of the Health Protection Development Strategy: <ul style="list-style-type: none"> <li>• Medical teams at the enterprises were provided with modern emergency care equipment.</li> <li>• Introduction of the “Prehospital and Emergency Care” standard was introduced.</li> <li>• Training for more than 400 medical mid-level employees and doctors on first aid.</li> <li>• Extension of medical examinations.</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of the shared system for collecting, recording and analysing Lost Time Illness data across the Group’s enterprises.</li> <li>• Development of measures to reduce the Lost Time Illness rate in relation to main pathologies.</li> <li>• Implementation of pilot projects aimed at reducing the illness rate for the main pathologies at Ilyich Iron &amp; Steel Works of Mariupol, Avdiivka Coke Plant and Krasnodon Coal.</li> </ul>
<b>Environmental protection</b>	Introduction of the environmental management system: <ul style="list-style-type: none"> <li>• Introduction of the “HSE Management during Investment Projects” standard.</li> <li>• Establishment of the sub-committee for environmental matters at the Central HSE Committees.</li> </ul> Development and approval of the long-term municipal environmental protection and rehabilitation programs for Mariupol and Yenakiieve.	Launch of the integrated environmental impact reporting system.  Implementation of environmental schemes as part of the approved municipal programs.
<b>Energy savings</b>	Development of the "Automated Energy Reporting System (Energy Custody Metering System)" program.  Preparation for ISO 50001 certification commenced at Azovstal Iron & Steel Works, Ilyich Iron & Steel Works of Mariupol, Yenakiieve Steel, Khartsyzsk Pipe, Northern GOK, Central GOK, and Ingulets GOK.	Introduction of an energy custody metering system at all steel plants of the Group.  Finalised the introduction of standard and certification audits at Azovstal Iron & Steel Works, Ilyich Iron & Steel Works of Mariupol, Yenakiieve Steel, Khartsyzsk Pipe, Northern GOK, Central GOK, and Ingulets GOK.
<b>Social investments and non-financial reporting</b>	Introduction of the Social Investments Regulation and Policy.  Set up expert panels to develop Social Partnership Programs for all cities/towns in which the company operates.  Implementation of new corporate social programs such as A Healthy Environment is Everyone’s Business and The City – Our Hands.  Commencement of work on putting together development strategies to 2020 for Avdiivka and Khartsyzsk.  Introduction of the Regulation on Social Reporting.  Inclusion in the reporting scope of Ilyich Iron & Steel Works of Mariupol and Krasnodon Coal.	Execution of Social Partnership Programs in all cities/towns in which the Group operates.  Execution of the Metinvest's Green Center program.  Continued development of long-term development strategies for cities/towns in which the Group operates.  Further expansion of the scope of reporting.
<b>Customer/Supplier feedback and product quality</b>	After-sale customer service: <ul style="list-style-type: none"> <li>• Establishment of technical support and after-sale customer service.</li> <li>• Reduction in the period of review of clients’ claims to 20 days.</li> <li>• Establishment of the Claims Committee.</li> </ul> The Shared Purchasing Calendar and Common Tender Procedures were introduced for working with suppliers.	Improvement of client claims handling practices, reducing the claim review period to 14 days.  Implementation of an Appeals Committee for working with suppliers.

## Annex 2. Metinvest Group's quantitative performance indicators in 2011-2012

### Environmental indicators

**Table 1.**  
*Gross atmospheric emissions, ths. t*

Year	Total	Nitrogen oxide	Sulphur oxide	Carbon oxide	Particulates
2008	<b>334.4</b>	<b>13.5</b>	<b>14.9</b>	<b>152.9</b>	<b>24.2</b>
2009	<b>314.1</b>	<b>11.7</b>	<b>12.9</b>	<b>136.6</b>	<b>28.8</b>
2010	<b>351.4</b>	<b>13.7</b>	<b>14.1</b>	<b>157.5</b>	<b>33.6</b>
2011	<b>578.0</b>	<b>26.8</b>	<b>31.4</b>	<b>351.8</b>	<b>46.8</b>
2012	<b>525.2</b>	<b>22.9</b>	<b>29.3</b>	<b>317.0</b>	<b>45.5</b>

**Note.** Ilyich Iron and Steel Works of Mariupol accounted for 39.2% in 2012 (nitrogen oxide - 39.5%, sulphur oxide - 49.8%, carbon oxide - 51.6%, particulates - 19.1%) and 40.4% in 2011 (nitrogen oxide - 44.9%, sulphur oxide - 52.1%, carbon oxide - 52.2%, particulates - 21.3%). Excluding Ilyich Iron and Steel Works of Mariupol, total emissions decrease. At the same time, a slight increase was observed in main pollutants (NOX, SOX, CO, and particulates) as a result of higher productivity.

**Table 2.**  
*Water consumption, mln. m<sup>3</sup>*

Year	Total water consumption	Surface water	Underground water	Municipal services	Other sources
2008	<b>943.2</b>	<b>877.5</b>	<b>0.4</b>	<b>56.1</b>	<b>9.2</b>
2009	<b>840.8</b>	<b>779.9</b>	<b>0.3</b>	<b>49.3</b>	<b>11.4</b>
2010	<b>954.9</b>	<b>887.7</b>	<b>0.3</b>	<b>54.7</b>	<b>12.3</b>
2011	<b>1,049.4</b>	<b>961.4</b>	<b>2.5</b>	<b>76.2</b>	<b>9.4</b>
2012	<b>950.7</b>	<b>860.1</b>	<b>2.2</b>	<b>75.3</b>	<b>13.0</b>

**Note.** Ilyich Iron and Steel Works of Mariupol accounted for 6.3% in 2012 (surface water - 5.1%, underground water - 78.8%, municipal services - 18.8%) and 6.4% in 2011 (surface water - 5.1%, underground water - 82.2%, municipal services - 20.8%). The reduction in 2012 was driven by the decommissioning of obsolete technologies (see sections "Yenakieve Iron and Steel Works" and "Environmental Improvement in Mariupol").

**Table 3.**  
*Volume of recirculated and reused water, mln. m<sup>3</sup>*

Year	Total volume	Recirculated water supply	Reused water supply
2008	<b>2,297.9</b>	<b>2,248.9</b>	<b>49.0</b>
2009	<b>2,268.1</b>	<b>2,226.1</b>	<b>42.0</b>
2010	<b>2,549.7</b>	<b>2,488.9</b>	<b>60.8</b>
2011	<b>3,661.3</b>	<b>3,563.7</b>	<b>97.6</b>
2012	<b>3,611.2</b>	<b>3,517.1</b>	<b>94.1</b>

**Note.** Ilyich Iron and Steel Works of Mariupol accounted for 27.9% in 2012 (recirculated water supply - 27.8%, reused water supply - 32.2%) and 29.6% in 2011 (recirculated water supply - 29.3%, reused water supply - 39.4%).

**Table 4.**  
*Percentage of recirculated and reused water in the total water consumption (including recirculated water)*

Year	%
2009	<b>72.9</b>
2010	<b>72.7</b>
2011	<b>77.7</b>
2012	<b>79.2</b>

**Table 5.**  
Content of pollutants in waste water, t

Year	Biochemical oxygen demand (in total)	Oil products	Suspended particles	Dry residual	Chloride	Sulphates	Ammonium nitrogen	Total Fe	Nitrate
2009	296	2.0	1,426	17,095	40,778	5,811	96.0	33.0	417.0
2010	77.9	1.7	327	14,849.9	8,779.7	5,305.3	100.7	15.0	253.2
2011	200.9	7.0	572.9	114,336.9	16,143.1	43,622.1	208.2	14.3	640.2
2012	256.6	10.4	900.3	145,887.9	21,021.9	62,151.0	260.4	22.1	1,083.4

**Note.** Ilyich Iron and Steel Works of Mariupol accounted for the following in 2012: biochemical oxygen demand (in total) - 65.0%, oil products - 75.4%, suspended particles - 47.7%, dry residual - 88.5%, chlorides - 86.3%, sulphates - 89.9%, ammonium nitrogen - 57.5%, total Fe - 64.2%, and nitrates - 80.4%. Ilyich Iron and Steel Works accounted for the following in 2011: biochemical oxygen demand (in total) - 59.9%, oil products - 87.2%, suspended particles - 64.9%, dry residual - 87.7%, chlorides - 84.9%, sulphates - 88.7%, ammonium nitrogen - 83.8%, total Fe - 82.7%, nitrates - 77.5%.

**Table 6.**  
Total weight of waste, mln. t

Year	Volume of waste disposal	Volume of transferred waste (to third parties)	Volume of recycled, handled waste
2008	129	2.1	N/A
2009	130	1.3	N/A
2010	145	1.6	N/A
2011	160	2.7	90.73
2012	137	3.1	85.94

**Note.** Ilyich Iron and Steel Works of Mariupol accounted for: waste disposal - 0.7%, transferred waste - 48.3%, recycled and handled waste - 5.3% in 2012 and for: waste disposal - 0.9%, transferred waste - 45.2%, recycled and handled waste - 4.9% in 2011.

**Table 7.**  
Direct energy consumption, ths. t of fuel equivalent

Year	Natural gas	Fuel oil	Coal	Coke	Diesel	Petrol
2008	1,950.0	68.7	76.6	3,728.9	138.2	6.5
2009	1,337.0	44.7	32.2	3,582.8	146.8	6.1
2010	1,963.5	52.3	34.6	3,716.8	167.9	4.4
2011	3,309.0	66.1	185.5	6,682.4	222.3	9.2
2012	2,326.5	35.2	222.1	6,268.5	231.0	9.5

**Note.** Ilyich Iron and Steel Works of Mariupol accounted for: natural gas - 44.0%, fuel oil - 100%, coal - 64.2%, coke - 42.3%, diesel fuel - 11.8%, petrol - 32.0% in 2012. Komsomolske Flux Plant (KRU) accounted for 3.5% of diesel fuel and 4.2% of petrol in 2012. Ilyich Iron and Steel Works of Mariupol accounted for: natural gas - 43.7%, fuel oil - 77.1%, coal - 57.9%, coke - 45.2%, diesel fuel - 14.2%, petrol - 45.8% in 2011. Komsomolske Flux Plant (KRU) accounted for 2.0% of coal, 4.7% of diesel fuel, and 5.4% of petrol in 2011.

## Occupational health and safety

**Table 8.**  
*Lost time rate (in days)*

Year	Indicator
2008	<b>21.97</b>
2009	<b>17.27</b>
2010	<b>16.62</b>
2011	<b>13.69</b>
2012	<b>11.44</b>

**Note.** LTR (in days) excluding Ilyich Iron and Steel Works of Mariupol and Komsomolske Flux would equal 12.44 in 2012 and 14.09 in 2011.

**Table 9.**  
*HSE training, people*

Indicator	Number of people trained		Human hours	
	2011	2012	2011	2012
Total	<b>21,346</b>	<b>14,273</b>	<b>89,076</b>	<b>74,467</b>
New programs in 2012	–	<b>1,051</b>	–	<b>4,984</b>

## HR management

**Table 10.**  
*Workforce by category and gender, people*

Year	Staff category		Gender	
	Managers, specialists, and clerks	Workers	male	female
2009	<b>15,377</b>	<b>55,577</b>	<b>48,571</b>	<b>22,383</b>
2010	<b>18,778</b>	<b>48,874</b>	<b>46,432</b>	<b>21,310</b>
2011	<b>23,317</b>	<b>80,215</b>	<b>68,602</b>	<b>34,930</b>
2012	<b>22,817</b>	<b>76,163</b>	<b>65,725</b>	<b>33,255</b>

**Note.** Ilyich Iron and Steel Works of Mariupol accounted for: managers, specialists, and clerks - 31.1%, workers - 37.8%, male - 34.9%, and female - 39.0% in 2012; Komsomolske Flux accounted for: managers, specialists, and clerks - 2.5%, workers - 2.5%, male - 2.6%, and female - 2.3% in 2012; Ilyich Iron and Steel Works of Mariupol accounted for: managers, specialists, and clerks - 30.4%, workers - 37.3%, male - 34.6%, and female - 38.0% in 2011; Komsomolske Flux accounted for managers, specialists, and clerks - 2.9%, workers - 2.9%, male - 2.9%, and female - 2.9% in 2011.

**Table 11.**  
*Age structure of the workforce*

Year	Under 30 years old	30-50 years old	Over 50 years old
2009	<b>24%</b>	<b>56%</b>	<b>20%</b>
2010	<b>25%</b>	<b>55%</b>	<b>21%</b>
2011	<b>25%</b>	<b>55%</b>	<b>20%</b>
2012	<b>24%</b>	<b>55%</b>	<b>21%</b>

**Note.** Age structure excluding Ilyich Iron and Steel Works of Mariupol and Komsomolske Flux would be as follows: in 2012: under 30 years old - 23%, 30-50 years old - 57%, over 50 years old - 20%; in 2011: under 30 years old - 25%, 30-50 years old - 54%, over 50 years old - 21%.

**Table 12.**  
*Actual training of the Company's employees, facts of training*

Year	Value
2009	<b>36,977</b>
2010	<b>45,596</b>
2011	<b>87,966</b>
2012	<b>90,391</b>

**Note.** Ilyich Iron and Steel Works of Mariupol accounted for 28.5% in 2012 and 2.7% in 2011; Komsomolske Flux accounted for 23.6% in 2012.

## Annex 3. Table of GRI indicators

GRI indicators and reporting elements can be found on the GRI website:  
<http://www.globalreporting.org/ReportingFramework/G31Guidelines/>

UN Global Compact principles can be found on the Global Compact website:  
[http://www.unglobalcompact.org/Languages/russian/ten\\_principles.html](http://www.unglobalcompact.org/Languages/russian/ten_principles.html)

GRI indicators	Compliance with Global Compact Principles	Report section and other sources/direct answer	Page of the Report
1.1		Statement from the CEO	5
1.2		Refer to the Group's Development Strategy subsection for background information about the Group. Details on key risks and opportunities related to various areas of sustainable development are given in the Introduction of each Section in the Report. Information about business risks and the actions Metinvest Group undertakes to mitigate them is given in the 2012 Annual Report of Metinvest Group.	9–10, 20, 34, 46, 54
2.1, 2.6		Metinvest Group	8–17
2.2, 2.5, 2.7		Our Products, <a href="http://www.metinvestholding.com/ru">http://www.metinvestholding.com/ru</a> (About the Company, Our Business)	10–11
2.3, 2.9		Changes in business structure and size, <a href="http://www.metinvestholding.com/ru">http://www.metinvestholding.com/ru</a> (About the Company)	8
2.4		130 Artyoma St., Donetsk, 83048, Ukraine	
2.8		Financial and production performance in 2011-2012, <a href="http://www.metinvestholding.com">www.metinvestholding.com</a> (About the Company, Our Business), <a href="http://sales.metinvestholding.com">http://sales.metinvestholding.com</a>	8–9
2.10		Corporate Volunteering, Industrial Community Recognition	61, 38–39
3.1-3.6		About the Report, Feedback Survey	64–65, 83–84
3.7-3.8		About the Report	64–65
3.9-3.11		About the Report	64–65
3.12		Annex 3.	76–79
3.13		Metinvest engaged the auditing company EY to validate the report.	80–81

GRI indicators	Compliance with Global Compact Principles	Report section and other sources/direct answer	Page of the Report
4.1-4.4 4.8, 4.12	Actions taken to realize the principles of the Global Compact	Governance Framework: <a href="http://www.metinvestholding.com/ru/about/governance/principles">http://www.metinvestholding.com/ru/about/governance/principles</a> и <a href="http://www.metinvestholding.com/ru/about/governance/committee">http://www.metinvestholding.com/ru/about/governance/committee</a> . The Chairman of the Supervisory Board is not an executive of Metinvest Holding, LLC. The Supervisory Board includes two independent directors. Shareholders participate in the management of Metinvest Group through General Shareholders' Meetings. Metinvest regularly informs shareholders about the status of Metinvest Group's business. The Company is governed by corporate values in its activities: <a href="http://www.metinvestholding.com/ru/about/values">http://www.metinvestholding.com/ru/about/values</a>	
4.5		The remuneration of senior management depends on the achievement of target financial and economic indicators.	
4.6	Actions taken to realize the principles of the Global Compact	Conflict of Interests and Insider Information were introduced as part of the Compliance <sup>1</sup> procedure.	
4.7		The Company does not use special processes to define the competencies of senior management with regard to its sustainable development strategy.	
4.9-4.10		This topic is presented in detail in the previous social report of Metinvest for 2009-2010 in the section "How We Work" (p.10)	
4.11		The principle of precaution is assured by the corporate standard "HSE Management during Investment Projects".	
4.12-4.13		Metinvest is a member of the Ukrainian Global Compact Network and the World Steel Association.	
4.14-4.17		Customer Focus, Cooperation with suppliers, Corporate Responsibility, Cooperation with youth	11, 14, 16, 17, 46–47
Approaches to Economic Impact Management		Group's Development Strategy	9–10
Approaches to Economic Impact Management		Environmental Management System	27–28
Approaches to Workplace Management	Principle 1, 2	Responsible Approach to Restructuring, Safety Management System	51, 34–39
Human Rights		Build a new: Strategy, Modernization and Environment, Metinvest's Team, Safety Management System	18–31, 44–51, 34–39

<sup>1</sup> Compliance refers to the prevention of malpractice and promotion of fair dealing and ethical business practices, as well as compliance with the internal regulatory framework.



GRI indicators	Compliance with Global Compact Principles	Report section and other sources /direct answer	Page of the Report
Approaches to Public Relations Management		People and cities	52–61
Approaches to Product-Based Aspects Management		Customer Focus	11
EC1 (partially)		Metinvest Group Profile in Figures, Financial and production performance in 2011-2012	4, 8–9
EC2 (partially), EN 16 (partially)	Principle 7, 8	Elimination of greenhouse gas emissions	26
EC4		In 2011-2012, Metinvest Group did not receive any financial assistance from the state.	
EC5 (reworded)		Remuneration	48–49
EC8		Improved Quality of Medical Services, Social Partnership Programs	54, 56–58, 59
EN3, EN5		Reduction of Product Energy Intensity, Annex 2	28–30, 70–75
EN8	Principle 7, 8	Environmental Management System, Annex 2	27–28, 70–75
EN10	Principle 7, 8	Annex 2	70–75
EN18	Principle 7, 8	Yenakiiie Iron and Steel Works, Improvement of the environmental situation in Mariupol, Khartsyzsk Pipe and Avdiivka Coke's Environmental Initiatives, Mining and enrichment enterprises	21–26
EN20, EN21 (partially), EN22 (partially)	Principle 7, 8	Environmental Management System, Annex 2	27–28, 70–75
EN26	Principle 7, 8, 9	Yenakiiie Iron and Steel Works, Improvement of the environmental situation in Mariupol, Khartsyzsk Pipe and Avdiivka Coke's Environmental Initiatives, Mining and enrichment enterprises	21–26
EN30 (partially)	Principle 8	Build new: strategy, modernization and environment	18–31
LA1		Metinvest's Team, Annex 2	44–51, 70–75
LA3	Principle 1	Social Programs for Employees	49–50
LA7	Principle 1	Injury Rate Analysis for 2011-2012; Health of Employees and Support of Active, Long Lives; Annex 2. Data for the calculation of the rate of absences from work was not collected.	40–43, 70–75
LA8		Health of Employees and Support of Active, Long Lives	42–43

GRI indicators	Compliance with Global Compact Principles	Report section and other sources /direct answer	Page of the Report
LA9		Items on employees' health and safety were included in collective agreements, which were adopted by trade unions.	
LA10 (reworded)		Annex 2	70–75
LA11		Making careers	48
HR4, HR6, HR7	Principles 1, 2, 4, 5, 6	The Company received no claims on violations of human rights during the reporting period. In compliance with Ukrainian legislation, the Company does not use child or forced labour.	
SO1		Planning our future, Social partnership programs, Bringing ideas and efforts together: corporate social programs	55–61
SO4	Principle 10	The Company received no allegations of corruption during the reporting period.	
SO5 (partially)		The Company participated in a discussion in law-making initiatives in accordance with opportunities provided by Ukrainian legislation.	
SO7		No anticompetition litigation was initiated against the Company during the reporting period.	
PR2, PR4, PR9		The Company did not receive any complaints or claims on the negative impact of products on consumer health and safety or caused by defective product marking. No fines were imposed on the Company for the violation of legislation with regard to the provision and usage of products.	
PR3, PR5		Customer focus, Distribution network and logistics	11, 12

Note: The Company see the following GRI indicators as irrelevant to its activities:

- EC7 (almost 100% of employees including managers are local).
- EN19 (The Company has no emissions of ozone depleting substances).
- EN23 (The Company does not have significant oil spills).
- EN24 (The Company does not transport, import, export or process hazardous waste).
- LA5 (Should employees need to be notified about significant changes in the organization's activities, the Company follows the requirements of Ukrainian legislation, i.e. the minimum period of notification is two months, which is stipulated in collective agreements).
- HR1 (The Company does not enter into investment agreements).
- HR9 (The Company does not operate in areas populated by indigenous people or ethnic minorities).



Metinvest is a member of the UN Global Compact in Ukraine

# Independent Assurance Report on the Social Report of Metinvest Group for 2011-2012

TO THE MANAGEMENT OF "METINVEST HOLDING" LLC

## Identification and description of the subject matter

We have provided a limited level assurance on the qualitative and quantitative information disclosed in the accompanying 'Social Report of Metinvest Group 2011-2012' (hereinafter 'the Report') except for the following matters:

- Forward-looking statements on events or planned activities of the "METINVEST HOLDING" LLC and its subsidiaries (hereinafter 'METINVEST' or 'Group'),
- Independent statements made by third parties which are included in the text of the Report, and
- Correspondence between the Report and the UN Global Compact principles.

## Identification of the criteria

The criteria of our engagement were the sustainability reporting principles, scope and methods of preparation of the Report from the Sustainability Reporting Framework issued by the Global Reporting Initiative (GRI) (hereinafter 'the GRI Framework'), including version 3.0 of the Sustainability Reporting Guidelines (hereinafter 'the GRI G3.0 Guidelines'), as set out in the chapter

"About the Report" on page 64 of the Report. We believe that these criteria are appropriate given the purpose of our assurance engagement.

## Management's responsibilities

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 the chapter "About the Report" on pages 64-65 of the Report.

## Our responsibilities

Our responsibility is to independently express a conclusion that:

- the information in the Report is, in all material respects, a reliable and sufficient representation of sustainability policies, events and performance of METINVEST during 2011 and 2012;
- the Report is consistent with the principles and the requirements of 'B+' Application Level of the GRI G3.0 Guidelines.

## Summary of work performed

Our engagement was conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by IFAC, and accordingly included the following procedures:

- Analysis of the METINVEST's internal regulatory

- documents related to Group's sustainability policies, performance and relevant reporting,
- Interviews with the managers and specialists responsible for the Group's sustainability policies, performance and relevant reporting,
- Review of sustainability reports of selected national and international peer companies,
- Review of a selection of corporate and external publications with respect to METINVEST's sustainability policies, performance and related events in 2011 and 2012,
- Identification of sustainability issues material for the METINVEST based on the procedures described above, and analysis of those issues' presentation in the Report,
- Review, on a sample basis, of evidence and supportive documentation regarding the qualitative and quantitative information included in the Report,
- Visits to the METINVEST sites to gather evidence supporting the assertions made in the Report on METINVEST sustainability policies, activities, events, and performance. The following sites were visited: "Metinvest Holding" LLC (managing company), PJSC "Ilyich Iron and Steel Works", PJSC "Krasnodonugol".
- Assessment of the Report's compliance with the sustainability reporting principles used by METINVEST, and
- Assessment of compliance of information and data disclosures in the Report with the requirements of "B+" Application level of the GRI G3.0 Guidelines.

We believe that our procedures provide a basis on which we can provide limited assurance. Our evidence gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

## Conclusion

Based on our work performed described, nothing has come to our attention that causes us to believe that the information in the Report, in all material respects, does

not provide reliable and sufficient representation of sustainability policies, activities, events and performance of METINVEST during 2011 and 2012 in accordance with GRI Framework, or which causes us to believe that the Report does not meet the requirements of "B+" Application level of GRI G3.0 Guidelines.

"Ernst & Young Audit Services" LLC

Kyiv  
December 6, 2013

## 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) \_\_\_\_\_

