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**Mr Ban Ki-moon  
Secretary-General  
United Nations**

**Ref: UN Global Compact Communication on Progress  
Date: 20 October, 2011**

Dear Mr. Secretary-General,

In May 2007, DTEK, the largest private utility company of Ukraine, joined the UN Global Compact and committed itself to 10 principles in the areas of human rights, labor, environment and anti-corruption. We also expressed our intention to support and enact the Global Compact's principles within the sphere of our influence and inside the Company and properly inform the public and stakeholders of our commitments and our progress therewith.

In 2010, we started unique work on the development of Company's strategy for the next 20 years and, in May 2011, presented a concept of the Company's development up to 2030. The main idea that lies in the basis of our long-term development concept is readiness to compete with the largest European power companies, to become the best of the best. For us it means: the highest salaries for our employees, the highest standards of labor safety, the best living conditions in the cities of DTEK presence, and the best business reputation. We have also been actively designing our long-term sustainable development strategy up to 2030.

Our focus is on long-term sustainable development, i.e. the economic, social and environmental problems that need to be addressed by bringing together the efforts of the private sector, the government and the public. We put forward environmental initiatives that are relevant not only for the Company, but for the entire country. In particular we take specific actions to reduce greenhouse gas emissions. Thus, we support efforts of the world community to address the sustainable development challenges and affirm our commitment to the principles of UN Global Compact.

The attached Communication on Progress reflects our performance and results achieved from January 2010 till October 2011. True to its commitment to fully inform stakeholders, the Company is going to put the Communication on Progress and this letter to you on its corporate website. In future we will strive untiringly to carry out our commitments within the framework of UN Global Compact initiative.

Sincerely,

Maxim Timchenko

Chief Executive Officer



## **DTEK – UN GLOBAL COMPACT - COMMUNICATION ON PROGRESS**

**October 2011**

The Communication contains the data on the Company's sustainable development efforts and actions to contribute to and promote the principles of the UN Global Compact. By implementing these initiatives we support efforts of the world community to address the challenges of sustainable development and confirm our genuine adherence to the principles of the United Nations Global Compact.

This Communication on Progress, made in line with the rules for business companies' participation in the Global Compact initiative, shall be read together with the above letter of DTEK's CEO, M. Timchenko, to the UN Secretary-General.

DTEK is the largest privately-owned vertically-integrated energy company in Ukraine, with efficient enterprises that mine and prepare coal as well as operate on electrical power generation and supply markets. The Company is the energy division of System Capital Management (SCM), one of Ukraine's leading financial and industrial groups.

The coal business of DTEK includes DTEK Pavlogradugol (consisting of 10 coal mines), DTEK Dobropolyeugol (5 mines), DTEK Mine Komsomolets Donbassa and five coal preparation plants. The power generation business of DTEK is represented by Eastenergo (Vostokenergo) and the associated companies Dneproenergo, where DTEK owns 47.55%, and Zapadenergo, where DTEK holds 24.9%.

Service-Invest, DTEK Energougol ENE and the associated Donetskoblenergo Company, where DTEK holds 30.6%, represent the electricity sales and supply business of DTEK. DTEK also holds a 39.98% stake in Kievenergo, a company generating and supplying heat and electricity.

For more detailed information on the Company's activities, please, visit our website <http://www.dtek.com/>.

DTEK joined the UN Global Compact in May 2007; our social reports describe the key stages of the Company's dynamic growth and a natural link between CSR practices and our long-term sustainable development strategy.

Adhering to the principle of openness in corporate social responsibility, the Company issues social reports once every two years.

In 2008, DTEK issued its first social report "Energy of a Leader: the Social Dimension" (<http://dtek.com/library/file/social-report-2007-eng.pdf>). We were the first Ukrainian industrial company to prepare a report in compliance with the international standard GRI and to have been audited by an independent company. In 2010, the company published its second social report on DTEK's sustainable development over 2008-2009 – "Smart Energy: Social Dimension of Sustainable Business" (<http://dtek.com/library/file/sustainability-report-2010-eng.pdf>). Similar to the first report, the second one was prepared on the basis of GRI standard and independently audited.

Our next Report is planned to be released in 2012. DTEK lays emphasis not only on participation in social and economic progress, but also on timely, clear and accurate communication of results achieved and plans designed in sustainability area to all stakeholders.

To be a large business means to meet the highest standards, above all in matters of corporate governance, environmental protection, labor safety and corporate social responsibility. Today we

link DTEK's future with the success and the level of societal development of the country in which we live and work.

We are seriously focused on the social and economic development of the regions where DTEK operates as well as on the sustainable and gradual improvement of the conditions of life of the more than 7 million people living in these territories. In November 2010, DTEK became the winner of the First All-Ukrainian CSR Forum in the Best Project nomination for our program of long-term co-operation with the towns where the Company has its operations, within the framework of which, in 2010 reporting year, DTEK invested UAH 11.6 million in social and economic development of these territories.

We continue to expand the geography of our social partnership programs. Since October 2010, two more companies – Dneproenergo PJSC and Zapadenergo PJSC, and 6 towns and 2 districts have joined the Social Partnership Declaration. Currently, 18 Ukrainian towns and 4 district centres are the parties to the Declaration.

DTEK has chosen the way of social investments, since such investments have strategic character, create new opportunities for a greater number of residents and thus improve the quality of life of the population. We consider that such approach creates a more reliable environment for positive social and economic changes. In 2007-2010, DTEK invested over UAH 26 million into the development of the regions of its presence. The Company is going to increase both the scope of financing and a range of programs. In 2011, investments will amount about UAH 20 million.

We analyze our own performance dynamics, while bearing in mind the factors that shape the Company's external operational environment. Believing that a dialogue is the best way to consensus, we are giving due consideration to the positions of other stakeholders (our employees and partners, the public and the government). It is a daunting task; still, having resolved to become a leader not only in business, but also in the way we interact with the society, we are convinced that this type of dialogue will help us gain a better perception of the world we would like to live in, and the world we would like to be inherited by our children and grandchildren.

The Company sees the following key stakeholders groups, i.e. groups that influence or are influenced by the company's activities:

Key Groups	Subgroups
National and local government institutions, including regulators	Legislative and executive government authorities Regulatory and oversight agencies
Shareholders and investors	SCM, investment banks, holding companies, private investors
Credit and finance	Banking and credit institutions
Partners, suppliers and contractors	Ukrainian energy market players, foreign companies, industry associations, contractors, providers of services and equipment International organizations and foundations
Media outlets and rating agencies	International, national and regional printed press, television, information agencies, and rating agencies
Company employees	Active employees, labor unions, retirees and, potential employees (students)
Non-governmental organizations	Expert communities, including environmental and public organizations

Universities and students	Universities and vocational institutions
Customers	Ukrainian industrial companies, foreign customers, general public
Residents of corporate presence communities	Local governance, municipal organizations, community groups, employee family members

DTEK's Long-term Strategy provides for the development of green energy as one of the most promising areas. Today, the Company is working on the largest wind power project on the territory of Ukraine. We are trying to use not only conventional fossil fuels, but also renewable energy sources, which will make the country's power supply more sustainable. This area will not only produce clean energy, but also create new jobs, develop the manufacture of hi-tech equipment in Ukraine.

It is our opinion that all of these efforts represent our Company's contribution to reform in this country. We are looking forward to receiving your feedback that will certainly help us improve our activities in the area of sustainable development. Please, contact [csr@dtek.com](mailto:csr@dtek.com).

### **CSR Policy**

Our understanding of corporate responsibility is formalized by DTEK's CSR Policy that came into force on January 01, 2009 (<http://dtek.com/library/file/politika-dtek-v-oblasti-korporativnoy-sotsialnoy-otvetstvennosti.pdf>). CSR Policy defines the Company's CSR as a philosophy of long-term sustainable development, providing an opportunity for harmonious integration of successful business with basic universal human values and national development priorities. Our CSR activities are based on strict compliance with the law of Ukraine and other countries, where the Company is doing business.

In its CSR practice DTEK is governed by the following principles:

- acknowledging the Company's role in societal development, and its responsibility for making contribution that is long-term, systemic, transparent and understandable to the society;
- acceptance of rule of law in all spheres of socio-economic activity, respect for human rights;
- giving first priority to programs that are related to occupational health and safety, human resource development and other CSR aspects in relation to our employees;
- ensuring that the scope and direction of DTEK's internal and external social investments in the regions of its corporate presence are commensurate with the scale and prospects for business development;
- giving due account to global CSR experience and best practices;
- maintaining a dialogue with the society in the spirit of openness and publicity.

We have determined four key areas of CSR (sustainable development), where DTEK will consistently strive to achieve the declared objectives.

<b>HUMAN RIGHTS</b>	
<b>Principle 1</b>	<i>Businesses should support and respect the protection of internationally proclaimed human rights</i>
<b>Principle 2</b>	<i>Businesses should make sure they are not complicit in human rights abuses</i>

Respect for human rights and offering of equal opportunities are an integral part of DTEK's activities. Discrimination of any kind is unacceptable for the Company. The Company carries out studies of social climate among the employees of its enterprises on a regular basis. During such reviews the employees can express their opinions of the situation in the company, share their ideas and wishes. The Company can assess the level of its employees' loyalty and satisfaction, and find ways how to improve the situation.

Due to the nature of DTEK's operations, the company have more male employees. Nevertheless, we strive to develop the potential of our female employees. Women hold 34 % of managerial positions of different levels in the company: from directors to heads of structural subdivisions.

Apart from gender equality in the Company, we try to provide support to our employees in managing their family issues. Our employees may choose to have full or part-time working hours. Men and women have equal opportunities to take parental leave; and not only our female, but also our male employees have done so.

DTEK has been an active supporter and promoter of initiatives aimed at the protection of international human rights.

Since 2007, DTEK is an active participant of the Ukrainian network of the UN Global compact. At the same time, DTEK joined the European Business Association (EBA), and in 2009 it became a Co-Chair of the CSR committee of the EBA.

In July 2011, DTEK became the first Ukrainian member of CSR Europe, the leading European business network with over 70 multinational corporations as members. The members of CSR Europe have been working at the development of corporate social responsibility in Europe and integrate CSR principles in their development strategies.

In 2010-2011, work was continued to promote the principles and standards of corporate social responsibility and sustainable development in the Ukrainian business environment.

It is already the second year when DTEK has been a member of the UN Global Compact. In order to support and strengthen the network, DTEK, having combined efforts with three more companies, provides a grant for the UN Development Programme (UNDP) in Ukraine. The grant is intended to support and promote the CSR concept and Global Compact initiatives in Ukraine.

In September 2011, the Company was invited to take part in the Meeting of the Nordic Network of the UN Global Compact devoted to Ukraine and local networks. DTEK represented the experience and activities of the Ukrainian Network of Global Compact.

Since 2011, DTEK has been a member of the Centre for Corporate Social Responsibility Development. The membership in the Centre enables the implementation of joint projects, sharing CSR experience and best practices with the member companies.

In November 2010, DTEK became the General Partner of the first Corporate Social Responsibility Forum in Ukraine – CSR MarketPlace – organized by the Centre for Corporate Social Responsibility Development, a platform for sharing successful CSR projects of companies, working groups, presentations and master classes of leading experts to promote CSR ideas among companies, employees, local communities and disseminating best practices of sustainable development among general public. In October 2011, DTEK supported CSR MarketPlace once again.

DTEK took part in the work of the Coordinating Committee of the Verkhovna Rada to develop the draft National Concept for the Development of Business Social Responsibility in Ukraine.

In March 2011, the United Nations in Ukraine and Global Compact Network held the 3<sup>rd</sup> Ukrainian Business Summit on Climate Change: Energy Efficiency, where DTEK was a partner for the Energy Panel. Upon the results of the summit, it was decided to prepare a resolution consolidating the participants' suggestions on addressing the issues discussed at the summit. DTEK chaired the Environmental Working Group of Global Compact Networks set up for preparing the resolution.

In April 2011, DTEK acted as a partner of the Fifth International Conference 'Social Responsibility of Business: Toward Sustainable Development' traditionally organized by the business magazine *Expert Ukraine*. The conference hosted two discussion panels *Strategy and Implementation of Companies' Sustainable Development Projects* and *Strategy and Interaction with All Groups of Stakeholders*.

In September 2011, DTEK was a social partner of the Third Kyiv International Film Festival. Within the framework of the festival, the Company initiated two round tables: 'Environmental Challenges of Ukrainian Thermal Generation' and 'Telemedicine. How to Make High Quality Medical Services More Accessible?' The main objective of the round tables was to attract the attention of Ukrainian society and, first of all, young people to the two topical issues DTEK is addressing now: improvement of the environmental situation and provision of high quality medical services to people as a support for the right to the highest attainable standard of health.

DTEK also sponsored a regional summit for mass media and business representatives *Sustainable Development of Regions: the Role of Socially Responsible Business*, which took place in September 2011. At the summit, DTEK presented its experience in the implementation of Social Partnership Programs with the territorial communities of the towns and districts of the Company's presence.

We view participation in such events as an important mechanism of achieving a better understanding of CSR in Ukrainian business community, holding a dialogue with stakeholders and sharing experience.

<b>LABOR STANDARDS</b>	
<b>Principle 3</b>	<i>Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining</i>
<b>Principle 4</b>	<i>Businesses should uphold the elimination of all forms of force and compulsory labor</i>
<b>Principle 5</b>	<i>Businesses should uphold the effective abolition of child labor</i>
<b>Principle 6</b>	<i>Businesses should uphold the elimination of discrimination in respect of employment and occupation</i>

Since it is our employees that are the backbone of DTEK's sustainable development, our key priorities include effective HR management, continued improvement of personnel skills and qualifications, and providing better incentives to workforce.

One of the key principles of HR management in the Company is observance of the current labor legislation and human rights, ensuring competitive remuneration of the employees, taking into account their professionalism, complexity of work they are doing and degree of responsibility.

DTEK's HR Policy formulates our goals and objectives, as well as the principles that we intend to follow in all processes that are related to personnel management. Therefore, the Policy provides a decision-making environment in the areas of recruitment, remuneration, promotion etc. that is transparent to all DTEK enterprises and their employees.

DTEK's companies use neither child labor, nor compulsory or forced labor.

DTEK was included into the List of the 'Most Respected Employers of Ukraine 2010' according to the study released in the fall of 2010 by HeadHunter and Reputation Capital. The study was



conducted as part of the global project The World's Most Reputable Companies organized by the Reputation Institute with support from Forbes.

In December 2010 DTEK was the winner of the second All-Ukrainian Contest of CSR Projects in the nomination 'Labour Relations'. The jury examined the project of creating a corporate University – the DTEK Academy. The Centre for CSR the Development acted as the organizer of business practices competition.

A dialogue with trade unions DTEK constantly maintains, allows for an efficient balance between interests of the employees and the Company itself. DTEK participates in industry agreements in coal and energy sectors. Collective bargain agreements are in effect at all the Company's production companies which regulate additional social guarantees, including minimum salary levels, social benefits, additional one-off payments to employees and pensioners, as well as the Company's responsibility for training and occupational safety. The Company provides a series of benefits in addition to the list stipulated by law.

Collective bargaining agreements between management and coal-mining enterprises of DTEK contain a mandatory section dealing with Occupational Health and Safety, and the internal rules and regulations aimed at labor safety improvement, are always agreed upon in coordination with labor union locals.

Providing of safe and healthy working conditions and protecting the lives of our employees is a priority for DTEK's production unit. The Company's executive managers have taken compliance with labor safety standards under their personal control. The Supervisory Board and the Management Board of the Company have Health Safety and Environmental Committees; similar HSE Committees operate at the coal and energy production enterprises. These bodies are headed by chief executives, showing the level of priority that is attached to this particular area by the Company's leadership. An Industrial and Environmental Safety Directorate is functioning at the corporate center.

Starting from 2007, the Company has the Labour Safety Policy in place as well as common corporate standards designed as part of the introduction of an advanced safety management system (SMS) in compliance with the international standard 18001:2007. The first stage of the integration of the new system took place from May 2007 to February 2009 at the Company's coal mining and power generating enterprises (DTEK Pavlogradugol PJSC, DTEK Mine Komsomolets Donbassa PJSC and Vostokenergo LLC). In 2008, DTEK started changing the SMS at the coal processing, power supplying and energy service companies, which was completed by the successful certification audit late 2010.

Systematic work in labor safety makes it possible to gradually reduce the level of production injuries. Thus, in 2010 the total accident level at DTEK was lowered by 16% from 319 to 269 incidents; the frequency rate of injuries (per 200,000 man-hours) was reduced by 15% from 1.02 to 0.87 cases. Today, DTEK's occupational injuries indicators are far better than those of its Ukrainian peers.

Late April 2011, DTEK's enterprises summarized the results of the occupational safety week traditionally arranged in the last decade of April to coincide with the World Day for Safety and Health at Work. The activities held at DTEK's enterprises were intended to raise the employees' awareness of elimination or mitigation of operational risks, proactive work to avoid occupational injuries and diseases, development of safety culture and conscious approach to such issues.

A series of innovations were also implemented in 2010 which made it possible to make work in the area of labor safety more efficient:

- A safe behavior order system was created which involved the corporate centre (members of the Executive Board and other Directors, employees of the Department for Coal production and preparation, the Department for Generation and Distribution), DTEK Pavlogradugol, DTEK Komsomolets Donbassa Mine and Vostokenergo.

- A corporate standard for protective clothing, protective footwear and other personal protection equipment was developed for the employees of DTEK's companies.
- A corporate system of workplace medicine was developed to manage, maintain and improve the condition of employees' labor safety.
- A corporate system for the material and nonmaterial motivation of personnel was developed for labor safety success.

DTEK's costs for Labour safety and protection over 2008 – 2010, UAH m

	2008	2009	2010
Investments in Labour safety and protection	118.3	116.5	174.6

THE ENVIRONMENT	
<b>Principle 7</b>	<i>Businesses should support a precautionary approach to environmental challenges</i>
<b>Principle 8</b>	<i>Businesses should undertake initiatives to promote greater environmental responsibility</i>
<b>Principle 9</b>	<i>Businesses should encourage the development and diffusion of environmentally friendly technologies</i>

The Company's environmental strategy is based on the Corporate Environment Protection Policy (<http://dtek.com/library/file/dtek-env-protection-policy-eng.pdf>) approved in 2009. The strategy determines the long-term environmental goals and is focused on the following priorities:

- improvement of the environmental management systems (EMS) at DTEK's operating companies, which successfully passed the certification audits late 2010, annual confirmation of the certificates following the results of the EMS compliance audits;
- execution of the environmental programmes in generation to be in line with the legal and Directive 2001/80/EC requirements;
- fulfillment of the environmental programmes at the coal mining and processing enterprises to meet the current legal requirements by 2015;
- implementation of joint projects within the framework of the Kyoto Protocol.

In March 2010, the Company initiated the consideration of compliance with Directive 2001/80/EC at public hearings at the Committee of the Verkhovna Rada of Ukraine for Fuel and Energy Sector. The following proposals of DTEK have been included into the resolution:

- designing a national program on meeting the requirements of Directive 2001/80/EC with financing sources to be determined;
- resolving the issue on a transition period to be granted to Ukraine to comply with Directive 2001/80/EC with taking into account the timelines set in the national program.

In December 2010, DTEK's Environmental Department took part in the working group at the Ministry of Ecology and Natural Resources of Ukraine regarding the adoption of EU environmental standards by Ukrainian enterprises as part of negotiations on the EU-Ukraine Association Agreement.

In 2010, DTEK's enterprises completed the development and introduction of an environmental management system. All enterprises successfully passed the certification audit of the environmental management system (EMS) and obtained certificates confirming the compliance of their EMS with 14001:2004 standard. The certification audits were supervised by an independent international audit company Moody International.



Following the principle of continuous improvement of the environmental management system, in 2010, DTEL's enterprises designed and put in force regulations "On Assigning Functional Responsibilities in the Area of Environmental Protection". The Regulations contain the description and functions and duties allocated to processes and management levels. The key objective of the Regulation is to put in order of our duties and responsibilities in the area of environmental protection.

Work continued for optimising the use of dangerous substances and materials, including substances which destroy ozone and substances which contain chlorine or asbestos. In order to control handling and to exclude accidents at distribution companies, the "Regulation and Handling Dangerous Substances and Materials" was developed and put into operation.

The DTEK Environmental Safety Department developed the ecological section of the Roadmap. The Roadmap makes it possible to ensure that there is a detailed and timely disclosure of ecological information to manage it in future.

To mitigate and prevent the impact on the environment, in 2010, the Company conducted an assessment of material environmental risks at all its assets. For that purpose, the enterprises set up working groups, made registers of all environmental risks, and developed a methodology for environmental risks management. In accordance with the methodology, the enterprises conducted an assessment of material environmental risks, which became the basis for enterprises' environmental programs aimed at the implementation of the Company's strategic initiatives.

Monitoring and assessment of the enterprises' operations environmental impact are the key elements of an efficient management system. As part of the introduction of the environmental management system at all DTEK's enterprises, there are procures in place for Monitoring and Measurement of Environmental Indicators, Processes and Operations Parameters. As required by the effective legislation, the environmental services of the enterprises conduct the monitoring of environmental impact and efficiency of the environmental programs.

#### *Environmental investment*

The challenges the Company inherited from the past affecting its environmental performance (unsatisfactory condition of waste treatment facilities, waste water discharge, abundant mine waters) are being tackled: investments are allocated for the renewal of environmental and operational equipment and upgrade of operational processes.

In 2010, DTEK's environmental costs amounted to about UAH 194.04 million. Capital expenditure in the environmental protection measures was UAH 16.4 mln, which is 51% below that in 2009. A decrease in the capex for environmental measures is due to the postponement of some investment projects. Over 2008-2010, UAH 596.8 mln has been cumulatively invested into environmental activities.

Environmental costs over 2009 – 2010, UAH thou.

Year	Capital investments	Current expenditure	Additional costs	Total
2009	33 590,010	145 857,531	11 594,837	191 042,400
2010	16 339,470	162 560,346	15 140,489	194 040,305

Over several years, the Company's enterprises have been implementing energy management programmes to cut heat, electricity and fuel consumption. As a result, energy consumption has been reduced and the 2008-2009 economic effect is over UAH64m., the 2010 economic effect is over UAH68m.

## Greenhouse gas emission reductions

Company's efforts to reduce greenhouse gas emissions by DTEK operating companies are the part of its sustainable development policy aimed at protecting environment and improving living conditions of people who live in the regions where our companies operate.

Since 2007, Komsomolets Donbassa Mine has been implementing a project on building a facility for gas removal and coal mine methane utilization. Since 2008, two utilizations plants for gas flaring have been in operation. In 2009, the mine boiler house was converted from coal to mine methane. The project of joint implementation for coal mine methane utilization was registered in the UN FCCC Secretariat<sup>1</sup>.

By 2012, the amount of utilized gas is expected to be 15.5 Mm<sup>3</sup>/year and coal saving will total 20 kt/year. Greenhouse emissions in CO<sub>2</sub> equivalent will reduce as methane will be combusted in mine boiler and in utilization and cogeneration plants.

In 2008-2009, 5.661 Mm<sup>3</sup> of methane were utilized, and following the results of the first verification 66.1 kt of CO<sub>2</sub> equivalent (ERU) were certified for an amount of UAH 6.22m. In 2010, the total amount of utilized methane was 10,711,572 m<sup>3</sup>; second verification certified 113.1 kt of CO<sub>2</sub> equivalent (ERU) for the total amount of UAH 10.4m. In 2011, 115 kt of CO<sub>2</sub> (ERU) are planned to be utilized.

Reduction of specific methane emission per unit of generation (DTEK Komsomolets Donbassa Mine):

	2008	2009	2010
Methane	0.0174	0.0143	0.0118

Independent accredited certification body, Bureau Veritas, confirmed the reduction of carbon dioxide (CO<sub>2</sub>) emissions by thermal power plants of Vostokenergo (DTEK) in 2006-2009. Thus total emission reduction of Vostokenergo was 2,036 kt of CO<sub>2</sub> equivalent, out of which Zuevskaya TPP accounted for 97.297 kt, Kurakhovskaya TPP for 592.556 kt, and Luganskaya TPP for 1,345.598 kt.

Getting emission reduction units became possible for Vostokenergo (DTEK) thanks to successful retrofit of the power plants that increase fuel combustion efficiency of coal units. Unit retrofit began in 2008 and will finish in 2018. All 17 units of Vostokenergo will be retrofitted.

## Air pollution control: emissions

Atmospheric air protection is one of the priorities for the Company's environmental activities. As part of this, Vostokenergo continues to implement the ecological programme to meet legislative requirements and the mixing requirements of Directive 2001/80/EC.

At the Kurakhovskaya TPP, the electrostatic precipitator of power unit No. 7 is being modernized. The efficiency of the electro static precipitator of power unit No. 1 at the Zuyevskaya TPP has been increased by 1.61% in comparison to 2009 (from 97.9% to 99.51%). At the same time, the concentration of particle emissions has been reduced from 180 mg/m<sup>3</sup> to 141.6 mg/ m<sup>3</sup>.

Overhaul and current repairs have been made to the aspiration devices for fuel supply at the Zuyevskaya TPP, which made it possible to increase their thermal efficiency by 2.5 percentage points (from 92.2 to 94.6%). Due to the replacement of the bag filter of the aspiration devices, the particle concentration in the emissions of the concrete mixing unit devices of the maintenance and construction shop at the Zuyevskaya TPP have been reduced by 96.8% (to 34 mg/m<sup>3</sup>).

<sup>1</sup> Published on UN FCCC web site with indication of projected volumes of emission reduction units (ERUs):  
[http://ji.unfccc.int/JI\\_Projects/DB/6HTUWREKYFLSK811V9WXUPR32L4VB1/Determination/DNV-CUK1214326497.77/viewDeterminationReport.html](http://ji.unfccc.int/JI_Projects/DB/6HTUWREKYFLSK811V9WXUPR32L4VB1/Determination/DNV-CUK1214326497.77/viewDeterminationReport.html)

In order to receive accurate information on the concentration of harmful substances, a project for implementing an automated control system for harmful substance emissions into the atmosphere is being implemented at power units Nos. 1 and 2 of the Zuyevskaya TPP.

Work under re-equipment of the gas-scrubbing boiler at the Kurakhovskaya CPP was started. The realization of this project will make it possible to reduce the concentration of carbon dioxide and coal dust in the boiler's emissions.

At the Blagodatnaya Mine, DTEK Pavlogradugol is realizing a project to provide mines with hot water supply through recycling the low-potential heat contained in mine water using heat pumps. This will make it possible to escape the harmful emissions from the burning coal. Around UAH 3.9m was invested in the project.

In 2011, tender has been declared for the execution of a Feasibility Study of using heat pumps on the central site and the site VPS No. 1 of DTEK Komsomolets Donbassa Mine. Following the results of this Feasibility Study a decision will be made on using mine water as a source of heat energy for heating of premises and shafts and refusing from boilers on the central site and VPS No. 1 site in future.

#### *Protection and sustainable use of water resources*

Efficient use of water is one of the priorities in environmental policy of DTEK. The Company takes measures in two areas: reduction in water consumption for commercial and household/drinking needs.

Vostokenergo was able to decrease its consumption of potable water by 20.5% in comparison with 2009 due to an overhaul and replacement of pipe sections and through carrying out organizational and technical measures; this led to a reduction in the volume of sewage waste by 48%.

In order to reduce the discharge of production wastewater at the Zuyevskaya TPP, a new way of supplying treated water from the clarification pond to the return water supply system was put into operation. The realization of projects to protect water resources continues at the Luganskaya TPP.

In order to carry out the accurate monitoring of the usage of potable water, the outflow of mine water and sewage water, water metering equipment was installed at a number of the subdivisions of DTEK Pavlogradugol. Accurate metering may be possible for the Company to optimize the consumption of water for production needs and potable water needs. Plamya-2 equipment for treating mine water was put into operation at the Yubileinaya and Pavlograd Mines of DTEK Pavlogradugol PJSC.

Repair and organizational measures reduced water consumption for household needs of DTEK by 512,700 m<sup>3</sup> in 2010 (by 12.2% compared to 2009).

#### *Waste disposal and sustainable use of land*

The overwhelming majority (99%) of the wastes of DTEK companies was formed due to bulk waste from the production and enrichment of coal, as well as the generation of electricity, and its are non-hazardous nature. However, opportunities for its utilization are reduced by the need for vacant land properties that are required for its disposal.

At coal-mining enterprises, the principal and most sizeable type of waste is the rock that is produced by the mining process, whose tonnage directly depends on the tonnage of coal production. Coal enrichment process produces slurry that can be used to make slurry fuel. Thermal power plants produce ash that is a product of coal combustion and can be used in other industries, e.g. construction and farming, or for permanent storage of other types of waste.

At DTEK, we are seeking to reduce the quantities of generated waste through its utilization, using it as part of technical processes at our own operations, or transferring it to outside users. An important role is given to increasing capacity of the existing disposal areas, so as to avoid the need for apportionment of additional land properties for waste disposal.

In order to prevent allocating new land for cinder slag, a project for creating an ash dump was developed at the Luganskaya TPP. The capital investments came to UAH 582t in 2010.

The cleansing of the sludge tank ponds took place at a number of coal enrichment plants with extraction of the coal component for further use. It allows to successfully increase the useful capacity of locations for removing waste, and in this way extend the operational life of the sludge tanks as well as using the natural resources more sustainably.

<b>ANTI-CORRUPTION</b>	
<b>Principle 10</b>	<b><i>Businesses should work against corruption in all its forms, including extortion and bribery</i></b>

### **DTEK Code of Ethics**

Together with the CSR Policy, in 2008, DTEK approved the Code of Corporate Ethics, which also passed the whole process from the publication and extensive discussion of a draft till its finalization at the Corporate Governance Conference and approval by the Company's Management (January 2009). The Code is a compendium of rules and principles defining the ethics of relations between the Company's employees as well as the Company's relations with its partners, counterparts and other stakeholders (<http://dtek.com/library/file/corp-ethics-code-eng.pdf>).

The company has created a system to monitor, and respond to potential signals with regard to implementation of the Code. All of this feedback is thoroughly examined, with answers provided through the corporate newspaper, or directly to the originating party.

### **Reporting table according to the 10<sup>th</sup> principle of UN Global Compact**

	<b>Reporting Elements</b>	<b>Examples of the Company's activities</b>
B1	Commitment and Policy: Publicly stated commitment to work against corruption in all its forms, including bribery and extortion	DTEK has signed and undertaken the corresponding obligations as part of its participation in the European Business Association, the US Chamber of Commerce and UN Global Compact.
B2	Commitment and Policy: Commitment to be in compliance with all relevant laws, including anti-corruption laws	In September 2011 DTEK adopted a Compliance Policy ( <a href="http://dtek.com/library/file/dtek-compliance-policy-eng.pdf">http://dtek.com/library/file/dtek-compliance-policy-eng.pdf</a> ). The document is a public written statement indicating the will of the Company to comply with all the legal requirements including the anti-corruption legislation. The corresponding internal procedures are being developed.
B3	Implementation: Translation of the anticorruption commitment into actions	The Company established a Compliance Management Department in charge of implementation of DTEK's anti-corruption programme based on the principles of UK Bribery Act.
B4	Implementation: Support by the organization's leadership for anti-corruption	During the management conference (March 2011) the Company's CEO stated the position of the management regarding anti-corruption activities. Anti-corruption initiatives of the Company were discussed at two management Board meetings. Anti-corruption measures were discussed with foreign experts during a specialized session for DTEK's managers.

B5	Implementation: Communication and training on the anti-corruption commitment for all employees	The Company created a Compliance management portal as part of the internal corporate website. In 2011 the Compliance Policy was communicated to the employees. Since 2009 the Company the DTEK operates a hotline <sup>2</sup> . This line serves to avoid and detect illegal actions that could damage the Company's reputation and its employees.
B6	Implementation: Internal checks and balances to ensure consistency with the anti-corruption commitment	Draft Regulation on business entertainment and gifts was developed; the company uses the Regulation on charity. According to the Company's internal procedures, all the regulations are revised on an annual basis.
B7	Monitoring: Monitoring and improvement processes	In June 2010, by decision of the Supervisory Board of DTEK Holdings B.V., the position of Compliance Officer was introduced. Among the compliance officer's key tasks are the following: control over compliance with the requirements of the regulators, preventing insider trading, compliance with business ethics obligations, control over compliance with anti-corruption legislation and DTEK's internal anti-corruption programme.

In January 2011 DTEK has joined the Declaration on Responsible Business Partnership. DTEK became the first industrial company in Ukraine to support the initiative. The Declaration focuses on promoting fundamental CSR principles to suppliers and partners of signatory companies as well as on implementing ethical purchasing principles. In the longer term it means a transition to a new type of relationships between suppliers and customers where social and environmental factors will play a significant role along with price and quality of goods. We will promote transparent and fair business principles, protect human rights including labor relations and ensure compliance with the environmental protection and health and safety standards in their operations with suppliers and partners.

In 2011 DTEK enacted the Procurement Policy aimed at increasing transparency and discipline of the procurement process. Introduction of the procurement Policy is an important step on the way of modernization of all the Company's business processes. The document is based on two important principles observed in DTEK: compliance with the Code of Corporate Ethics and cost effectiveness. The Policy contributes to DTEK's reputation of a reliable partner both in Ukraine and abroad. We will extrapolate our goals and principles to new assets that will join DTEK.

In September 2011 the results of the first Transparency and Accountability Rating in Ukraine were published. DTEK took the first place between the Ukrainian companies with the highest Transparency and Accountability Index and was included into the top 10 of the world's most transparent companies according to the assessment by the CSR Center.

The rating was organized by the Centre for Corporate Social Responsibility Development as part of the UNITER project sponsored by USAID. The rating is based on the methodology developed by the Beyond Business Organization (Israel) in order to encourage companies to improve the transparency level. Websites of the Companies were assessed by four main criteria: reporting, transparency, navigation, accessibility. 100 largest companies of Ukraine and companies whose stakes are traded on foreign stock exchanges took part in the assessment. The study also analyzed websites of 20 largest world companies according to the Global 500 rating (Fortune) and 10 largest Russian companies. The results were compared to results of 10 best companies of Israel where the rating has been held for 3 years.

<sup>2</sup> Since the Hotline became operational, no signals have been received regarding violation of the principles that are laid out by the Code.

## **DTEK Corporate Governance**

The key task of DTEK's corporate governance development is to ensure the most effective interaction between corporate relations participants, transparent decision-making, subordinated reporting of governance bodies. The system in place provides timely and accurate information disclosures of all significant issues, a transparent ownership structure and clear strategic priorities in the Company's development.

Development of corporate governance and business ethics is one of the principles of the Company's corporate social responsibility. Following this principle, we keep improving the quality of corporate governance.

DTEK is developing a system of corporate governance in accordance with the best world standards and practices of public international corporations. The quality of corporate governance facilitates successful development and improving the Company's communication with investors, it gives shareholders, partners and clients additional guarantees and helps to strengthen the system of internal control. DTEK group companies are guided by corporate values in their day-to-day work: professionalism, responsibility, striving to improve, unity, transparency and the principles of corporate ethics.

The Company has finished the implementation of the three-tier corporate governance structure. Three branches form DTEK's corporate governance structure: the holding company (DTEK Holdings B.V., The Netherlands), the corporate centre (DTEK LLC with headquarters in Kiev and in Donetsk), and the production enterprises in five regions of Ukraine.

DTEK Holdings B.V. exercises overall corporate governance of our assets while making decisions on the Company's development strategy and the channels of major investment (transactions valued at over EUR 10 m), amendments to corporate articles of DTEK's enterprises, choice of auditing companies, amount of dividends etc. As the corporate center, DTEK LLC makes decisions on key personnel issues (excepting top level of management), and provides operational management of the enterprises that are a part of DTEK.

Strategic management of DTEK's business is exercised by the *Supervisory Board*, established at the level of DTEK Holdings B.V., whose members are elected by the General Shareholders Meeting. The Supervisory Board represents shareholder interests, charts out the course of the Company's strategic development, formulates objectives for management and controls their implementation, approves major transactions and Company reports. In 2010-2011 membership of the Board changed and now it consists of 8 directors including 3 independent directors.

*Supervisory Board Committees:* DTEK's Supervisory Board has four permanent committees responsible for the key aspects of the Company's development. The Committees are advisory bodies that study and prepare recommendations with regard to corporate issues within the competence of the Supervisory Board.

A particular note should be made of the Committee on Occupational Health and Safety and Environmental Protection, whose establishment is the best proof of these issues receiving attention at the most senior level of DTEK, being subject to permanent oversight by the shareholders and corporate center management, and considered among our strategic priorities. The Committee generates initiatives and procedures in the areas of occupational health and safety and environmental protection, and makes assessments of the results achieved in both areas. In addition, its purview includes identification and oversight of occupational health and safety and environmental protection risks. A similar Committee is functioning under the Company's Board of Directors.

The Nomination and Remuneration Committee that is functioning under the Supervisory Board is tasked with development of the Company's management capacity, as well as managing the issues that are related to potential conflicts of interest among members of the Supervisory Board and the



group's senior management. Similar functions are exercised by the Risks Committee and the Personnel Management Committee that are operational under the Company's Board of Directors.

*Chief Executive Officer:* is the sole executive body of the Corporate Centre, elected by the General Shareholders Meeting to provide operational management of the Company. The CEO is accountable to the superior management body of DTEK — the Supervisory Board.

*Management Board* is a consulting body of the Corporate Centre on the basis of the Regulations on DTEK's Management Board. The Management Board is structured with four committees whose functions are similar to those of the committees that operate under the Supervisory Board.

*Internal control and audit system:* the Company has a multilayer system of internal control and audit in place, which ensures high level supervision over financial and business activity in all Company's structural units and subsidiaries. It has been built involving best practices and meets the principles of continuity, independence, objectivity and competence of auditing bodies.

*Corporate Internal Audit Department* reports directly to the CEO and its task is to carry out audits to provide assurance to DTEK's Supervisory Board and executive bodies as to proper compliance with established methods and procedures for financial and business operations.

*Internal Control and Risk Management Department* is a part of the Finance Division; its main task is to ensure the optimal balance between the growth of DTEK's shareholder value, profitability and risks. The Department's competences include the following: to secure the assets' integrity, to take part in the process of authentic reporting preparation and compliance with norms of law.

*External auditors:* every year DTEK engages an independent auditor to assure its financial statements. Upon tender results in 2010, the company PricewaterhouseCoopers was selected the Company's external auditor; the second non-financial report – DTEK's Sustainability Report 2008-2009 – was audited by Ernst & Young Company.

## COMMUNICATION ON PROGRESS REVIEW

*by Centre for Corporate Social Responsibility Development*

Centre for Corporate Social Responsibility Development welcomes the new Communication on Progress within the framework of UN Global Compact initiative, presented by DTEK, the Center's member company.

I would like to note the scale and number of activities that DTEK implements to fulfill the 10 GC principles.

I would call this document a form of communication and reporting and would not compare it to a full fledged Report, which DTEK prepares in accordance with Global Reporting Initiative guidelines every two years (the company opted for such frequency of information disclosure in 2008). Next report will be prepared in 2012.

I would like to note evident progress of the company in two GD areas – the environment and anti-corruption. These are the two most material issues for Ukraine, therefore DTEK's participation in solving these problems truly demonstrates the role of business in society, which other companies working in Ukraine could aspire to. In addition, all the requirements of Global Compact to communication on progress are fulfilled, including those related to reporting in the area of corruption in line with reporting system developed together with Transparency International. It is gratifying that the project "Social Partnership Declaration" evolved into a separate program with its own logo; this is another evidence of sustainable development of the company.

Nevertheless, I believe that in the next report the stakeholders would like to see greater disclosure of initiatives in the area of labor relations, because DTEK could be proud – it's not by accident that they received acknowledgement from international experts in the nomination "labor relations" in the framework of the National CSR Case Contest 2010. Perhaps special attention should be paid also to the area "human rights". Already some companies in Ukraine begin to understand the importance of this initiative and adopt separate policy in the area of human rights.

The only thing that I missed was the results of some policies of the company (for example in the area of labor relations, where the sums spent are stated, but there are no results of their evaluation), as well as plans for next year in declared four areas. I do understand that issues of evaluation and planning are still somewhat difficult for companies not only in Ukraine but in the world, but I hope that DTEK would take measures next year and will be able to show evaluation of results of its projects.