

**Period Covered: From October 2011 to October 2012**

Mr. Ban Ki-moon  
Secretary-General  
United Nations

**Ref: UN Global Compact Communication on Progress**

**Date: 20 October 2012**

Dear Mr. Secretary-General,

I am pleased to confirm DTEK's support of the Ten Principles of the United Nations Global Compact in the areas of human rights, labor, environment and anti-corruption. This Communication on Progress covers the period from October 2011 to October 2012 and describes our actions to further integrate the Global Compact principles and corporate citizenship into our business strategy, culture and daily operations. We also commit to share this Communication with our stakeholders through our corporate website.

Our Company was quickly growing in 2011 and in the first part of 2012 and all this time we actively worked to introduce our Company standards and Global Compact principles at the new enterprises. That task is very important because adherence to the principles allows us to promote values-based management at our enterprises, increase employee morale and confidence, and hence increase operations efficiency.

As the next logical step to more fully incorporate good corporate citizenship into our management structure and decision-making we established the Sustainable Development Committee under the Company Board and the Sustainable Development Department in the Corporate Center of the Company. This will allow us to ensure that the top management of the company is fully involved in the decision making on the sustainability.

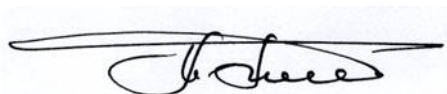
To promote Global Compact principles and mutual sharing of knowledge as well as information exchange on corporate citizenship with other Ukrainian companies, in May 2012, DTEK participated in the Summer Meeting of the Global Compact Network (GCN). At the meeting we discussed creation of the new GCN Ukraine entity to support sustainability plans, encourage partnerships and corporate citizenship practices. DTEK was elected to the Steering Committee of the GCN Ukraine. In June 2012 DTEK issued an annual grant to the UN Development Program (UNDP) in Ukraine to strengthen the Global Compact network in Ukraine via information dissemination activities.

In June 2012 DTEK attended the United Nations Conference on Sustainable Development RIO+20 where we discussed how to reduce poverty, promote decent jobs, clean energy and a more sustainable and fair use of resources. The Conference outcome document included a lot of areas which we fully support and try to incorporate into our work and policies for the better future such establishment of sustainable development goals; use of the green economy as a tool to achieve sustainable development; promotion of the corporate sustainability reporting measures; steps to go beyond gross domestic product to assess the well-being of a country; gender equality; need to engage civil society and incorporate science into policy.

In November 2012 we will publish DTEK's Sustainability Report for 2010-2011 which will contain information on the Company performance and achievements in the area of sustainable development. The report could also be found on the Company website in the section "Our commitment to CSR" starting from November 2012. <http://www.dtek.com/en/corporate-social-responsibility/our-commitment-to-csr>

In the future we will continue carrying out commitments within the framework of the UN Global Compact initiative.

Sincerely,

A handwritten signature in black ink, appearing to read 'Maxim Timchenko', with a long horizontal line extending to the left.

Maxim Timchenko

Chief Executive Officer

## **Strategy, Governance and Engagement:**

DTEK is developing corporate governance system in line with the best world standards of public international corporations. DTEK enterprises are guided by corporate values of professionalism, responsibility, pursuit of excellence, unity, openness and corporate ethics.

### *Corporate structure*

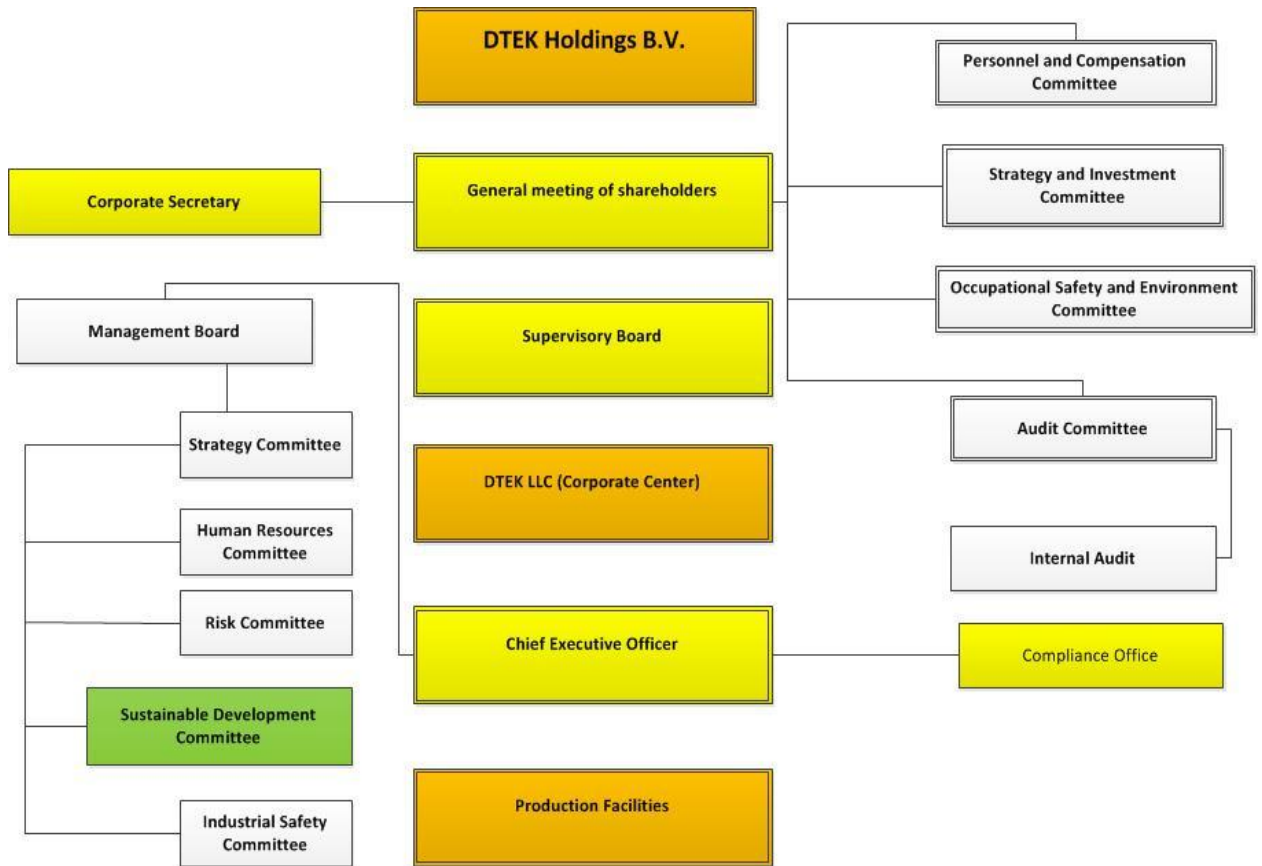
DTEK's corporate structure includes the holding company (DTEK Holdings B.V., the Netherlands), the corporate headquarters (DTEK LLC, in the cities of Kyiv and Donetsk) and operational companies (in eight regions of Ukraine).

This structure ensures an efficient and transparent corporate management and ownership system; sets up mechanisms for making and communicating strategic decisions in line with the best international practices; and improves the competitiveness and shareholders value of DTEK. SCM (System Capital Management) is a shareholder of DTEK Holdings B.V. DTEK's highest management body is the General meeting of shareholders. The Company's Supervisory Board, elected by shareholders, exercises the strategic management and control over the activities of the Company's executive body. The CEO of DTEK's headquarters manages the day-to-day activities of the group and implements tasks set out by shareholders and the Supervisory Board of the holding company. DTEK also has an advisory body, the Management Board, which consists of 11 company directors and is chaired by the CEO.

In connection with the acquisition of new large production assets, DTEK is currently changing its management model in order to facilitate efficient cooperation both internally within and externally outside the group. These changes should create conditions to implement employee initiatives, increase production efficiency and provide the Company with additional competitive advantages. Implementation of the new management model will result in the establishment of an operating holding with well-ordered production and governance processes, clear division of powers and centers of responsibility for the fulfillment of strategic tasks. This will ensure maximum synergy from vertical integration and establish a platform for the implementation of DTEK's long-term goals. At the same time, the group's employees will get the opportunity to more fully realize their initiatives and creativity. The new management model will be implemented by the end of 2013.

<http://www.dtek.com/library/file/annual-report-en.pdf>

## Corporate governance and sustainability



While business sustainability concept is still novel in Ukraine, DTEK is striving to take the lead in this area. We are trying to integrate the economic, environmental and social objectives of the society into our corporate structures and processes. We innovate and take action to solve societal demands, collaborate and engage key stakeholders to improve public welfare and confidence. The formal CSR policy was approved in January 2009 (<http://dtek.com/library/file/politika-dtek-v-oblasti-korporativnoj-sotsialnoj-otvetstvennosti.pdf>). This policy defines the Company's philosophy of long-term sustainable development as a harmonious integration of business with basic universal human values and national development priorities. It is striving to deliver more value for shareholders, more security and opportunity for employees, more cooperation and openness with stakeholders on issues of social and economic development in the territories where DTEK is operating, environmental protection, corruption, health and safety, and others.

In order to ensure greater involvement of the top management in the development of the corporate sustainability strategy in line with Global Compact principles, in 2012 a **Sustainable Development Committee** (SDC) was created under the Management Board. The SDC consists of 8 persons, including Directors of all business blocks, External Relations Director and several permanently invited members. SDC is responsible for:

- formation of the Company's policy on relations with regional communities to make sure that synergy exists between the core business activities and the needs of society;

- study and analysis of social development problems in the cities where DTEK is operating, review and approval of long-term social partnership strategies developed by the communities in cooperation with DTEK; approval of social investment funding to implement the strategies;
- approval of DTEK's social objects' restructuring;
- management of the occupational medicine system at DTEK;
- development of environmental strategy;
- addressing other issues which are not part of DTEK business activities but which may affect the balance between sustainability of DTEK's business and public interests.

We also created the Sustainable Development Department in the Corporate Center which is responsible for planning, implementation, monitoring and evaluation of social investment projects in regions, and also for the sustainable development reporting and communication.

The company will be expanding sustainability management further down to the level of enterprises where positions of Sustainable Development managers will be created. SD managers will be directly reporting to the Sustainable Development Department and their responsibilities will include local projects administration and oversight; financial and results reporting; inputs into communication on sustainability; and contribution to the sustainability reporting.

<b>Human Rights Principles</b>
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights;
Principle 2: Businesses should make sure that they are not complicit in human rights abuses

DTEK is engaged in activities which support and promote the human rights proclaimed by the Universal Declaration of Human Rights.

DTEK's personnel management policy ensures that employees exercise their **right to work, right to just and favorable remuneration, right to form and to join trade unions for the protection of their interests**. This policy covers: (1) observation of the existing labour legislation and human rights; (2) provision of competitive remuneration for employees, taking into account their professionalism, the complexity of work performed and level of responsibility; (3) investment in education and training for employees to help them to reach their potential and make a valuable contribution to the Company's business successes; and (4) provision of social support for employees <http://www.dtek.com/en/corporate-social-responsibility/employee-welfare>. In particular, the personnel management policy ensures that there is no discrimination during the hiring process, that there is a transparent annual appraisal process that allows to award noteworthy contributions, and which ensures that employees receive support for further professional development and career advancement, etc.

The Company's Code of Conduct states that:

- The Company builds its activity on the principles of the supremacy of law in all the areas of public and economic life;

- The Company builds relations with its employees on the principles of respect for human rights and personal dignity, equal opportunities for employees;
- The Company builds dialogue and relations with local communities, state authorities and local self-government on the principles of openness, partnership and cooperation.

The whole text of the code of conduct is here: <http://www.dtek.com/library/file/corp-ethics-code-eng.pdf>.

The hotline operating at DTEK's enterprises allows employees to report about different violations – from human rights to financial abuse. Employees may report through different channels: telephone, email, fax, post, special box at the enterprise. According to the internal statistics, around 40% of the reported violations relate to fraud and the rest relate to various ethical conflicts, dissatisfaction with the remuneration and benefits system, staffing issues. Each complaint is investigated by the Compliance Department and the action is taken to ensure observation of human rights and principles of integrity, openness, and responsibility.

The Company regularly conducts research on social climate in its enterprises to identify the level of employees' satisfaction with working conditions, their loyalty, involvement, levels of awareness, their attitude to major management decisions. On the basis of this research action is taken to improve situation.

In order to help its employees to exercise their **right to education** and further professional development, the Company created DTEK Academy. This corporate university offers its own unique educational programs, which have been developed with the assistance of noted business schools, including the London Business School and the Kyiv Mohyla Business School. The training programs encompass all of the important aspects of management. They are designed to provide employees with a systematic approach to solving tasks and the knowledge and tasks needed for daily work. In November 2011 DTEK won the first national award HR-Brand Ukraine. DTEK's corporate university, DTEK Academy, won the category "Ukraine", and Generation DTEK, the Company's project dedicated to cooperating with target universities, won silver in the category "Regions". DTEK Academy concept is based on the "role model", which envisions the development of four levels of intellect: IQ (formal logical), EQ (emotional), LQ (learning) and SQ (social). All the corporate center employees and engineers of production entities can take part in competence development programs aiming to foster the knowledge, abilities and skills for efficient work in a modern business organization.

Since almost all DTEK's enterprises are located in mono-towns which are traditionally dependent on the single industry, the Company, as a responsible corporate citizen, is interested in ensuring that the quality of people's life in the regions where DTEK enterprises are located be constantly improving and **that the right of people to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services** is observed. To that end, DTEK initiated and signed the Declaration of Social Partnership with 19 cities and 4 regional centers. Working together with the local governments, NGOs, businesses, representatives of local communities, DTEK identifies local needs, prioritizes major development objectives, and develops and funds social projects' ideas. As a result of this collaboration five main directions have been identified:

energy efficiency in communal sector; healthcare; socially important infrastructure; business environment development; education, culture and sport.

As a result of this joint collaboration, DTEK managed to build a constructive dialogue with local communities, received their feedback and deepened its understanding of societal needs and aspirations and invested \$12 million in the development of local communities over the last 4 years. In 2011 the social partnership program of DTEK was granted the first place at the National Exhibition of Social and Ecological projects organized by the CSR MarketPlace with support of USAID <http://www.csrinfo.org.ua/uk/marketplace.html>.

<b>Labour Standards</b>
Principle 3: Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: Businesses should uphold the elimination of all forms of force and compulsory labour
Principle 5: Businesses should uphold the effective abolition of child labour
Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation

DTEK is supporting the labour principles of the UN Global Compact and the ILO Declaration on Fundamental Principles and Rights at Work which includes human rights at work, occupational safety and health, employment policy and human resources development. Employees are the backbone of the sustainable development of the Company, therefore, the effective personnel management, increase of their professional level, of their motivation and labour safety are the Company's top priorities.

The Company outlined the basic principles of its personnel management policy in its policy documents: <http://www.dtek.com/library/file/personnell-management-politic-miccion.pdf> (mission) <http://www.dtek.com/library/file/personnell-management-politic.pdf> (policy). Specifically, the principles include: "support of the high level of satisfaction, awareness, and inclusiveness of employees", "just and transparent system of remuneration, fair and competitive wages", "organization and conduct of events aimed to develop personnel".

All DTEK's enterprises closely observe the Constitution of Ukraine and the Labour Code of Ukraine which gives the right to workers to join trade unions (Article 243) and the right to participate in the enterprise management (Article 245). The workers may participate in the enterprise management through the meetings, through the work of trade unions, and through other means association.

In line with the Labour Code (Article 247), trade unions compile and control the observance of the collective agreements, report about their fulfillment at the general meetings of employees; trade unions may initiate review and change of the labour standards; participate in the decision making on remuneration systems and wage grids, rewards and compensations; trade unions are directly involved in social development of enterprises, in the improvement of labour conditions and medical treatment of employees; in decision making on social benefits; in resolution of labour disputes; they give approvals on conclusion or termination of labour agreements with

employees; participate in investigation of accidents, controls fulfillment of labour agreements and do other things.

There is no forced, compulsory, or child labour at DTEK's enterprises. DTEK is constantly in discussions with trade unions to balance the interests of business and employees. Collective bargaining agreements are in effect at all production companies of the DTEK - 98.9% of all DTEK employees are covered by them. These agreements regulate additional social guarantees, including minimum salaries, social benefits, one-off payments to employees and pensioners, and also Company's commitments in the area of trainings and labour safety.

In order to enhance the process of communication with its employees the Company created Departments on relations with trade unions and regional governments in coal, energy generation and distribution business blocks.

For example, in "Pavlogradugol" enterprise we are working together with trade unions to grant financial support to employees who have many children, to families of employees who died while on work, to employees who were injured while on work.

For the years 2010-2011, DTEK has undertaken the following commitments in the area of labour:

- Introduction of a Hay Group personnel ranking system to increase employees' incentives and effectiveness;
- Introduction of the occupational safety system in line with international standard OHSAS 18001:2007 at all DTEK's enterprises by the end of 2010;
- Successful annual audits of the occupational safety system at all DTEK's enterprises.

The just and transparent reward system was gradually introduced at the majority of DTEK's enterprises. The new reward system increases employees contribution and engagement, aligns reward costs and business results, is transparent and clear to employees.

Occupation health and management systems are directly and closely controlled by the top management of the Company. DTEK created Committees for the Occupational Health, Safety and Environment subordinate to the Supervisory Board and the Managing Board. Similar structures were created at both business blocks (energy and coal) and at every enterprise (8-10 persons). Trade unions' representatives and representatives of labour collectives are members of the Occupational Safety and Environment Committees at enterprises. The Committees operating at the enterprises are the main instruments for the monitoring and assessment of the current labour safety management systems which submit their conclusions and recommendations to the top management. Every year the Company issues a *Directive on Goals and Tasks in the Occupational Safety Area*, which contains the assessment of the goals and results for the previous year and adopts the new priorities and the program for the next year. The goals and tasks are set based on the information about the safety management system operation over the previous period.

The Company also conducts internal audits, including behavioral audits, conducts investigations of incidents, including those which could potentially lead to accidents or injuries.



In 2011, it was officially confirmed that the occupational health and safety management system at DTEK enterprises are in compliance with the international standard OHSAS 18001:2007. Introduction of this standard further reduced the number of injury cases at DTEK enterprises in 2011 by 14%.

DTEK increasingly invests in the modernization of safety systems (fire extinction equipment, lighting, accident alerts and alarms, draining out of gases, control of mine gases). A study is being done in the area of labor medicine in order get data which will help DTEK: improve the conditions of work, increase effectiveness of medical clinics serving DTEK's employees, improve health of employees by way of constant monitoring of their general and occupational health and increase their motivation and responsibility for their own health.

DTEK's expenditures for occupational safety in 2008-2011, UAH mln

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Investments in occupational safety	117,6	114,9	143,8	291,13

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Injuries while on work	332	319	269	433
Including deaths	10	8	4	8

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

Environmental protection is a key factor in the sustainable development of DTEK's business.

The Company carries out projects on an ongoing basis to improve environmental conditions in the regions where it operates and to protect the environment for future generations. We take every effort to minimize the impact of DTEK's industrial operations on the environment at all stages of the production process: from coal mining and preparation to power generation and supply. The company is taking every step to adhere to European standards for environmental protection. DTEK's environmental strategy is encapsulated in its Environmental Protection Policy, which was adopted in 2009; its revision is planned for late 2012.

<http://www.dtek.com/library/file/dtek-env-protection-policy-eng.pdf>

This document broadly sets out the Company's strategic environmental protection goals:

- implement an up-to-date environmental management system
- establish an effective environmental monitoring system
- reduce atmospheric emissions of pollutants and greenhouse gases
- reduce contamination and the amount of the waste water discharged into natural bodies of water
- use water resources in a rational and efficient manner
- increase the use of ash and rock
- reduce the amount of waste and implement environmentally safe waste disposal practices
- adhere to the principles of sustainable land use
- utilize coal methane to generate various types of energy
- respond timely and adequately to emergency situations

In 2010-2011 some structural reorganization took place in the Company. Ecological safety is now under control of the company's business blocks (production, generation and distribution). Each coal mining and coal preparation unit now has a person responsible for the environmental protection and reporting directly to the Chief Technology Officer. The Committee of Industrial Safety under the Company's Management Board and the Sustainable Development Committee are working to ensure that management of ecological issues is more flexible and accounts for peculiarities of different enterprises. Ecological management audits are regularly conducted at all enterprises.

The company created a system of annual trainings in ecological management systems and environment protection; special attention is paid to training personnel on how to eliminate negative ecological effects.

DTEK's specific commitments for 2010-2011 in the area of environment are:

- Introduce the ecological management system in line with international standard ISO 14001:2004 at all DTEK's enterprises till the end of 2010
- Implement measures in line with Directive 2001/80/EC "On the limitation of emissions of certain pollutants into the air from large combustion plants".
- Reduce greenhouse gases emissions at Skhidenerho power stations and at the Komsomolets Donbasa Mine within the framework of joint projects according to the Kyoto Protocol by 1 930 000 tons of CO<sub>2</sub> equivalent.

In 2011 Moody International confirmed that ecological management systems at 15 DTEK's enterprise are in line with the international standard ISO 14001:2004. Introduction of this standard is going on at the enterprises which were recently purchased by DTEK.

In order to implement the requirements set out by Directive 2001/80/EC "On the limitation of emissions of certain pollutants into the air from large combustion plants" the Company initiated discussions about the need to develop a government program on reduction of emissions from thermal plants. In 2011 the government program to implement Directive 2001/80/EC principles at all thermal power stations of Ukraine was developed and adopted while DTEK and other

representatives of energy industry participated in this process by way offering its expertise in the area.

In order to reduce greenhouse emissions, DTEK registered three emission removal projects. Under the framework of these projects, DTEK started reconstruction of the power generating units at three thermal stations of “DTEK Skhidenerho”. Due to this work, it already successfully transferred 1 847 147 tons of carbon dioxide equivalent and later 985 033 tons of carbon dioxide equivalent. The work to increase degassing and methane utilization in the boiling room and flare units of the Komsomolets Donbasa Mine allowed to achieve and verify emissions in the amount of 279 326 tons of CO<sub>2</sub> equivalent over the period from 2009 to 2011. When the project is fully completed, we expect the reduction of emissions by 350 000 tons of CO<sub>2</sub> equivalent per year.

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

The only way to sustainable business development is the honest competition on the transparent markets. DTEK Corporate **Ethics Code** <http://www.dtek.com/ru/about-us/code-of-ethics> contains systematized principles of conduct which should be followed by all the Company employees – working both in the Corporate Center and at the enterprises forming the Group. DTEK is taking practical measures to ensure business transparency.

In July 2010, DTEK Supervisory Board took a decision to create the Compliance Management Department in the Company. This is advanced experience for the Ukrainian business companies. In order to minimize the interference risks and ensure true independence in decision making, Compliance Management Department is directly subordinate to the CEO and the Supervisory Board. The Risks Committee under the Board of DTEK also exercises compliance function. In 2011, the Group adopted the **Compliance policy**. <http://www.dtek.com/library/file/compliance-policy-rus.pdf>

This document contains principles of observing corporate and internal ethical standards while doing business. Introduction of the compliance system aims to ensure effective management of the key compliance business risks, including the ones connected with implementation of the anti-corruption program based on the national legislation and international practices

The Compliance Management Department takes measures to prevent corruption and financial abuse. Within the framework of this practice the Company:

- identifies and studies counter-agents;
- exercises control over receiving and giving business presents and hospitality arrangements;
- takes measures to prevent conflict of interest;
- counteracts legalization of criminally received income

The key compliance risks are constantly reviewed by the Risks Committee under the Board of DTEK. The Compliance Management Department regularly conducts trainings for Company

management and employees on basics of DTEK compliance policy, on DTEK Corporate Ethics and on anti-corruption requirements. The Company operates the Compliance Violation Hotline which helps to react quickly and effectively to violations of the Corporate Ethics Code and in the area of corruption and financial abuse. Every year employees complete “conflict of interest” statements to disclose any potential conflicts. In 2011, more than 300 top and medium level managers submitted this form. The Company is a participant and a signee of the respective commitments within the framework of the European Business Association and the UN Global Compact. The Company management actively supports activities directed to oppose corruption. At the March 2011 corporate management conference, Company CEO publicly expressed support for anti-corruption activities. The Company is regularly conducting compliance process audits, review of compliance regulations would be held once a year, and the report on findings will be submitted to the Risks Committee under the Board of DTEK once a month. . DTEK’s Compliance was named The Best Compliance Function in the Industrial Sector of the CIS by the annual award “Compliance 2011” organized by the International Compliance Association and Dow Jones.

[http://www.becompliant.ru/events/ica\\_events/the\\_first\\_annual\\_ica\\_award\\_in\\_russia\\_and\\_cis\\_compliance\\_2011.php](http://www.becompliant.ru/events/ica_events/the_first_annual_ica_award_in_russia_and_cis_compliance_2011.php)