



Maxim Timchenko

CEO of DTEK

Dear colleagues and partners!

I'd like to share some of DTEK Group's major achievements from last year. 2018 was a year of major transformation: we brought new resources online, made structural changes, and set new directions for the organization. I'd like to tell you about our achievements in the context of our Corporate Development Strategy to 2030.

The Energy Industry

In 2018, we hit a record high in the production of G-grade coal — 24.1 mln tonnes. For the second year in a row, we established the highest annual output in the company's history. These records primarily ensure the sustainable operations of United Energy System of Ukraine (UES): power plants experienced no fuel shortages, and electricity production remained stable, covering all of Ukraine's requirements. Ultimately, they help create energy independence of Ukraine. Thermal generation has been boosted by conversion projects, switching power units from anthracite to domestic coal. In 2018, we continued the implementation of these projects — four power units at DTEK Prydniprov's'ka TPP were converted from anthracite to G-grade coal and DTEK Myroniv's'ka TPP was completely re-equipped. This allowed producing 28.3 bln kWh from G-grade coal — 88% of the total output of DTEK's thermal power plants. This share will only increase in future, with our strategy of reducing the volume of imported resources in the fuel balance of our power plants. We should be able to forego all import requirements in Ukraine's thermal generation in the foreseeable future — DTEK Group is ready to support the country's strategic objectives.

Renewable energy is another factor helping secure Ukraine's energy independence. According to the calculations of the Institute of Renewable Energy of the National Academy of Sciences of Ukraine, solar and wind energy has the potential to produce up to 100 bln kWh per year. An amount that would cover Ukraine's electricity demand for almost a year.

We implemented an ambitious project in solar power engineering by building the Nikopol SPP which has an inverter capacity of 200 MW, thus putting it in the top three largest solar power plants in Europe. Our next project will establish a new record: the inverter capacity of the Pokrovs'k SPP is 240 MW. Construction is underway on the territory of a derelict manganese mine, chosen as the location of the plant because the land is

unsuitable for agriculture. In wind power engineering we built the Prymors'k and Orliv's'ka wind farms with a total capacity of 300 MW. The first seven turbines of the Prymors'k Wind Farm are already a source of green electricity for Ukrainians. Overall, we are set produce 2.5 bln green kilowatt-hours per year, roughly the consumption of 700,000 households.

It's equally important that we partnered with world leaders in equipment and financial markets: GE Renewable Energy and Vestas, CMEC and a consortium of German banks Bayerische Landesbank, and Bremer Kreditbank, KfW IPEX-Bank. This suggests the Ukrainian energy sector is regaining the trust of international partners and beginning to emerge from its investment isolation. The reform of the energy sector — undoubtedly the most important event in the industry — will accelerate this process and ensure changes are carried out at a faster pace. However, the gap in development levels between Ukrainian and European energy generation is still obvious. We need to mobilize resources to overcome this gap as fast as possible. Ukraine needs modern energy production which is competitive, environmentally-friendly, and self-sufficient. Only then will it help advance the Ukrainian population's quality of life.

We remain leaders in natural gas production, introducing innovative technologies and solutions that allow us to drill to great depths. A stable increase in production has been made possible thanks to intensive development at depths over 5-6 km. I'm sure our experience has showcased the sort of technological developments our industry needs. But we are already making plans to go deeper by considering a transition to drilling wells with a depth of more than 7 km. In addition, we are preparing to develop a new licensed site: Svitankovo-Logiv's'ka. We won the right to develop this site in March 2019 at the first electronic auction for subsoil use, which was conducted by the State Service of Geology and Subsoil using the platform of the Unified Electronic Public Procurement System in Ukraine.



Customers

2018 has become a year of structural change for DTEK Group. We completed the unbundling procedure of separating the electricity distribution and supply functions. We've established operating companies in each sphere of business, thereby ensuring independence within the existing structure of DTEK Group.

This is the first stage of Ukraine's energy reforms, which will ultimately result in the transition to a European market model. From the consumer's point of view, the main advantage of these reforms is gaining freedom of choice of their electricity supplier, which creates the basis for more competitive rates. For companies, it involves a lot of work improving the quality and range of services, things which the energy sector has not previously focused on systematically. It creates conditions which need innovation and the integration of modern technologies.

In 2018, we posted the geoinformation systems of power grids on the Internet, an important step in creating simple conditions for connecting new facilities to power grids. Our next step in the development of electricity grid maps will be the introduction of an online service detailing available capacity. Our goal is to give customers a service that allows them to go through the whole procedure and connect their facility to the grid in just two clicks.

In the field of electricity supply, we are developing energy-saving and energy-efficient services for our customers. By the end of 2018, our project portfolio exceeded 0.7 bln UAH, and reached the 1 bln UAH mark at the beginning of 2019. Today this market segment is emerging, but I am sure that in a few years energy-efficient services will become a new fuel in Ukraine. Just as electricity will become the standard fuel source for cars. To that end, we started building a network of high-speed STRUM charging stations, which will help move away from vehicles with internal combustion engines.

Society

We are focused on improving people's quality of life in the cities where our manufacturing plants operate, something we've worked towards throughout our history. We have achieved a very important goal with the general population becoming our partners in our sustainable development projects. We have engaged in dialogue with local communities, in identifying five key areas for our social partnership: energy efficiency in the public sector; healthcare; development of socially significant infrastructure; increasing community activity; and development of the business environment. We are building a business strategy based on these priority areas.

In general, our social investments — which are part of our responsible financing practice — are focused on an integrated and balanced approach to sustainable development. We work on the principle that our efforts only make sense if they are of benefit to people.

Each of our production projects incorporates environmental considerations. Since 2012, for example, when modernizing and reconstructing power units, we have built electrostatic precipitators so that dust emission levels meet European requirements — no more than 50 mg per cubic meter. The Pavlohrads'ka and Dobropil's'ka plants — our largest concentrating plants — have switched to a closed-loop water-slurry scheme and use "green dump" technology. This involves abandoning the use of sludge ponds and preventing contact between coal concentration waste and the environment, thus significantly reducing our impact on the local environment. Our renewable energy projects will reduce greenhouse gas emissions by 2.6 mln tonnes per year, which is especially important for the industrial regions where they are located.

People

We need a network of astute professionals to achieve our ambitious task of creating a modern energy industry in Ukraine. The ongoing technological developments and rapidly changing business environment require those involved to constantly update their knowledge and acquire new skills.

DTEK Group continues to support employees in their efforts to develop their own potential, giving everyone the opportunity to undergo training as necessary. We continue to share our accumulated experience openly, holding specialized conferences for industry professionals and sharing corporate standards to help develop state standards for vocational education.

Our next major step towards creating a culture of open innovation was witnessed in the transformation of DTEK's corporate university, Academy DTEK, into an innovative educational business platform, open to representatives of business, the public sector and the wider community. Academy DTEK opened its doors in its new location in UNIT.City — a space that is equipped with the latest technical means, supporting the development and generation of new ideas. The campus also complies with the 'green building' standard of the American LEED system. This new stage in the development of Academy DTEK is aimed at one main goal: to promote innovation. Speaking of innovation, we have identified three main areas to focus on: innovations in technology; innovations in customer service; and innovations in education. People are the drivers of change, so we must create an environment that facilitates personal development.

Efficiency

Digital business transformation and the adoption of more innovative technologies will help us dramatically improve our efficiency. In 2018, we created our innovation

management function. The function will focus on three areas. Firstly, creating a culture of open innovation by focusing on the interplay between the company's internal potential and external innovation ecosystems. Secondly, partnerships and the search for innovative solutions which create effective communities. This helps facilitate quick adoption of new solutions which suit the needs of enterprises. Thirdly, the cultivation of startups in the search for new technologies which we can integrate into our business operations and in search of new products.

In 2018, we implemented a pilot project, the Energy Accelerator, which was aimed at finding innovative solutions for our business needs. We selected three startups and we plan to develop them until they're ready for commercial implementation in 2019.

The Digital Transformation Center will focus on digital business transformation in all areas of DTEK activity, employing 70 IT and digital specialists. In the next three years, our digital transformation program will focus on nine key areas: Digital Mine; Digital TPP; Digital Grids; Digital Field; Digital Logistics; Digital Analytics, Digital Purchases; Digital HR and Digital Office. In 2019, we plan to launch 23 projects across these areas.

Ukraine "plus"

Alongside reforms, our key task in energy production is the synchronization of the United Energy System of Ukraine with the European energy system ENTSO-E. This project is important for Ukraine's energy sustainability, since the UES of Ukraine is currently connected and works in parallel with the energy systems of the Russian Federation and Belarus. Integration with the European energy system also entails opening the Ukrainian market to European energy companies, which will increase competition and improve the quality of services.

DTEK has implemented and continues to implement a series of ambitious projects. The true value of each one lies in the fact that we produce energy which brings people light and heat. That is the mission we defined when the company was established and we have followed it steadfastly. We have created a company in which people work for people — a company to be proud of.

