

Introduction



MAXIM TIMCHENKO

CEO of DTEK

Dear colleagues and partners,
I am delighted to present the results of the DTEK Group's operations for 2020.

It was a challenging year for everyone, with quarantine measures slowing down economic growth. It was not all negative, though. Governments, communities and companies had the time to rethink their policies and strategies to discover new growth potential, as well as reassess their impact on society.

In 2020, we began implementing the New 2030 Strategy, driving our priorities: to transform into a more eco-friendly, efficient and technological business. Our strategy is based on the ESG (Environmental, Social and Governance) principles, as well as ethical business values and the desire to meet the urgent needs of society. We are also taking into account the global energy sector trends and Ukraine's development. The combination of these factors has allowed us to set the ambitious new goal of becoming carbon neutral by 2040.

I would like to tell you about the developments in the context of six corporate strategy directions.

Energy sector

Until recently, increased energy production was a key element of many countries' and companies' strategies. However, society now demands the eco-friendly transition to the widespread use of renewable energy sources (RES), ultimately replacing fossil fuels. This means the future of the energy sector is determined by four global trends: decarbonization, decentralization, digitalization and ESG.

The development of Ukraine's green energy production was, inevitably, placed on hold in 2020 because of the crisis in the energy sector. But RES is now beginning to influence the general structure of electricity production. For example, there were some hours in March when United Energy System of Ukraine data showed that solar and wind plants produce more electricity than thermal power plants (TPPs). This is only the beginning, but it is a major break-

through, and sets the tone for future power generation. In our New 2030 Strategy, we envision thermal generation transitioning from base load power generation to fast-start generation and reserve ones. This means that DTEK Energy will actively participate in balancing the market.

In 2021 we installed an industrial energy storage system at the Zaporizka TPP as a pilot project. It will give us important experience, allowing us to develop an optimal interaction process for various capacities within the United Energy System of Ukraine. Importantly, it facilitates the further development of green energy production, which needs to be carefully balanced because of the varying production volumes.

Our next renewable energy project will be the construction of the Tylihulska wind farm, with a 500 MW capacity. Overall, by 2030, the planned share of electricity from renewable sources will be at least 33% of DTEK Group's total supply.

Natural gas remains a long-term strategic energy resource: it is considered a transitional fuel as the industry becomes carbon neutral under the requirements of the European Green Deal. Since the introduction of this line of business in 2013, DTEK Oil&Gas has demonstrated high production growth dynamics, posting more than a fourfold increase, made possible by investment in modern equipment and technologies. Our plan is to ramp up our resource base and expertise to maintain our leading position in Ukrainian private gas production. In particular, in 2019–2020, the company was permitted exploration licenses on the Svitankovo-Lohivske, Zinkovska, Budishchansko-Chutovske, and Kovalevsko-Sulimovske sites.

Constructing the Smart Grid infrastructure is a key task of DTEK Grids. Automated supply and demand management will introduce the efficiency advantages of a modern energy sector to Ukrainian consumers. In addition, the incentive tariff design (RAB-tariff) was introduced in 2021, encouraging Ukraine grid companies to transform in the interests of their consumers.

Customers

At the very beginning of our path, we determined our company's values: professionalism, unity, responsibility, openness and the pursuit excellence. In our New 2030 Strategy, we have redefined the importance of the customer. The energy reform has allowed Ukrainian consumers to become full-fledged market players, and the future of companies depends more and more on customer satisfaction and loyalty.

Customer focus has also become a DTEK Group value. We aim to build a strong retail brand, a brand that cares for people, providing light and comfort in Ukrainians' homes. We see our brand developing as we expand the business beyond the electricity market, becoming a solution provider and new technologies integrator. For example, in 2020, D.SOLUTIONS developed the YASNO retail brand, offered customers natural gas supply services, increasing their choice of energy products.

Ukraine "Plus"

By reforming the industry, Ukraine has made a huge leap towards the European electricity market. However, 2020 was a challenging year for the European option. In particular, free-market and transparency rules governing the operation of the electricity market were not fully implemented, curbing the development of competition and, therefore, the industry's progress. It is important to return to the goals on which the reform was founded, which will allow integration with the ENTSO-E energy system by 2023, within the planned time frame. Integration with the European energy system will introduce opportunities for broad partnership in the energy sector and, importantly, in capital markets. Accessible fi-

ancing is central to maintaining the competitiveness of both states and companies during the global transformation of economies, industries and society.

Our partnerships with leading international equipment manufacturers and financial institutions are founded on openness and trust. The company's specialists have acquired unique knowledge and improved their expertise: working in international teams provides priceless experience. The accumulated expertise enables us to plan expansion into foreign markets, with D.TRADING and DTEK Renewables driving the process.

Efficiency

Management of both production efficiency and investment efficiency are DTEK Group's fundamental principles.

In 2013, we launched Novator, an extensive operational efficiency improvement program, with employees suggesting more than 70,000 ideas to improve working efficiency. 70% of these have now been implemented. And in the program's first five years, we saved UAH 4 bn. Novator made efficiency a top priority for managers and production personnel, allowing the business to enter the competitive electricity market with confidence.

Today, production efficiency continues to depend on innovation and new technology. We constantly aim to foster a culture of open innovation and digital transformation, to become a fully digital enterprise within the horizon of 2025+. This will mean the introduction of innovations throughout the entire value-creation chain, including the extensive use of modern digital technologies, AI solutions and the robotization of production.

People

It is impossible to implement ambitious plans for business transformation and the construction of a new energy ecosystem without team cohesion and high levels of professionalism. It is safe to say that DTEK Group employees are the best professionals in the industry, and their expertise meets international standards.

Academy DTEK, our corporate university founded in 2010, maintains the leading role in education and staff development. Academy DTEK has created a training system for employees of all specialties and has become a tool for managing talent, knowledge and change. For blue-collar specialties, we have developed 91 corporate professional standards to ensure employees' skills meet the needs of modern production. Importantly, this systematic work has a positive impact on the students' education: most of DTEK's corporate standards become the basis for Ukraine's standards, used in vocational schools across the country. We have created Energy of Innovation programs to prepare us all for working with new challenges: Executive MBA, ID.School, DxSchool, and D.Client School. These programs aim to develop cutting-edge project management skills to improve innovation implementation in the business. They are also intended to shape a company culture that will promote change and innovation.

Society

The paradigm for assessing business success is shifting under influent ESG principals. Society expects business to be responsible for future generations and creating material wealth is not enough. It is essential we also preserve values.

Our enterprises have always focused on building trust with communities we work in. Together, we have identified key areas of Social

Partnership Programs and projects to improve living standards in the cities where DTEK Group enterprises operate. In 2020, we focused on projects to modernize water supply systems in the Dnipropetrovsk, Zaporizhzhia and Poltava regions. They now provide more than 12,000 residents with access to quality drinking water. In addition, we continued projects on heat modernization and reconstruction in rural schools and kindergartens, as well as out-patient clinics, and district and city hospitals.

Society's demand for clean energy sources has accelerated the development of new technologies and the replacement of existing ones in the energy sector. It has also created the need to reorient the economies of the regions that are dependent on thermal generation. Transforming coal regions is a challenge both for the country and our company. In Europe, reorienting the coal regions' economies is usually called a fair transformation, which means it has to be fair to the people who live and work there. DTEK Energy, in partnership with local authorities, as well as Ukrainian and foreign experts, has developed the first program for economic diversification of Ukrainian territories as part of the green transition. This document is currently a conceptual roadmap for new jobs and budget financing. Once developed, the concept will be turned into reality, initially for the coal industry in Dobropillia, Bilozerska and Novodonetsk.

I believe the time is rapidly approaching when society's sustainable development will be a priority for all Ukrainian companies. We are transforming DTEK to become a more eco-friendly, efficient and technological business, guided in our work by ESG principles. This is at the heart of the value we are bringing to Ukraine's development.