DTEK Holdings B.V.

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2012

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CONTENTS

Consolidated Financial statements

Consolidated Balance Sheet 1
Consolidated Income Statement 2
Consolidated Statement of Comprehensive Income 2
Consolidated Statement of Changes in Equity 3
Consolidated Statement of Cash Flows 4

Notes to the Consolidated Financial Statements

1 The Organisation and its Operations 6
2 Operating Environment of the Group 7
3 Summary of Significant Accounting Policies 7
4 Critical Accounting Estimates and Judgements 15
5 *Adoption of New or Revised Standards and Interpretations* 17
6 Segment Information 18
7 Balances and Transactions with Related Parties 21
8 Property, Plant and Equipment 23
9 Intangible Assets 24
10 Goodwill 24
11 Investments in Associates 27
12 Financial Investments 28
13 Inventories 29
14 Trade and Other Receivables 29
15 Cash and Cash Equivalents 31
16 Share Capital 31
17 Other Reserves 32
18 Borrowings 34
19 Other Financial Liabilities 35
20 Retirement Benefit Obligations 36
21 Provisions for Other Liabilities and Charges 38
22 Trade and Other Payables 38
23 Other Taxes Payable 39
24 Revenue and Heat Tariff Compensation 40
25 Cost of Sales 40
26 Other Operating Income 41
27 Distribution Costs 41
28 General and Administrative Expenses 41
29 Other Operating Expenses 42
30 Finance Income and Finance Costs 42
31 Income Taxes 43
32 Contingencies, Commitments and Operating Risks 45
33 Business Combinations 47
34 Financial Risk Management 57
35 Management of Capital 61
36 Fair Value of Financial Instruments 61
37 Reconciliation of Classes of Financial Instruments with Measurement Categories 64
38 Subsequent events 65

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Independent auditor's report

To: the general meetings of shareholders of DTEK Holdings B.V.

The accompanying summary financial statements, which comprise the summary consolidated balance sheet as at 31 December 2012, the summary consolidated income statement, the statements of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of DTEK Holdings B.V. for the year 2012. We expressed an unqualified audit opinion on those financial statements in our report dated 6 March 2013. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain the company financial statements as required by International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code. Reading the summary financial statements, therefore, is not a substitute for reading the complete audited financial statements of DTEK Holdings B.V.

Management board's responsibility

The management board is responsible for the preparation of a summary of the audited financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on the summary financial statements and the related explanatory notes based on our procedures, which we conducted in accordance with Dutch Law, including the Dutch Standard 810 "Engagements to report on summary financial statements".

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of DTEK Holdings B.V. for the year 2012 are consistent, in all material respects, with those financial statements.

Amsterdam, 6 March 2013
PricewaterhouseCoopers Accountants N.V.

Original signed by A.J. Brouwer RA

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DTEK Holdings B.V.
Consolidated Balance Sheet

In millions of Ukrainian Hryvnia	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	8	50,752	30,627
Intangible assets	9	1,985	183
Goodwill	10	4,563	1,116
Investments in associates	11	12	5,574
Financial investments	12	289	563
Deferred income tax asset	31	899	549
Other non-current assets		50	137
Total non-current assets		**58,550**	**38,749**
Current assets			
Inventories	13	5,055	2,214
Trade and other receivables	14	7,068	4,608
Financial investments	12	99	328
Current income tax		272	23
Cash and cash equivalents	15	5,360	10,426
Total current assets		**17,854**	**17,599**
TOTAL ASSETS		**76,404**	**56,348**
EQUITY			
Share capital	16	0	0
Share premium		9,909	9,909
Other reserves	17	3,470	5,731
Retained earnings		14,291	8,785
Equity attributable to owners of the parent		**27,670**	**24,425**
Non-controlling interest in equity		**5,017**	**401**
TOTAL EQUITY		**32,687**	**24,826**
LIABILITIES			
Non-current liabilities			
Liability to non-controlling participants		5	4
Borrowings	18	17,256	12,405
Other financial liabilities	19	3,860	2,615
Retirement benefit obligations	20	4,241	3,519
Provisions for other liabilities and charges	21	578	600
Deferred income tax liability	31	1,499	937
Total non-current liabilities		**27,439**	**20,080**
Current liabilities			
Borrowings	18	3,406	2,677
Other financial liabilities	19	300	756
Prepayments received		2,951	899
Trade and other payables	22	8,162	5,814
Current income tax payable		375	356
Other taxes payable	23	1,084	940
Total current liabilities		**16,278**	**11,442**
TOTAL LIABILITIES		**43,717**	**31,522**
TOTAL LIABILITIES AND EQUITY		**76,404**	**56,348**

Signed by entire Management Board
on 6 March 2013.

/s/ Maksym Timchenko
Director

/s/ Vistra (Amsterdam) B.V.
Director

Approved for issue and signed by entire Supervisory Board on 6 March 2013.

/s/ Oleg Popov
/s/ Natalia Izosimova
/s/ Sergey Korovin
/s/ Irina Mykh
/s/ Robert Sheppard
/s/ Damir Akhmetov
/s/ Catherine Stalker
/s/ Johan Bastin

The accompanying notes are an integral part of these financial statements.

DTEK Holdings B.V.
Consolidated Income Statement

In millions of Ukrainian Hryvnia	Note	2012	2011
Revenue	24	78,340	39,594
Heat tariff compensation	24	4,241	-
Cost of sales	25	(70,816)	(29,976)
Gross profit		**11,765**	**9,618**
Other operating income	26	3,265	515
Distribution costs	27	(594)	(203)
General and administrative expenses	28	(2,233)	(1,184)
Other operating expenses	29	(1,408)	(682)
Net foreign exchange (loss)/gain (other than on borrowings)		705	124
Impairment of property, plant and equipment	8	-	(198)
Operating profit		**11,500**	**7,990**
Foreign exchange losses less gains from borrowings		(448)	(84)
Finance income	30	602	222
Finance costs	30	(4,183)	(1,283)
Gain from a bargain purchase	33	604	-
Recognition of loss from fair valuation of associate on transfer to subsidiary (2011: on transfer from AFS investments to associate)	11	(385)	(334)
Recognition of AFS reserve on transfer to subsidiary (2011: on transfer to associate)	17	(63)	(349)
Share of after tax results of associates	11	(205)	(48)
Impairment of investments in associates	11	-	(446)
Profit before income tax		**7,422**	**5,668**
Income tax expense	31	(1,500)	(2,146)
Profit for the year		**5,922**	**3,522**
Profit/(loss) is attributable to:			
Equity holders of the Company		4,680	3,555
Non-controlling interest		1,242	(33)
Profit for the year		**5,922**	**3,522**

Consolidated Statement of Comprehensive Income

In millions of Ukrainian Hryvnia	Note	2012	2011
Profit for the period		5,922	3,522
Other comprehensive income			
Financial investments:			
- Fair value gain/(loss)	17	60	(334)
- Income tax recorded on available-for-sale financial assets	17	(4)	36
- Recognition of AFS reserve on transfer to subsidiary (2011: to associate)	17	63	349
- Reversal of Income tax recorded in equity due to transfer of AFS to associate	17	-	(64)
Share of other equity movements of associates	17	-	24
Property, plant and equipment:			
- Change in estimate for asset retirement obligation	17	(9)	2
- Revaluation of property plant and equipment	8	-	6,027
- Income tax recorded on revaluation of property plant and equipment	31	-	(1,052)
- Share in revaluation of PPE of associates	17	-	1,887
Reversal of Income tax recorded in equity due to change in tax legislation	31	-	1,228
Currency translation reserve	17	42	-
Total other comprehensive income		**152**	**8,103**
Total comprehensive income for the period		**6,074**	**11,625**
Total comprehensive income attributable to:			
Equity holders of the Company		4,832	11,593
Non-controlling interest		1,242	32
Total comprehensive income for the period		**6,074**	**11,625**

The accompanying notes are an integral part of these financial statements.

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DTEK Holdings B.V.
Consolidated Statement of Changes in Equity

In millions of Ukrainian Hryvnia	Attributable to equity holders of the Company					Non-controlling interest	Total Equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2011	**0**	**9,909**	**(865)**	**4,166**	**13,210**	**70**	**13,280**
Profit for 2011	-	-	-	3,555	**3,555**	(33)	**3,522**
Other comprehensive income for 2011 (Note 17)	-	-	8,038	-	**8,038**	65	**8,103**
Total comprehensive income for 2011	**-**	**-**	**8,038**	**3,555**	**11,593**	**32**	**11,625**
Property, plant and equipment:							
- Realised revaluation reserve (Note 17)	-	-	(888)	888	-	-	-
- Deferred tax related to realised revaluation reserve	-	-	106	(106)	-	-	-
- Share in realised revaluation reserve of associates (Note 17)	-	-	(127)	127	-	-	-
Transfer of associates to subsidiary – recycling of equity reserves (Note 17)	-	-	(533)	533	-	-	-
Acquisition of subsidiary (Note 33)	-	-	-	-	-	315	**315**
Acquired non–controlling interest	-	-	-	2	**2**	(16)	**(14)**
Dividends declared	-	-	-	(380)	**(380)**	-	**(380)**
Balance at 31 December 2011	**0**	**9,909**	**5,731**	**8,785**	**24,425**	**401**	**24,826**
Profit for 2012	-	-	-	4,680	**4,680**	1,242	**5,922**
Other comprehensive income for 2012 (Note 17)	-	-	152	-	**152**	-	**152**
Total comprehensive income for 2012	**-**	**-**	**152**	**4,680**	**4,832**	**1,242**	**6,074**
Property, plant and equipment:							
- Realised revaluation reserve (Note 17)	-	-	(1,356)	1,356	-	-	-
- Deferred tax related to realised revaluation reserve	-	-	195	(195)	-	-	-
Transfer of associates to subsidiary – recycling of equity reserves (Note 17)	-	-	(1,252)	1,252	-	-	-
Acquisition of subsidiary (Note 33)	-	-	-	-	-	3,461	**3,461**
Acquired non–controlling interest	-	-	-	(3)	**(3)**	(34)	**(37)**
Dividends declared	-	-	-	(1,584)	**(1,584)**	(53)	**(1,637)**
Balance at 31 December 2012	**0**	**9,909**	**3,470**	**14,291**	**27,670**	**5,017**	**32,687**

The accompanying notes are an integral part of these financial statements.

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DTEK Holdings B.V.
Consolidated Statement of Cash Flows

In millions of Ukrainian Hryvnia	Note	2012	2011
Cash flows from operating activities			
Profit before income tax		7,422	5,668
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles, net of amortisation of government grants		6,024	2,334
Losses less gains on disposals of property, plant and equipment	29	83	35
Assets received free of charge	26	(95)	(73)
Net movement in provision for impairment of trade and other receivables and prepayments made	26,29	(2,576)	48
Gain from sale of investments available-for-sale		2	-
Impairment of non-current prepayments for shares		-	15
Change in provisions for other liabilities and charges	21	(112)	214
Non-cash operating charge/(credit) to retirement benefit obligation	20	242	(244)
Extinguishment of accounts payable	26	(114)	(122)
Share of result and impairment of associates	11	205	494
Recognition of AFS reserve on transfer to subsidiary	17	63	-
Recognition of AFS reserve on transfer to associate	17	-	349
Loss from fair valuation of associate on transfer to subsidiary	11,17	385	334
Loss on disposal of associate	11	15	-
Unrealised result on associate	11	(8)	42
Gain from a bargain purchase	33	(604)	-
Unrealised foreign exchange (gain)/loss		6	133
Realised and unrealised foreign exchange (gain)/loss on financing activities		448	12
Finance costs, net	30	3,581	1,061
Operating cash flows before working capital changes		**14,967**	**10,300**
Decrease/(increase) in trade and other receivables		886	(282)
Increase in inventories		(1,390)	(499)
Increase/(decrease) in prepayments received		544	(195)
Increase/(decrease) in trade and other payables		264	(1,011)
Repayment of restructured obligations		(2,678)	(38)
Increase in other financial liabilities		769	135
(Decrease)/increase in taxes payable		(415)	280
Cash generated from operations		**12,947**	**8,690**
Income taxes paid		(2,763)	(2,150)
Defined employee benefits paid	20	(582)	(223)
Interest paid		(1,482)	(486)
Interest received		263	157
Provisions utilised		(28)	(8)
Net cash generated from operating activities		**8,355**	**5,980**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(9,698)	(3,580)
Proceeds from sale of property, plant and equipment		15	6
Purchase of financial investments		-	(34)
Purchase of additional interest in associates		-	(25)
Acquisition of associates	11	-	(280)
Prepayment for acquisition of subsidiaries	12	(160)	(355)
Withdrawal/(placement) of restricted cash	12,15	(171)	1
Capitalised borrowings cost paid		(124)	-
Redemption/(acquisition) of deposit certificates		-	12
Dividends received from associates	11	-	45
Finance lease related to acquisitions paid		(21)	-
Deposits placed and financial aid or loan provided		(169)	(128)
Repayment of deposits and loans provided		332	599
Acquisition of subsidiary	33	(4,653)	(451)
Cash acquired in business combination	33	261	497
Deferred consideration related to acquisitions paid		(103)	(91)
Net cash used in investing activities		**(14,491)**	**(3,784)**
Cash flows from financing activities			
Proceeds from borrowings		20,989	12,016
Repayment of borrowings		(18,148)	(4,550)
Commitment fee paid		(52)	-
Repayment of debts under amicable agreement		(12)	(90)
Dividends paid		(1,766)	(641)
Acquisition of non–controlling interest		(37)	(14)
Net cash generated from financing activities		**974**	**6,721**
Net (decrease) increase in cash and cash equivalents		(5,162)	8,917
Cash and cash equivalents at the beginning of the year	15	10,426	1,692
Exchange gains/(losses) on cash and cash equivalents		5	(183)
Cash and cash equivalents at the end of the year	**15**	**5,269**	**10,426**

The accompanying notes are an integral part of these financial statements.

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We draw your attention that this report only contains the consolidated financial statements. The complete annual accounts also comprise the company financial statements and the directors report. For a better understanding of the company's financial position and results, we emphasise that the consolidated financial statements 2012 should be read in conjunction with the statutory financial statements of DTEK Holdings B.V., which include the directors report, company only financial statements 2012 and other information.

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1 The Organisation and its Operations

DTEK Holdings B.V. (the "Company") is a private limited liability company incorporated in the Netherlands on 16 April 2009. The Company was formed through the contribution by System Capital Management Limited and InvestCom Services Limited of their 100% equity interest in DTEK Holding Limited, a Cyprus registered entity and predecessor to the Company. The Company and its subsidiaries (together referred to as "the Group" or "DTEK") are beneficially owned by Mr. Rinat Akhmetov, through various entities commonly referred to as System Capital Management ("SCM"). Mr. Akhmetov has a number of other business interests outside of the Group. Related party transactions are detailed in Note 7.

DTEK is a vertically integrated power generating and distribution group. Its principal activities are coal mining for further supply to its power generating facilities and finally distribution of electricity to end customers primarily in Ukraine. The Group sells all electricity generated to Energorynok SE, the state-owned electricity metering and distribution pool, at prices determined based on the competitive pool model adopted by the National Electricity Regulatory Committee of Ukraine. The Group's distribution entities then repurchase electricity for supply to final customers.

The principal subsidiaries are presented below:

Name	% interest held as at 31 December 2012	2011	Segment	Country of incorporation
Management companies				
DTEK Finance B.V.	100.00	100.00	Management	Netherlands
DTEK Investments B.V.	100.00	100.00	Management	Netherlands
DTEK Holdings Limited	100.00	100.00	Management	Cyprus
DTEK LLC	100.00	100.00	Management	Ukraine
DTEK Corporation	98.64	98.64	Management	Ukraine
Coal mining				
DTEK Pavlogradugol PJSC	99.92	99.92	Coal Mining	Ukraine
DTEK Mine Komsomolets Donbassa PJSC	94.64	94.64	Coal Mining	Ukraine
DTEK Dobropolyeugol LLC	100.00	100.00	Coal Mining	Ukraine
Bilozerska Mine ALC	95.44	-	Coal Mining	Ukraine
DTEK Rovenkiantracyte LLC	100.00	100.00	Coal Mining	Ukraine
DTEK Sverdlovantracyte LLC	100.00	100.00	Coal Mining	Ukraine
CCM Kurahovskaya LLC	99.00	99.00	Coal Mining	Ukraine
CCM Pavlogradskaya LLC	99.00	99.00	Coal Mining	Ukraine
Mospino CPE LLC	99.00	99.00	Coal Mining	Ukraine
DTEK Dobropolskaya CEP PJSC	60.06	60.06	Coal Mining	Ukraine
DTEK Oktyabrskaya CEP PJSC	60.85	60.85	Coal Mining	Ukraine
Pershotravensky RMZ LLC	99.92	99.92	Coal Mining	Ukraine
Ekoenergoresurs LLC	99.00	99.00	Coal Mining	Ukraine
Public company Don-Anthracite	100.00	-	Coal Mining	Russian Federation
Public Mining Corporation Obukhovskaya	100.00	-	Coal Mining	Russian Federation
Sulinathracite LLC	100.00	-	Coal Mining	Russian Federation
Power generation				
Eastenergo LLC	100.00	100.00	Power generation	Ukraine
Tehrempostavka LLC	100.00	100.00	Power generation	Ukraine
Wind Power LLC	100.00	100.00	Power generation	Ukraine
DTEK Dniproenergo PJSC	73.30	47.93	Power generation	Ukraine
DTEK Zakhidenergo PJSC	72.19	25.83	Power generation	Ukraine
Electricity distribution				
Servis-Invest LLC	100.00	100.00	Electricity distribution	Ukraine
DTEK Energougol ENE PJSC	94.24	94.24	Electricity distribution	Ukraine
Kyivenergo JSC	72.33	72.33	Electricity distribution	Ukraine
DTEK Donetskoblenergo PJSC	71.35	31.28	Electricity distribution	Ukraine
DTEK Dniprooblenergo PJSC	51.51	1.51	Electricity distribution	Ukraine
DTEK Krymenergo PJSC	57.60	12.49	Electricity distribution	Ukraine
Other				
Sotsis LLC	99.00	99.00	Other	Ukraine
DTEK Servis LLC	99.00	99.00	Other	Ukraine
DTEK Trading LLC	100.00	100.00	Other	Ukraine
DTEK Trading Limited	100.00	100.00	Other	Cyprus
Power Trade LLC	100.00	100.00	Other	Ukraine
DTEK Neftegaz LLC	100.00	100.00	Other	Ukraine
DTEK Hungary Power Trade LLC	100.00	100.00	Other	Hungary

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1 The Organisation and its Operations (Continued)

The Company is registered at Schiphol Boulevard 231 Tower B, 5th floor, 1118BH, Luchthaven Schiphol, the Netherlands. The principal place of business of its operating subsidiaries is 11 Shevchenko blvd, 83055 Donetsk, Ukraine.

As at 31 December 2012, the Group employed approximately 142 thousand people (31 December 2011: 104 thousand people).

2 Operating Environment of the Group

Ukraine displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Ukrainian economy and the financial situation in the Ukrainian financial and corporate sectors significantly deteriorated since mid-2008. Starting from 2010, the Ukrainian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Ukrainian Hryvnia against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes (Note 32). The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Management is unable to predict all developments which could have an impact on the Ukrainian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union using the historical cost convention, as modified by the revaluation of property, plant and equipment, and certain financial instruments measured in accordance with the requirements of IAS 39 *Financial instruments: recognition and measurement*. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Use of estimates. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas, involving a high degree of judgement, complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in Note 4.

Functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in Ukrainian Hryvnia ("UAH"), which is the Company's functional and the Group's presentation currency.

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency, using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses, resulting from settlement of such transactions and from the translation of foreign currency denominated monetary assets and liabilities at year end, are recognised in the income statement. Translation at year end does not apply to non-monetary items including equity investments. The effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

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3 Summary of Significant Accounting Policies (Continued)

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

As at 31 December 2012, the exchange rates used for translating foreign currency balances were USD 1 = UAH 7.99 (31 December 2011: USD 1 = UAH 7.99); EUR 1 = UAH 10.54 (31 December 2011: EUR 1 = UAH 10.30); RUB 10 = UAH 2.63 (31 December 2011: RUB 10 = UAH 2.50). Exchange restrictions in Ukraine are limited to compulsory receipt of foreign receivables within 180 days of sales. Foreign currency can be easily converted at a rate close to the National Bank of Ukraine rate. At present, the UAH is not freely convertible outside Ukraine.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

If subsidiary is acquired in stages it is measured as the sum of the fair value of the interest previously held plus the fair value of any additional consideration transferred as of the date when the investment became an associate. Relative gain or loss from valuation of previously held interest is recognised in the income statement.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions with non-controlling interests. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Common control business combinations. Purchases of subsidiaries from parties under common control are recorded using the predecessor values, in a manner similar to the pooling of interests method. Under this method the financial statements of the entity are presented as if the businesses had been consolidated from the beginning of the earliest period presented (or the date that the entities were first under common control, if later). The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying values. The difference between the consideration given and the aggregate carrying value of the assets and liabilities (as of the date of the transaction) of the acquired entity is recorded as an adjustment to equity. No additional goodwill is created by such purchases.

Investments in associates. Associates are entities over which the Group has significant influence but not control, generally presumed for shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

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3 Summary of Significant Accounting Policies (Continued)

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Property, plant and equipment. The Group uses the revaluation model to measure property, plant and equipment. Fair value was based on valuations by external independent valuers. The frequency of revaluation will depend upon the movements in the fair values of the assets being revalued. The last independent valuation of the fair value of the Group's property, plant and equipment was performed as at 1 August 2011. Subsequent additions to property plant and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Starting from 1 January 2009 the cost of acquired and self-constructed qualifying assets includes borrowing costs.

Any increase in the carrying amounts resulting from revaluation are credited to other reserves in equity through other comprehensive income. Decreases that offset previously recognised increases of the same asset are charged against other reserves in equity through other comprehensive income; all other decreases are charged to the income statement. However, to the extent that an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the replaced component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as an expense when incurred.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from the continued use of the asset. Gains and losses on disposals determined by comparing proceeds with carrying amount of property, plant and equipment are recognised in the consolidated income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Depreciation. Depreciation is charged to the consolidated income statement on a straight-line basis to allocate costs of individual assets to their residual value over their estimated useful lives. Depreciation commences on the date of acquisition or, in respect of self-constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

	Useful lives in years
Mining assets	from 20 to 60
Buildings and structures	from 10 to 50
Plant and machinery	from 2 to 30
Furniture, fittings and equipment	from 2 to 15

Construction in progress represents the cost of property, plant and equipment, including advances to suppliers, which has not yet been completed. No depreciation is charged on such assets until they are available for use.

Mining assets include mineral licences and mineral reserves, which were acquired by the Group and which have finite useful lives. Mineral licenses and mineral reserves are stated at cost less accumulated amortisation and accumulated impairment losses, and are amortised on a straight-line basis over the estimated useful life.

Leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

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3 Summary of Significant Accounting Policies (Continued)

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Asset retirement obligations. According to the Code on Mineral Resources, Land Code of Ukraine, Mining Law, Law on Protection of Land and other legislative documents, the Group is responsible for site restoration and soil rehabilitation upon abandoning of its mines. Estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of an item of property, plant and equipment when the item is acquired, and corresponding obligation is recognised. Changes in the measurement of an existing asset retirement obligation, that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate used for measurement, are recognised in the income statement or, to the extent of any revaluation balance existence in respect of the related asset, other reserves. Provisions in respect of abandonment and site restoration are evaluated and re-estimated annually, and are included in the consolidated financial statements at each balance sheet date at their expected net present value, using discount rates which reflect the economic environment in which the Group operates.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is included in intangible assets in the balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business to which the goodwill arose.

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software. Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring them to use. Other intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Impairment of non-financial assets. Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. For purposes of assessing impairment, assets are grouped to the lowest levels for which there are separately identifiable cash flows (cash generating unit). Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets.

Loans and receivables include financial receivables created by the Group by providing money, goods or services directly to a debtor, other than those receivables which are created with the intention to be sold immediately or in the short term, or which are quoted in an active market. Loans and receivables comprise primarily loans, trade and other accounts receivable including purchased loans and promissory notes. All other financial assets are included in the *available-for-sale* category.

Derivative financial instruments, including currency and interest rate swaps are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Sale and repurchase agreements and lending of securities. *Sale and repurchase agreements* ("*repo agreements*") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Initial recognition of financial instruments. The Group's principal financial instruments comprise available-for-sale investments, loans and borrowings, cash and cash equivalents and short-term deposits. The Group has various other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations.

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3 Summary of Significant Accounting Policies (Continued)

Derivatives are initially recorded at fair value. All other Group's financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Where available-for-sale investments are acquired from parties under the common control of the ultimate shareholder, and the difference between the amount paid to acquire the instrument and its fair value in substance represents a capital contribution or distribution, such difference is recorded as a debit or credit in other reserves in equity.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost, and recognised in equity for assets classified as available-for-sale.

Subsequent measurement of financial instruments. Subsequent to initial recognition, the Group's financial liabilities, loans and receivables are measured at amortised cost. Amortised cost is calculated using the effective interest rate method and, for financial assets, it is determined net of any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity. In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the balance sheet date.

When available-for-sale assets are sold or otherwise disposed of, the cumulative gain or loss recognised in equity is included in the determination of net profit. When a decline in fair value of available-for-sale assets has been recognised in equity and there is objective evidence that the assets are impaired, the loss recognised in equity is removed and included in the determination of net profit, even though the assets have not been derecognised.

Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Group's right to receive payment is established and the inflow of economic benefits is probable.

Impairment losses are recognised in the income statement when incurred as a result of one or more events that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an instrument below its cost is an indicator that it is impaired. The cumulative impairment loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement, is removed from equity and recognised in the income statement.

Impairment losses on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through current period's income statement.

A provision for impairment of loans and accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered to be indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Ukrainian, Russian, Hungarian, Dutch or Cypriot legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

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3 Summary of Significant Accounting Policies (Continued)

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post-acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the first in first out basis for raw materials and spare parts, weighted average cost for coal and specific identification principle for goods for resale. The cost of work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are charged to the income statement when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the income statement.

Promissory notes. Some purchases may be settled by promissory notes or bills of exchange, which are negotiable debt instruments. Purchases settled by promissory notes are recognised based on management's estimate of the fair value to be given up in such settlements. The fair value is determined with reference to observable market information.

Long-term promissory notes are issued by Group entities as payment instruments, which carry a fixed date of repayment and which the supplier can sell in the over-the-counter secondary market. Promissory notes issued by the Group are carried at amortised cost using the effective interest method.

Group entities also accept promissory notes from customers (both those issued by customers and third parties) as settlement of accounts receivable. Promissory notes issued by customers or issued by third parties are carried at amortised cost using the effective interest method. A provision for impairment of promissory notes is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as share premium.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorised for issue.

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3 Summary of Significant Accounting Policies (Continued)

Value added tax ("VAT"). In Ukraine VAT is levied at two rates: 20% on sales and imports of goods within the country, works and services and 0% on the export of goods and provision of works or services to be used outside Ukraine. A taxpayer's VAT liability equals the total amount of VAT collected within a reporting period, and arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer. A VAT credit is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. Rights to VAT credit arise when a VAT invoice is received, which is issued on the earlier of the date of payment to the supplier or the date goods are received. VAT related to sales and purchases is recognised in the consolidated balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings and other financial liabilities. Borrowings and other financial liabilities are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Bank overdrafts are included into borrowings line item in the consolidated balance sheet.

Government grants. Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and that the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets. Government grants relating to an expense item are recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Trade and other payables. Trade and other payables are recognised and initially measured under the policy for financial instruments mentioned above. Subsequently, instruments with a fixed maturity are re-measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

Prepayments received. Prepayments received are carried at amounts originally received.

Provisions for liabilities and charges. Provisions for liabilities and charges are provisions for environmental restoration, restructuring costs and legal claims which are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Contingent assets and liabilities. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Revenue recognition. The Group's generating companies sells all electricity produced by its electricity generation plants to Energorynok, a state-owned electricity distribution monopoly, at prices determined based on the competitive pool model adopted by the National Electricity Regulatory Committee of Ukraine ("NCRE"). The Group's distribution companies buy electricity from Energorynok and sell it to the end-customers, at prices determined by NCRE. Revenue from the sale of electricity is the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end. Revenue from sale of electricity to end customers is recognised on a gross basis.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards associated with ownership of goods. If the goods are transported to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Revenues are measured at the fair value of the consideration received or receivable, and are shown net of value added tax and discounts.

Recognition of expenses. Expenses are recorded on an accrual basis. The cost of goods sold comprises the purchase price, transportation costs, commissions relating to supply agreements and other related expenses.

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3 Summary of Significant Accounting Policies (Continued)

Finance income and costs. Finance income and costs comprise interest expense on borrowings, losses on early repayment of loans, interest income on funds invested, income on origination of financial instruments, unwinding of interest of the pension obligation and asset retirement provision, and foreign exchange gains and losses.

Borrowing costs that relate to assets that take a substantial period of time to construct are capitalised as part of the cost of the asset. All other interest and other costs incurred in connection with borrowings are expensed using the effective interest rate method.

Interest income is recognised as it accrues, taking into account the effective yield on the asset.

Management incentive program. In January 2009, the Group introduced a long-term incentive bonus program for top executives. This cash-settled share based compensation is based upon 2% of the Group's incremental value (net worth) increase over a benchmark amount, assessed at the vesting date of 31 December 2012. The total long term incentive pool is capped at maximum USD 100 million, depending on the increase in the value of the Group, this amount is further capped by individual employee caps. The valuation of the Group as of the respective dates would be performed by quoted price, if the Group's shares are publicly traded, or by the Supervisory Board decision based on internationally recognised non-public entity valuation practices.

The Group measures the fair value of the services received based on the fair value of the award to be given at the reporting date. The Group remeasures the fair value of the awards for the top executives at each reporting date until settlement. Until the award is settled, the Group presents the cash-settled award as a liability and not within equity. The fair value of the liability at the reporting date is based on the valuation of the Group's net worth performed by the Group management.

Employee benefits: Defined Contributions Plan. The Group makes statutory unified social contributions to the Pension Fund of Ukraine in respect of its employees. The contributions are calculated as a percentage of current gross salary, and are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the consolidated income statement.

Employee benefits: Defined Benefit Plan. Certain entities within the Group participate in a mandatory State defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date, less adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The effect of reclassifications for presentation purposes was as follows on amounts at 31 December 2011:

In millions of Ukrainian Hryvnia	**As originally presented**	**Reclassification**	**As reclassified at 31 December 2011**
Intangible assets	1,299	(1,116)	183
Goodwill	-	1,116	1,116
Other financial liabilities – non-current	1,961	654	2,615
Restructured obligations – non-current	651	(651)	-
Government grants	3	(3)	-
Other financial liabilities – current	604	152	756
Restructured obligations – current	152	(152)	-

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3 Summary of Significant Accounting Policies (Continued)

The effect of reclassifications for presentation purposes was as follows on amounts at 1 January 2011:

In millions of Ukrainian Hryvnia	As originally presented	Reclassification	As reclassified at 1 January 2011
Intangible assets	731	(633)	98
Goodwill	-	633	633
Other financial liabilities – non-current	118	102	220
Restructured obligations – non-current	93	(93)	-
Government grants	9	(9)	-

Changes in reclassification require presenting a statement of financial position as of 1 January 2011. The statement of financial position as of 1 January 2011 is not presented in these financial statements. Management considered materiality and concluded that it is sufficient for an entity to present information about the reclassifications made only in this note. The omission of the statement of financial position as of 1 January 2011 is therefore, in management's view, not material.

4 Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price and liquidity in the Ukrainian markets. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would have suffered an additional loss for the year of UAH 25 million (2011: 148 million).

Fair value of available-for-sale equity investments. The fair values of available-for-sale equity investments that are not quoted in active markets are determined by independent investment companies using different valuation techniques. Management has reviewed the investment companies' underlying assumptions used by the investment companies in the valuation models and confirmed that major underlying assumptions such as growth rates, expected margins, discount rates, etc, have been appropriately determined considering the market conditions as at the balance sheet date. Management considers that changing the underlying assumptions not supported by observable market data to a reasonably possible alternative in the valuation models would not result in a significantly different valuation.

Fair value of previously held interests. The fair value of the previously held interest in the acquirees is assessed by the management with the reference to the quotes of the respective securities on active markets. Due to the illiquid nature of the Ukrainian capital markets the management assessed whether there exists an active market of the acquirees' securities on a case by case basis. Where the acquirees shares were determined not to be quoted in active markets, the fair values of previously held interests in acquirees were determined by reference to the prices of recent purchase transactions including for the privatisation for Zakhidenergo PJSC, Donetskoblenergo PJSC, Dniprooblenergo PJSC, Krymenergo PJSC and in case of Dniproenergo PJSC by independent appraisers using different valuation techniques.

Impairment of property, plant and equipment and goodwill. The Group is required to perform impairment tests for its cash-generating units. One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. For many of the Group's identified cash-generating units a significant proportion of their output is input to another cash-generating unit.

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4 Critical Accounting Estimates and Judgements (Continued)

The Group also determines whether goodwill is impaired at least on an annual basis. This requires estimation of the value in use / fair value less costs to sell of the cash-generating units to which goodwill is allocated. Estimating value in use/ fair value less costs to sell requires the Group to make an estimate of expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amount of goodwill and cash-generating units were estimated based on a fair value less costs to sell calculations. Additional information is disclosed in Note 10.

Revaluation of property, plant and equipment. As at 1 August 2011, the Group's management decided to carry out the revaluation of property, plant and equipment based on changes in economic conditions of business environment and an increase of the inflation rate. Fair value of property, plant and equipment and remaining useful lives as at 1 August 2011 were determined by an independent appraiser. The carrying value and depreciation of property, plant and equipment are affected by the estimates of replacement cost, depreciated replacement cost and remaining useful life. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment (Note 8).

Revenue measurement. Revenue for electricity distribution includes an assessment of electricity supplied to customers between the date of the last meter reading and the year-end (unread). Unread electricity usage is estimated applying industry standards and using historical consumption patterns by the supplier. The judgements applied, and the assumptions underpinning these judgements, are considered by management to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised.

Impairment of trade and other accounts receivable. Management estimates the likelihood of the collection of trade and other accounts receivable based on an analysis of individual accounts. Factors taken into consideration include an ageing analysis of trade and other accounts receivable in comparison with the credit terms allowed to customers, and the financial position of and collection history with the customer. Should actual collections be less than management's estimates, the Group would be required to record an additional impairment expense.

Post-employment and other employee benefit obligations. Management assesses post-employment and other employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. Since the plan is administered by the State, the Group may not have full access to information and therefore assumptions regarding when, or if, an employee takes early retirement, whether the Group would need to fund pensions for ex-employees depending on whether that ex-employee continues working in hazardous conditions, the likelihood of employees transferring from State funded pension employment to Group funded pension employment could all have a significant impact on the pension obligation. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate and expected salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations. Since there are no long-term, high quality corporate or government bonds issued in Ukrainian Hryvnias, significant judgement is needed in assessing an appropriate discount rate. Key assumptions and sensitivities are presented in Note 20.

Deferred tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the balance sheet. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on historic taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Interest rates applied to long-term liabilities. Judgement has been used to estimate the fair value of long-term liabilities in the absence of similar financial instruments. A change in the effective interest rates used in assessing the fair value of loans and borrowings may have a material impact on the consolidated financial statements.

Tax legislation. Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities (Note 32).

On 2 December 2010 a new Tax Code was adopted in Ukraine with most of the changes introduced being effective from 1 January 2011. Among the main changes are a change in the rates for corporate income tax from 25% to 16% which is introduced in several stages during 2011-2014, a change in base rate for VAT starting from 1 January 2014 from 20% to 17%, and a change in the methodology for determining the base for VAT and corporate income tax application. Also the tax base of the property, plant and equipment has changed from 1 April 2011 with the aim to remove existing differences between tax and accounting bases. The Group has recorded the respective change in tax legislation regarding tax base of the property, plant and equipment in 2011 financial statements.

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4 Critical Accounting Estimates and Judgements (Continued)

Related party transactions. In the normal course of business the Group enters into transactions with related parties. Judgement is applied in determining if transactions are priced at market or non-market rates, where there is no active market for such transactions. Financial instruments are recorded at origination at fair value using the effective interest method. The Group's accounting policy is to record gains and losses on related party transactions, other than business combination or equity investments, in the income statement. The basis for judgement is pricing for similar types of transactions with unrelated parties and an effective interest rate analysis.

Heat tariff compensation received by Kyivenergo JSC. In accordance with existing legislation, Kyivenergo is entitled to claim heat tariff compensation which is computed as the difference between the heat tariff required to cover all production costs plus reasonable margin and that imposed by the National Electricity Regulatory Committee of Ukraine. Such claims are subject to additional Governmental, Budget and City approvals, prescribed by the state regulations. In October 2012 the Cabinet of Ministers of Ukraine approved Resolution #968 stating that the compensations of the difference between the "economically grounded" tariffs and that imposed by the state should be calculated by the companies entitled to such compensations and approved by the state regularly. Kyivenergo accounts for such heat tariff compensation as government grants and records amounts of compensation receivable on accrual basis starting from November 2012. During 2012, Kyivenergo recorded UAH 3,962 million of heat tariff compensation related to 2011 and 2012, of which UAH 3,672 million was received in cash.

5 Adoption of New or Revised Standards and Interpretations

There no new standards, amendments to standards or interpretations that are effective for the first time for the financial periods beginning on or after 1 January 2012 that would be expected to have any significant effect on the Group's consolidated financial information.

The following new standards and amendments to standards which are relevant to the Group's consolidated financial statements have been adopted by the European Union, but are not effective for the financial periods beginning on or after 1 January 2012 and have not been early adopted by the Group:

- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- Amended IAS 28, Investments in Associates and Joint Ventures (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IFRS 13, Fair Value Measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012).
- Amended IAS 19, Employee Benefits (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013). The Group is currently assessing the impact of such change on its financial statement.

The following new standards, amendments to standards, and interpretations which are relevant to the Group's consolidated financial statements have been issued, but are not yet effective for the financial periods beginning on or after 1 January 2012 and have not been adopted by the European Union (EU):

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (not yet adopted by European Union).

The Group is currently assessing the impact of the amended standard on its financial statements.

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6 Segment Information

The management has determined the operating segments based on reports reviewed by the Supervisory board. The Supervisory board considers the business from a product perspective taking into account the vertical integration of the Group.

The Supervisory board assesses the performance of the operating segments based on a measure of the IFRS operating profit. Other information provided to the Supervisory Board is consistent with these financial statements.

The Group is organised on the basis of four main business segments:

- Coal mining
- Power generation
- Electricity distribution
- Heat generation, (following acquisition of Kyivenergo (Note 33).

The Group's mining and power generation operations are vertically integrated and while the operating businesses are organised and managed separately, with each segment offering different products and serving different markets, there remains significant inter-dependence between the segments. The primary reporting format, business segments, is based on the Group's management and internal reporting structure. Inter-segment pricing may not be determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses. Segment revenue includes transfer between business segments. Those transfers are eliminated on consolidation.

Segment information for the main reportable business segments of the Group for the year ended 31 December 2012 is as follows:

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribu-tion	Heat genera-tion	Other	Elimi-nation	Total
2012							
Sales – external	7,059	30,733	36,836	3,647	65	-	78,340
Sales to other segments	19,186	-	796	2	1,473	(21,457)	-
Total revenue	**26,245**	**30,733**	**37,632**	**3,649**	**1,538**	**(21,457)**	**78,340**
Heat tariff compensation	**-**	**-**	**-**	**4,241**	**-**	**-**	**4,241**
Segment results	3,824	4,224	1,972	1,945	309	(699)	11,575
Unallocated expenses							(75)
Operating profit							**11,500**
Finance costs, net							(3,581)
Foreign exchange losses less gains from borrowings							(448)
Gain from a bargain purchase							604
Recognition of loss from fair valuation of associate on transfer to subsidiary							(385)
Recognition of AFS reserve on transfer to associate							(63)
Share of results of associates							(205)
Profit before income tax							**7,422**
As at 31 December 2012							
Segment assets	26,994	29,888	13,114	3,335	4,419	(4,938)	72,812
Investments in associates	-	-	-	-	12	-	12
Available for sale investments	-	-	-	-	45	-	45
Current / deferred tax assets							1,171
Other unallocated assets							2,364
Total assets							**76,404**
Capital expenditure	3,855	3,222	1,337	158	1,621	-	10,193
Depreciation and amortisation	2,949	1,876	999	142	58	-	6,024

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6 Segment Information (Continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2011 is as follows:

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribu-tion	Heat genera-tion	Other	Elimi-nation	Total
2011							
Sales – external	17,344	10,356	11,490	281	123	-	39,594
Sales to other segments	4,876	-	607	-	685	(6,168)	-
Total revenue	**22,220**	**10,356**	**12,097**	**281**	**808**	**(6,168)**	**39,594**
Segment results	4,833	3,254	827	(204)	142	(454)	8,398
Unallocated expenses							(408)
Operating profit							**7,990**
Finance costs, net							(1,061)
Foreign exchange losses less gains from borrowings							(84)
Recognition of loss from fair valuation of associate on transfer to subsidiary							(334)
Recognition of AFS reserve on transfer to associate							(349)
Share of result and impairment of associates							(494)
Profit before income tax							**5,668**
As at 31 December 2011							
Segment assets	24,111	10,743	4,410	2,632	645	(2,022)	40,519
Investments in associates	-	5,045	502	-	27	-	5,574
Available for sale investments	-	-	56	-	15	-	71
Current / deferred tax assets							572
Other unallocated assets							9,612
Total assets							**56,348**
Capital expenditure	2,542	1,351	243	17	170	-	4,323
Depreciation and amortisation	1,572	459	118	7	27	-	2,183

Customers concentration, exceeding 10% of total revenues is presented below:

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Total
2012				
Energorynok SE	-	30,733	-	**30,733**
Entities under common control of SCM	901	-	7,238	**8,139**
Total	**901**	**30,733**	**7,238**	**38,872**

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6 Segment Information (Continued)

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Total
2011				
Energorynok SE	-	10,356	-	**10,356**
Dniproenergo JSC	5,353	-	-	**5,353**
Zakhidenergo JSC	3,973	-	-	**3,973**
Entities under common control of SCM	875	-	5,398	**6,273**
Total	**10,201**	**10,356**	**5,398**	**25,955**

Geographical information

In millions of Ukrainian Hryvnia	2012	2011
Ukraine	74,825	33,110
Western Europe	3,779	2,738
Eastern Europe	3,349	2,179
Other	628	1,567
Total revenues and heat tariff compensation	**82,581**	**39,594**

The Company's revenues are presented by legal address of the customer under direct sales contracts.

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7 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Other related parties represent entities with significant concentration of transactions, but which are not under common control.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2012 are detailed below. At 31 December, the outstanding balances with related parties were as follows:

	2012				2011			
In millions of Ukrainian Hryvnia	Parent	Entities under common control of SCM	Asso-ciates	Other	Parent	Entities under common control of SCM	Asso-ciates	Other
Gross amount of trade and other receivables	-	349	-	848	-	127	451	-
Financial aid provided	-	-	-	-	-	8	-	-
Loans granted and interest accrued	-	-	-	-	-	-	135	-
Cash and cash equivalents – current account	-	1,295	-	-	-	2,788	-	-
Investment obligation relating to Dniproenergo (Note 19):								
- Current	-	-	-	-	-	-	(519)	-
Trade and other payables	-	(313)	-	(62)	-	(183)	(3)	-
Prepayments received	-	(34)	(4)	(176)	-	(3)	(1)	-

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7 Balances and Transactions with Related Parties (Continued)

The income and expense items with related parties for the years ended 31 December were as follows:

	2012				2011			
In millions of Ukrainian Hryvnia	Entities under common control of SCM	Associates of SCM	Associates	Other	Entities under common control of SCM	Associates of SCM	Associates	Other
Sales of electricity	7,238	279	-	175	5,398	14	-	-
Sales of coking coal	739	-	-	-	815	-	-	-
Sales of steam coal	162	-	1,300	-	60	3,368	6,010	-
Sales of inventory	1	-	1	-	1	-	6	-
Purchase of raw materials and equipment	(380)	-	-	-	(255)	-	-	-
Purchase of non-current assets	(368)	-	-	-	-	-	-	-
Purchase of services	(693)	-	-	-	(47)	-	-	-
Interest income on bank deposits	43	-	-	-	29	-	-	-
Interest expense on bonds issued	-	-	-	-	(1)	-	-	-
Interest expense on bank loans	(16)	-	-	-	-	-	-	-
Interest income on loans provided	-	-	3	-	-	-	-	8

Revenue, trade and other receivable

The trade receivable balances as at 31 December 2012 due from entities under common control and associates are non-interest bearing. The balances outstanding from related parties as at 31 December 2012 and 2011 are unsecured and settlements are made either in cash, in the form of debt set-off or by means of exchanging promissory notes issued by the settling counterparties or third parties to the transaction. The Group created no provision for impairment of accounts receivable due from related parties as at 31 December 2012 and 2011.

Purchases, trade and other payables

Purchases and outstanding trade and other payables as at 31 December 2012 and 2011 comprised mainly balances due to related parties for supplies of iron shoring for mines, raw materials and steaming coal. Balances payable are non-interest bearing and are repayable in the normal course of business.

Key management personnel compensation

Key management personnel consist of eleven top executives (2011: seven top executives). In 2012 total compensation to key management personnel included in administrative expenses amounted to UAH 62 million (2011: UAH 31 million). Compensation to the key management personnel consists of salary and bonus payments.

Effective 1 January 2009, the Group entered into a management incentive program with certain top executives. Under the program, top executives are entitled to 2% of the Group's incremental value (net worth) increase over a benchmark amount. Total available under the program is capped at USD 100 million depending on the increase in the value of the Group, this amount is further capped by individual employee caps which total 39% of the maximum available. The valuation of the Group as of the respective dates would be performed by quoted price, if the Group's shares are publically traded, or by the Supervisory Board decision based on internationally recognised non-public entity valuation practices. All participants deferred interim vesting and accordingly 100% are vested as at 31 December 2012. Probable obligation as at 31 December 2012 was assessed using the forecasted internal valuation of the Group's net worth performed by the Group management. As at 31 December 2012, UAH 312 million has been accrued in these financial statements (2011: UAH 312 million), no additional charge was recognised in administrative expenses during 2012 (2011: UAH 183 million).

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8 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

In millions of Ukrainian Hryvnia	Mining assets	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Con-struction in progress	Total
At 1 January 2011						
Cost or valuation	2,413	3,851	7,023	453	1,361	**15,101**
Accumulated depreciation	(365)	(738)	(2,227)	(196)	-	**(3,526)**
NBV at 1 January 2011	**2,048**	**3,113**	**4,796**	**257**	**1,361**	**11,575**
Acquisition of subsidiaries (Note 33)	4,489	2,770	2,417	360	1,110	11,146
Additions	327	190	1,468	192	2,146	4,323
Disposals	(6)	(15)	(26)	(3)	(13)	(63)
Depreciation charge	(268)	(352)	(1,447)	(116)	-	(2,183)
Revaluation recorded in equity	1,384	1,358	3,017	79	189	6,027
Impairment of property, plant and equipment	(29)	-	(141)	(4)	(24)	(198)
Transfer	52	19	166	2	(239)	-
NBV at 31 December 2011	**7,997**	**7,083**	**10,250**	**767**	**4,530**	**30,627**
At 31 December 2011						
Cost or valuation	8,255	7,412	11,569	1,032	4,530	32,798
Accumulated depreciation	(258)	(329)	(1,319)	(265)	-	(2,171)
NBV at 31 December 2011	**7,997**	**7,083**	**10,250**	**767**	**4,530**	**30,627**
Acquisition of subsidiaries (Note 33)	1,147	6,637	5,850	302	2,013	15,949
Additions	451	1,060	4,062	509	4,111	10,193
Disposals	-	(15)	(118)	(4)	(7)	(144)
Depreciation charge	(443)	(1,191)	(3,760)	(518)	-	(5,912)
Foreign exchange differences	27	4	7	1	-	39
Transfer	235	234	2,082	39	(2,590)	-
NBV at 31 December 2012	**9,414**	**13,812**	**18,373**	**1,096**	**8,057**	**50,752**
At 31 December 2012						
Cost or valuation	10,111	16,021	24,606	2,039	8,057	60,834
Accumulated depreciation	(697)	(2,209)	(6,233)	(943)	-	(10,082)
NBV at 31 December 2012	**9,414**	**13,812**	**18,373**	**1,096**	**8,057**	**50,752**
NBV without revaluation at 31 December 2011	**5,938**	**3,701**	**6,710**	**673**	**4,372**	**21,394**
NBV without revaluation at 31 December 2012	**7,550**	**10,684**	**15,858**	**1,026**	**7,911**	**43,029**

During 2011, the Group engaged independent appraisers to determine the fair value of its property, plant and equipment. Fair value was determined with reference to depreciated replacement cost or market-based evidence, in accordance with International Valuation Standards.

The majority of the structures, plant and machinery are specialised in nature and are rarely sold in the open market in Ukraine other than as part of a continuing business. The market for similar property, plant and equipment is not active in Ukraine and does not provide a sufficient number of sales of comparable assets to allow for using a market-based approach for determining fair value. Consequently, the fair value of structures, plant and machinery was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economic depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of Ukrainian and international markets for similar property, plant and equipment. Various market data was collected from published information, catalogues, statistical data etc, and industry experts and suppliers.

As at 31 December 2012, buildings, plant and machinery carried at UAH 555 million (31 December 2011: UAH 1,127 million) have been pledged to third parties as collateral for borrowings (Note 32).

In 2012, the depreciation expense of UAH 5,733 million (2011: UAH 2,083 million), net of amortisation of government grants, was included in cost of sales, UAH 101 million (2011: UAH 30 million) in general and administrative expenses, UAH 10 million (2011: UAH 7 million) in distribution expenses.

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8 Property, Plant and Equipment (Continued)

During 2012 the Group continued the construction of qualifying assets. This construction is financed through special-purpose and other borrowings. Borrowing costs capitalized during the 2012 were UAH 124 million (2011: UAH 29 million). The rate in the range between 9.60% and 16.00% was used to estimate borrowing costs subject to capitalisation (2011: between 7.80% and 15.50%).

9 Intangible Assets

As at 31 December, intangible assets comprise:

In millions of Ukrainian Hryvnia	2012	2011
Burshtyn electricity island	1,687	-
Other intangible assets	298	183
Total	**1,985**	**183**

The movements of other intangible assets, primarily unique capability of Zakhidenergo Burshtyn thermal plant to supply the Central European market with electricity ("Burshtyn electricity island", Note 33) were as follows:

In millions of Ukrainian Hryvnia	Cost	Accumulated amortisation and impairment	Net book value
As at 1 January 2011	**125**	**(27)**	**98**
Additions / (Charge) for the year	109	(24)	85
As at 31 December 2011	**234**	**(51)**	**183**
Acquisition of subsidiaries (Note 33)	1,869	(4)	1,865
Additions / (Charge) for the year	137	(200)	(63)
As at 31 December 2012	**2,240**	**(255)**	**1,985**

In 2012, the amortisation expense of UAH 145 million (2011: UAH 3 million), net of amortisation of government grants, was included in cost of sales, and UAH 35 million (2011: UAH 13 million) in general and administrative expenses.

10 Goodwill

The movements of goodwill were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Book amount as at 1 January	**1,116**	**633**
Acquisition of DTEK Dniproenergo PJSC (Note 33)	1,999	-
Acquisition of DTEK Zakhidenergo PJSC (Note 33)	1,265	-
Acquisition of DTEK Donetskoblenergo PJSC (Note 33)	136	-
Acquisition of DTEK Dniprooblenergo PJSC (Note 33)	47	-
Acquisition of Kyivenergo JSC (Note 33)	-	483
Book amount as at 31 December	**4,563**	**1,116**

Goodwill Impairment Test

Goodwill is allocated to cash-generating units ("CGUs") which represent the lowest level within the Group at which goodwill is monitored by management.

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10 Goodwill (Continued)

Management allocated goodwill to seven main CGUs:

In millions of Ukrainian Hryvnia	2012	2011
Coal mining:		
- DTEK Pavlogradugol PJSC	590	590
Electricity generation:		
- DTEK Dniproenergo PJSC	1,999	-
- DTEK Zakhidenergo PJSC	1,265	-
Energy distribution		
- Kyivenergo JSC	483	483
- DTEK Dniprooblenergo PJSC	47	-
- DTEK Donetskoblenergo PJSC	136	-
- DTEK Energougol ENE PJSC	43	43
Total	**4,563**	**1,116**

The recoverable amount has been determined based on a fair value less costs to sell calculations. Cash flow projections, based on financial budgets approved by senior management covering an eight-year projection period for all entities except Kyivenergo, and market prices were used to determine projected sales. Cash flows beyond the projected period are extrapolated using the estimated growth rates stated below. Cash flow projections for Kyivenergo cover eighteen-year period due to longer period of capital expenditures recovery and due to transition of electricity distribution segment to return-on-asset based tariff setting system starting from 2014 till 2016.

The following table summarises key assumptions on which management has based its cash flow projections to undertake the impairment testing of goodwill.

	2012	2011
Coal mining – DTEK Pavlogradugol PJSC		
Post-tax discount rate	17%-16%	17%-15%
Revenue growth rate for the five-year period	6%-19%	3%-21%
Revenue growth rate after the five-year period till eighth year	2%-6%	5%-6%
Gross margin	35%-47%	34%-45%
Electricity generation – DTEK Dniproenergo PJSC		
Post-tax discount rate	17%-16%	-
Revenue growth rate for the five-year period	(6%)-31%	-
Revenue growth rate after the five-year period till eighth year	(5%)-18%	-
Gross margin	11%-25%	-
Electricity generation – DTEK Zakhidenergo PJSC		
Post-tax discount rate	17%-16%	-
Revenue growth rate for the five-year period	13%-29%	-
Revenue growth rate after the five-year period till eighth year	3%-12%	-
Gross margin	16%-29%	-
Electricity distribution – DTEK Energougol ENE PJSC		
Post-tax discount rate	17%-16%	17%-15%
Revenue growth rate for the five-year period	(33%)-20%	3%-19%
Revenue growth rate after the five-year period till eighth year	(16%)-2%	4%-5%
Gross margin	10%-27%	11%-14%
Electricity distribution – DTEK Kyivenergo PJSC		
Post-tax discount rate	17%-16%	17%-15%
Revenue growth rate for the five-year period	(17)%-33%	9%-28%
Revenue growth rate after the five-year period till eighteenth year	2%-11%	3%-7%
Gross margin	4%-13%	(9%)-15%

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10 Goodwill (Continued)

Electricity distribution – DTEK Donetskoblenergo JSC		
Post-tax discount rate	16%	-
Revenue growth rate for the five-year period	(3%)-48%	-
Revenue growth rate after the five-year period till eighth year	(17%)-7%	-
Gross margin	12%-16%	-
Electricity distribution – Dniprooblenergo JSC		
Post-tax discount rate	17%-16%	-
Revenue growth rate for the five-year period	(54%)-14%	-
Revenue growth rate after the five-year period till eighth year	3%-10%	-
Gross margin	4%-14%	-

In assessing goodwill impairment management used a multi-period post-tax discount rate ranging from 17% in 2013 down to 16% in 2020 (2030 for Kyivenergo) and onwards. For Donetskoblenergo post-tax discount rate approximates 16% for all periods from 2013 to 2020 and onwards.

The values assigned to the key assumptions represent management's best assessment of future trends in the business and are based on both external and internal sources.

No impairment was recognised as a result of the assessment.

For the purposes of impairment testing, goodwill on Kyivenergo acquisition is allocated to electricity distribution segment. This unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The above estimates are particularly sensitive in the following areas:

- a decrease in selling tariffs by more than 29.31% in 2013 would cause the Group to recognise impairment of goodwill,
- in June 2012, changes were implemented into the Law of Ukraine on Natural Monopolies (#4998-VI dated 21 June 2012). Such changes introduced new provisions concerning implementation of the incentive regulation for tariffs of natural monopolists, such as the definition of the incentive regulation, regulatory assets base and rate of return and the major tariff elements to be included by the state authorities when setting tariffs. Also a onetime assets revaluation is envisaged for the determination of the regulatory asset base. The State Property Fund developed a draft methodology for the valuation of assets of the natural monopolists in October 2012, however, it is not yet approved. If tariff setting procedure will change from that included in the projection period, it may cause impairment of goodwill.

Based on the above assumptions, management determined that the fair value less costs to sell exceeds the carrying value of goodwill as at 31 December 2012. Accordingly, no impairment of goodwill was recognised as at 31 December 2012.

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11 Investments in Associates

The table below summarises the movements in the carrying amount of the Group's investment in associates.

In millions of Ukrainian Hryvnia	2012	2011
Carrying amount at 1 January	**5,574**	**4,099**
Acquisition of associates	-	280
Additional investment in associates	480	149
Transfer from AFS investment to associate	-	885
Share of after tax results of associates	(205)	(48)
Share in revaluation of PPE of associates (Note 17)	-	1,887
Share in other reserves movements of associates (Note 17)	-	24
Unrealised profit on operations with associate	8	(42)
Dividends declared by associate	-	(45)
Revaluation of previously held interest to fair value (Note 33)	(385)	(334)
Reclassification to subsidiary (Note 33)	(5,445)	(835)
Impairment of investments in Donetskoblenergo	-	(446)
Disposal of associates	(15)	-
Carrying amount at 31 December	**12**	**5,574**

The Group's interests in its principal associates and their summarised financial information is presented below:

2012

In millions of Ukrainian Hryvnia	Country of incorporation	% of ownership	Carrying value	Total assets	Total liabilities	Revenue	Profit/ (loss)
Other	Ukraine	various	12	43	14	-	(1)
Total			**12**	**43**	**14**	**-**	**(1)**

2011

In millions of Ukrainian Hryvnia	Country of incorporation	% of ownership	Carrying value	Total assets	Total liabilities	Revenue	Profit/ (loss)
Dniproenergo JSC	Ukraine	47.93%	3,886	6,283	2,536	8,622	232
Donetskoblenergo JSC	Ukraine	31.28%	502	2,467	988	4,863	1,078
Zakhidenergo JSC	Ukraine	25.83%	1,159	3,315	2,858	7,725	(48)
Other	Ukraine	various	27	49	13	-	(1)
Total			**5,574**	**12,114**	**6,395**	**21,210**	**1,261**

On 13 December 2011, the Group acquired 25.00% of Kyivenergo JSC in a State organised privatisation auction for a cash consideration of UAH 451 million, taking its cumulative interest to 71.82% (Note 33). The investment in Kyivenergo held prior to the acquisition was accounted for as investment in associate. Share in net loss of Kyivenergo included in the 2011 consolidated income statement till the date of acquisition totalled UAH 468 million.

On 10 January 2012 the Group acquired 45.10% of Zakhidenergo PJSC for a cash consideration of UAH 1,932 million thus taking its total share to 70.94% (Note 33). The investment in Zakhidenergo PJSC held prior to the acquisition was accounted for as investment in associate. Share in net loss of Zakhidenergo PJSC included in the consolidated income statement till the date of acquisition totalled UAH 10 million loss.

On 11 January 2012 the Group acquired 40.06% of Donetskoblenergo PJSC for a cash consideration of UAH 468 million thus taking its total share to 71.34% (Note 33). The investment in Donetskoblenergo PJSC held prior to the acquisition was accounted for as investment in associate. Share in net loss of Donetskoblenergo PJSC included in the consolidated income statement till the date of acquisition totalled UAH 1 million loss.

On 13 March 2012 the Group acquired 25.00% of Dniproenergo PJSC for a cash consideration of UAH 1,180 million thus taking its total share to 72.93% (Note 33). The investment in Dniproenergo PJSC held prior to the acquisition was accounted for as investment in associate. Share in net loss of Dniproenergo PJSC included in the consolidated income statement till the date of acquisition totalled UAH 194 million loss.

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12 Financial Investments

As at 31 December, non-current financial investments comprised:

In millions of Ukrainian Hryvnia	2012	2011
Equity securities:		
- quoted	45	71
Prepayment for other shares	160	355
Loans receivable	-	137
Long-term deposits	84	-
Total	**289**	**563**

As at 31 December, current financial investments were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Deposits placed	18	275
Loans receivable (net of provision for impairment of UAH 17 million)	1	53
Restricted cash	80	-
Total	**99**	**328**

As at 31 December 2012, UAH 84 million deposits placed with a maturity of more than three months were denominated in US dollars (31 December 2011: UAH 245 million).

As at 31 December 2012, UAH 84 million of term deposits were pledged as collateral for gross-settled derivative financial instruments (31 December 2011: UAH 211 million for borrowings or bank guarantees received), UAH 80 million of restricted cash was pledged as collateral for the letter of credit agreement (31 December 2011: nil).
Current financial investments are neither past due nor impaired. The carrying amounts of deposits and loans approximate their fair values.

		2012		2011
In millions of Ukrainian Hryvnia	Other	Deposits	Other	Deposits
Rating by Moody's Investors Service				
- A1 rated	-	-	-	6
- Ba3 rated	-	-	-	23
- B2 rated	-	-	-	188
- B3 rated	-	18	-	-
Non-rated	81	-	53	58
Total	**81**	**18**	**53**	**275**

Non-current financial investments are neither past due nor impaired. The carrying amounts of deposits and loans approximate their fair values.

		2012		2011
In millions of Ukrainian Hryvnia	Other	Deposits	Other	Deposits
Rating by Moody's Investors Service				
- A2 rated	-	84	-	-
Non-rated	205	-	563	-
Total	**205**	**84**	**563**	**-**

As at 31 December, UAH 160 million out of UAH 205 million represents prepayments made for the purchase of additional shares of an associate (Note 11). The purchase is conditional upon certain regulatory approvals expected in 2013. Future commitments for the purchase of the additional shares amount to USD 30 million (UAH 240 million).

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13 Inventories

As at 31 December, inventories were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Coal	3,048	1,053
Spare parts	807	332
Work in progress	323	303
Raw materials	860	514
Goods for resale	17	12
Total inventories	**5,055**	**2,214**

14 Trade and Other Receivables

As at 31 December, current trade and other receivables were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Trade receivables (less provision of UAH 6,226 million) (2011: UAH 2,086 million)	4,597	3,070
Other financial receivables (less provision of UAH 589 million) (2011: UAH 364 million)	132	225
Receivables under commission agreements with SCM entities	-	45
Receivable for sale of financial instruments	-	2
Total financial assets	***4,729***	***3,342***
Prepayments to suppliers (less provision of UAH 86 million) (2011: UAH 4 million)	1,388	854
VAT recoverable (less provision of UAH 85 million) (2011: nil)	890	221
Other (less provision of UAH 45 million) (2011: UAH 8 million)	61	191
Total non-financial assets	***2,339***	***1,266***
Total trade and other receivables	**7,068**	**4,608**

As at 31 December 2012, 1% of trade and other receivables are denominated in currency, other than UAH (31 December 2011: 6%).

As at 31 December 2012, prepayments included UAH 260 million of prepayments for coal (31 December 2011: UAH 671 million). The remaining prepayments include prepayments for electricity subsequently sold for export, transportation and other services, and inventories.

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14 Trade and Other Receivables (Continued)

Movements in the impairment provision for trade and other receivables were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Provision for impairment at 1 January	**2,462**	**375**
Acquisition of subsidiaries	7,187	2,040
Provision for impairment during the year	2,706	164
Reversal of provision	(5,282)	(116)
Amounts written off during the year as uncollectible	(42)	(1)
Provision for impairment at 31 December	**7,031**	**2,462**

Analysis by credit quality of financial trade and other receivables is as follows:

	2012					2011
In millions of Ukrainian Hryvnia	Trade receivables	Other financial receivables	Trade receivables	Receivables under commission agreements	Receivable for sale of financial instruments	Other financial receivables
Current and not impaired – exposure to						
- Energorynok SE	1,824	-	1,045	-	-	-
- Large Ukrainian corporates	254	4	477	-	-	121
- Medium sized companies	1,085	20	1,015	-	2	34
Total current and not impaired	**3,163**	**24**	**2,537**	**-**	**2**	**155**
Past due and individually impaired (gross)						
- less than 30 days overdue	1,401	-	-	-	-	-
- 30 to 90 days overdue	620	34	353	-	-	24
- 90 to 180 days overdue	300	31	70	-	-	1
- 180 to 360 days overdue	1,080	72	99	-	-	30
- over 360 days overdue	4,259	560	2,097	45	-	379
Total past due and individually impaired	**7,660**	**697**	**2,619**	**45**	**-**	**434**
Less impairment provision	**(6,226)**	**(589)**	**(2,086)**	**-**	**-**	**(364)**
Total	**4,597**	**132**	**3,070**	**45**	**2**	**225**

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15 Cash and Cash Equivalents

As at 31 December, cash and cash equivalents were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Bank balances payable on demand	4,959	4,922
Term deposits with original maturity of less than three months	310	5,504
Restricted cash	91	-
Total cash and cash equivalents	**5,360**	**10,426**

As at 31 December 2012, cash and cash equivalents of UAH 901 million were denominated in US dollars (31 December 2011: UAH 698 million), UAH 789 million were denominated in EUR (31 December 2011: UAH 125 million), UAH 218 million were denominated in RUB (31 December 2011: 5,639).

As at 31 December 2012 and 2011, no term deposits with original maturity of less than three months were pledged as collateral for borrowings or bank guarantees received.

As at 31 December 2012, there was UAH 91 million cash restricted in use under letter of credit arrangements (31 December 2011: nil). For the purposes of the cash-flow statements this amount is not included in cash and cash equivalents balance.

The bank balances and term deposits are neither past due nor impaired. Analysis by credit quality of bank balances and term deposits is as follows:

	2012			2011		
In millions of Ukrainian Hryvnia	Bank balances payable on demand	Term deposits	Restricted cash	Bank balances payable on demand	Term deposits	Restricted cash
Rating by Moody's Investors Service						
- A1 rated	-	-	-	169	2,317	-
- Aa3 rated	-	-	-	4	-	-
- A3 rated	31	1	-	3	-	-
- A3.ua rated	730	-	-	236	-	-
- A2 rated	20	-	-	-	-	-
- B1 rated	75	-	-	-	-	-
- Ba1 rated	34	-	-	-	-	-
- Baa1 rated	271	8	-	-	-	-
- Ba3 rated	-	-	-	-	3,152	-
- A2.ua rated	-	-	-	2,788	-	-
- B2 rated	-	-	-	73	1	-
- Ba2 rated	-	-	-	80	-	-
- B3 rated	108	-	88	-	-	-
- Baa3.ua rated	2,294	296	3	-	-	-
- Caa1 rated	208	-	-	-	-	-
Non-rated	1,188	5	-	1,569	34	-
Total	**4,959**	**310**	**91**	**4,922**	**5,504**	**-**

16 Share Capital

The authorised share capital of DTEK Holdings B.V. comprises 15,000 ordinary shares with a nominal value of Euro 10 per share. All shares carry one vote. At 31 December 2012 and 2011, the issued and fully paid share capital comprised 3,000 ordinary shares.

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17 Other Reserves

In millions of Ukrainian Hryvnia	Additional paid in capital	Revaluation reserve	AFS reserve	Currency translation reserve	Total
Balance at 1 January 2011	**(4,194)**	**3,460**	**(131)**	**-**	**(865)**
Financial investments:					
- Fair value losses less gains	-	-	(334)	-	**(334)**
- Recognition of AFS reserve on transfer to associate	-	-	349	-	**349**
- Share of other equity movements of associate	24	-	-	-	**24**
Property, plant and equipment:					
- Revaluation of PPE	-	5,962	-	-	**5,962**
- Change in estimate relating to asset retirement provision recorded in equity	-	2	-	-	**2**
- Realised revaluation reserve	-	(888)	-	-	**(888)**
- Share in revaluation of PPE of associates	-	1,887	-	-	**1,887**
- Share in realised revaluation reserve of associates	-	(127)	-	-	**(127)**
Income tax recorded in equity	-	282	(28)	-	**254**
Transfer from associates to subsidiary - recycling of revaluation reserve to retained earnings	(29)	(504)	-	-	**(533)**
Balance at 31 December 2011	**(4,199)**	**10,074**	**(144)**	**-**	**5,731**
Financial investments:					
- Fair value gains less losses	-	-	60	-	**60**
- Recognition of AFS reserve on transfer to subsidiary	-	-	63	-	**63**
Property, plant and equipment:					
- Change in estimate relating to asset retirement provision recorded in equity	-	(9)	-	-	**(9)**
- Realised revaluation reserve	-	(1,356)	-	-	**(1,356)**
- Share in revaluation of PPE of associates	-	-	-	-	**-**
- Share in realised revaluation reserve of associates	-	-	-	-	**-**
Income tax recorded in equity	-	195	(4)	-	**191**
Transfer from associates to subsidiary - recycling of revaluation reserve to retained earnings	-	(1,252)	-	-	**(1,252)**
Currency translation reserve	-	-	-	42	**42**
Balance at 31 December 2012	**(4,199)**	**7,652**	**(25)**	**42**	**3,470**

During 2012, fair value gains on available-for-sale investments totalling UAH 60 million (2011: UAH 334 million losses) were recorded directly in other reserves.

During 2012, accumulated fair value losses totalling UAH 63 million related to Dniprooblenergo JSC and Krymenergo JSC, recognised while this asset was recorded as an available-for-sale investment, have been recycled to profit and loss, following its transfer to subsidiary (2011: UAH 349 million related to Zakhidenergo JSC transfer to equity accounting).

The revaluation reserve, AFS reserve and currency translation reserve are not distributable to the shareholders until they are transferred to retained earnings.

Retained earnings of the Group represent the earnings of the Group entities from the date they have been established or acquired by the entities under common control. Group subsidiaries distribute profits as dividends or transfer them to reserves on the basis of their statutory financial statements prepared in accordance with local GAAP as appropriate. Ukrainian legislation identifies the basis of distribution as retained earnings only, however this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose the amount of distributable reserves in these consolidated financial statements.

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17 Other Reserves (Continued)

Other comprehensive income, net of tax, is as follows:

In millions of Ukrainian Hryvnia	*Other reserves*	Total	Non-controlling interests	Total other comprehensive income
2011				
Financial investments:				
- Fair value gain/(loss)	(334)	**(334)**	-	**(334)**
- Income tax recorded on available-for-sales financial assets	36	**36**	-	**36**
- Recognition of AFS reserve on transfer to associate	349	**349**	-	**349**
- Reversal of income tax recorded in equity due to transfer of AFS to associate	(64)	**(64)**	-	**(64)**
Share of other equity movements in associates	24	**24**	-	**24**
Property, plant and equipment:				
- Change in estimate for asset retirement obligation	2	**2**	-	**2**
- Revaluation of property plant and equipment	5,962	**5,962**	65	**6,027**
- Income tax recorded on revaluation of property plant and equipment	(1,052)	**(1,052)**	-	**(1,052)**
- Share in revaluation of PPE of associates	1,887	**1,887**	-	**1,887**
Reversal of Income tax recorded in equity due to change in tax legislation	1,228	**1,228**	-	**1,228**
Total	**8,038**	**8,038**	**65**	**8,103**
2012				
Financial investments:				
- Fair value gain/(loss) , net of tax	60	**60**	-	**60**
- Income tax recorded on available-for-sales financial assets	(4)	**(4)**	-	**(4)**
- Recognition of AFS reserve on transfer to subsidiary, net of tax	63	**63**	-	**63**
Property, plant and equipment:				
- Change in estimate for asset retirement obligation	(9)	**(9)**	-	**(9)**
Currency translation reserve	42	**42**	-	**42**
Total	**152**	**152**	**-**	**152**

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18 Borrowings

As at 31 December, borrowings were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Non-current		
Eurobonds	3,941	3,920
Bank borrowings	13,315	8,485
	17,256	**12,405**
Current		
Bank borrowings	3,109	2,453
Interest accrual	297	224
	3,406	**2,677**
Total borrowings	**20,662**	**15,082**

In April 2010, DTEK Finance B.V., a finance vehicle of the Company, issued USD 500 million (UAH 3,963 million) 5 year Eurobonds bearing a 9.5% coupon. The Eurobonds are unsecured. The bond indenture contains specific covenants, including limitation on payments to shareholders, restrictions on permissible business activities, requirements for arm's length affiliate transactions, financial disclosure requirements and maximum permissible level of leverage. Events of default are comprehensive and include cross-default to other DTEK debt.

In October 2011, the Group entered into 5-year loan agreements with Russian Commercial Bank (Cyprus) for RUB 10,000 million (UAH 2,495 million) and Sberbank (Russia) for RUB 15,714 million (UAH 3,986 million). The Group used the proceeds from both loans to finance the Group's participation in the privatisation of energy sector entities in Ukraine and to finance its capital investment programme. The loans are unsecured. The loan agreements contain specific covenants, including restrictions on permissible business activities, financial disclosure requirements and maximum permissible level of leverage. Events of default are comprehensive and include cross-default to other DTEK debt.In October 2012, the Group entered into 5-year loan agreement with ING, Gazprombank OJSC, Sberbank of Russia and UniCredit Bank for EUR 416 million (UAH 4,380 million). The Group used the proceeds from the loan to finance the capital investment programme. The loans are unsecured. The loan agreements contain specific covenants, including restrictions on permissible business activities, financial disclosure requirements and maximum permissible level of leverage. Events of default among others include cross-default to other DTEK debt.

As at 31 December, the Group's borrowings were denominated in the following currencies:

In millions of Ukrainian Hryvnia		2012	2011
Borrowings denominated in:	- UAH	1,810	1,446
	- US Dollars	5,083	5,796
	- Euros	6,744	1,351
	- Roubles	7,025	6,489
Total borrowings		**20,662**	**15,082**

As at 31 December, the Group's loans and borrowings maturity and re-pricing were as follows:

	Maturity		Interest re-pricing	
In millions of Ukrainian Hryvnia	2012	2011	2012	2011
Loans and borrowings due:				
- within 1 year	3,406	2,677	15,660	11,059
- between 1 and 5 years	16,852	12,405	5,002	4,021
- after 5 years	404	-	-	2
Total borrowings	**20,662**	**15,082**	**20,662**	**15,082**

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18 Borrowings (Continued)

The effective interest rates and currency denomination of loans and borrowings as at the balance sheet date were as follows:

	2012				2011			
In % per annum	**UAH**	**USD**	**EUR**	**RUB**	**UAH**	**USD**	**EUR**	**RUB**
	9.25%-21%	LIBOR 6m + 0.5% - LIBOR 1m +6.5%	EURIBOR 6m + 0.94% - EURIBOR 3m + 7.5%	Mos-prime 3m + 3.4% - 11%	13%-19.5%	LIBOR 6m + 0.5% - LIBOR 3m + 9%	EURIBOR 6m + 1.7% - EURIBOR 1m + 5.25%	Mos-prime 3m + 3.4% - 3.45%
Total borrowings	**1,810**	**5,083**	**6,744**	**7,025**	**1,446**	**5,796**	**1,351**	**6,489**

As at 31 December 2012, borrowings totalling UAH 265 million (31 December 2011: UAH 465 million) were secured with property, plant and equipment (Note 32).

19 Other Financial Liabilities

As at 31 December, non-current financial liabilities comprised:

In millions of Ukrainian Hryvnia	**2012**	**2011**
Deferred consideration for acquisition (Note 33)	1,951	1,777
Restructured trade payables	1,303	170
Gross-settled derivative financial instruments	284	-
Payable for finance lease	230	-
Restructured taxes payable	71	642
Promissory notes issued by Pavlogradugol	-	9
Other long-term financial liabilities	21	17
Total non-current other financial liabilities	**3,860**	**2,615**

Restructured trade payables include UAH 1,178 million (31 December 2011: UAH 170 million) of restructured long-term payable to the energy seller monopolist state-owned Energorynok which sells the energy to distribution companies of the Group, and UAH 106 million of restructured trade payable for state-owned Vugillya Ukrayiny. Restructured trade payables are recognised at amortised cost and are discounted at a rate range of 13.28% to 19.30%.

During 2011 and 2012 DTEK concluded agreements for a swap of RUB loans with floating rate for a USD loan with fixed rate. Fair value loss on the derivative amounting to UAH 284 million (2011: nil) is recognised in financial costs in profit and loss (Note 30), and included in the value of non-current other financial liabilities.

As part of acquisition of Dobropolyeugol, Rovenkiantracyte and Sverdlovantracyte (Note 33), the Group assumed certain restructured tax obligations that are due between 2012 and 2030. The obligations have been discounted at an implied rate of 16.56% per annum for Dobropolyeugol, and 16.85% per annum for Rovenkiantracyte and Sverdlovantracyte, respectively.

As at 31 December, current financial liabilities of the Group comprised:

In millions of Ukrainian Hryvnia	**2012**	**2011**
Current portion of restructured trade payable	146	-
Current portion of deferred consideration	65	85
Restructured taxes payable	46	152
Other current financial liabilities	23	-
Current part of payable for finance lease	20	-
Investment obligation relating to Dniproenergo	-	519
Total current other financial liabilities	**300**	**756**

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20 Retirement Benefit Obligations

The Group's production companies have a legal obligation to compensate the Ukrainian state pension fund for additional pensions paid to certain categories of former employees of the Group. There are also lump sum benefits payable upon retirement and post-retirement benefit programs.

In 2012 the defined benefit plan covers 131,177 people, including 20,519 ex-employees (2011: 114,110 and 13,985 respectively).

None of the employee benefits plans stated below are funded.

The defined employee benefit liability as at 31 December originated as follows:

In millions of Ukrainian Hryvnia	**2012**	**2011**
Present value of unfunded defined benefit obligations	4,433	3,894
Unrecognised net actuarial loss	(316)	(517)
Unrecognised past service cost	124	142
Liability in the consolidated balance sheet	**4,241**	**3,519**

In millions of Ukrainian Hryvnia	**2012**	**2011**
Retirement benefits	3,039	2,798
Retirement benefits - coal support	1,038	820
Lump sum payments	356	276
Present value of Retirement benefit obligation	**4,433**	**3,894**

The amounts recognised in the income statement were as follows:

In millions of Ukrainian Hryvnia	**2012**	**2011**
Current service cost	221	125
Interest cost (Note 30)	554	347
Recognised past service cost	(16)	(371)
Sequester	(19)	-
Foreign exchange losses	4	-
Recognised actuarial losses	56	2
Total	**800**	**103**

Changes in the present value of the defined benefit obligation were as follows:

In millions of Ukrainian Hryvnia	**2012**	**2011**
Defined benefit obligation as at 1 January	**3,894**	**1,912**
Acquisition of subsidiaries (Note 33)	504	2,057
Current service cost	221	125
Actuarial (gains)/losses	(145)	401
Interest cost (Note 30)	554	347
Past service cost	2	(725)
Sequester	(19)	-
Foreign exchange losses	4	-
Benefits paid	(582)	(223)
Defined benefit obligation as at 31 December	**4,433**	**3,894**

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20 Retirement Benefit Obligations (Continued)

The movement in the present value of the liability recognised in the consolidated balance sheet was as follows:

In millions of Ukrainian Hryvnia	2012	2011
As at 1 January	**3,519**	**1,582**
Acquisition of subsidiaries (Note 33)	504	2,057
Benefits paid	(582)	(223)
Net expense recognised in the income statement	800	103
As at 31 December	**4,241**	**3,519**

Part of past service cost arose as a result of changes in the pension legislation introduced in 2011, which decreased the benefits payable. To the extent that the benefits were already vested immediately following the changes, past service cost was recognised in 2012 financial statements as credit to income statement in the amount of UAH 16 million under current accounting standard. The remaining UAH 124 million past service cost is recognised as income in accordance with IAS 19 (revised) in 2013. This amount is recorded directly as income.

The estimate of pension obligations requires significant judgement (see Note 4). The principal actuarial assumptions used were as follows:

	2012	2011
Nominal discount rate	13.53%	13.80%
Nominal salary increase	5.00%	9.00%
Nominal pension entitlement increase	5.00%	9.00%

The sensitivity of the defined benefit obligation to changes in the principal assumptions is as follows:

	2012	2011
Nominal discount rate increase/decrease by 1%	(6.09%)/6.87%	(6.69%)/7.61%
Nominal salary increase/decrease by 1%	2.58%/(2.36%)	2.63%/(2.57%)
Nominal pension entitlement increase/decrease by 1%	2.58%/(2.36%)	2.63%/(2.57%)

Experience adjustments for 2012 do not exceed UAH 146 million (2011: UAH 400 million; 2010: UAH 91 million; 2009: UAH 599 million; 2008: UAH 402 million).

Present value of unfunded defined benefit obligations totalled to UAH 1,912 million as at 31 December 2010 (31 December 2009: UAH 1,655 million, 31 December 2008: UAH 2,041 million).

Payments in respect of post-employment benefit plan obligations expected to be made during the year ending 31 December 2013 are UAH 638 million (2012: UAH 480 million).

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21 Provisions for Other Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In millions of Ukrainian Hryvnia	Assets retirement provision	Provision for legal claims	Long-term incentive plan (Note 7)	Total
At 1 January 2011	**166**	**16**	**129**	**311**
Change in estimates	(2)	-	-	(2)
Arising during the year	11	23	183	217
Acquisition of subsidiaries	244	132	-	376
Unwinding of discount (Note 30)	21	-	-	21
Reversal of provision	-	(3)	-	(3)
Utilised	(5)	(3)	-	(8)
Transfer to current (Note 22)	-	-	(312)	(312)
At 31 December 2011	**435**	**165**	**-**	**600**
Change in estimates	9	-	-	9
Arising during the year	-	13	-	13
Acquisition of subsidiaries	44	8	-	52
Unwinding of discount (Note 30)	57	-	-	57
Reversal of provision	-	(125)	-	(125)
Utilised	(15)	(13)	-	(28)
At 31 December 2012	**530**	**48**	**-**	**578**

The asset retirement provision is attributable to the mining and energy generating activities of the Group resulting from the obligation to dismantle and remove the mines and remediate soils disturbed by the underground works and ash dumps. The increase of the asset retirement obligation was recorded in other reserves as the Group uses the fair value model to measure property, plant and equipment (Note 17).

Key assumptions used to calculate asset retirement provision were as follows:

	2012	2011
Pre-tax discount rate	15.72%	16.85%
Inflation long-term	5.00%	5.00%
Inflation middle-term	7.00%	7.00%

22 Trade and Other Payables

As at 31 December trade and other payables were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Trade payables	4,654	3,579
Liabilities for purchased securities	35	20
Liabilities for purchased property, plant and equipment	1,219	829
Dividends payable	51	5
Current portion of long term liabilities	-	22
Other creditors	315	245
Total financial payables	**6,274**	**4,700**
Wages and salaries payable	694	281
Accruals for employees' unused vacations	776	453
Long-term incentive bonus program for top executives (Note 7)	312	312
Other payables	106	68
Total non-financial payables	**1,888**	**1,114**
Total	**8,162**	**5,814**

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22 Trade and Other Payables (Continued)

Analysis by currency and future undiscounted cash flows of financial trade and other payables is as follows:

31 December 2012 *In millions of Ukrainian Hryvnia*	Trade payables	Liabilities for purchased securities	Liabilities for purchased property, plant and equipment	Dividends payable	Other creditors
Currency analysis:					
UAH denominated	4,523	35	1,128	51	301
USD denominated	2	-	22	-	4
EUR denominated	29	-	1	-	9
RUB denominated	100	-	68	-	1
Total	**4,654**	**35**	**1,219**	**51**	**315**
Future undiscounted cash flow analysis:					
Up to 3 months	4,524	35	1,211	51	290
From 3 to 6 months	23	-	2	-	20
From 6 to 12 months	107	-	6	-	5
Total	**4,654**	**35**	**1,219**	**51**	**315**

31 December 2011 *In millions of Ukrainian Hryvnia*	Trade payables	Liabilities for purchased securities	Liabilities for purchased property, plant and equipment	Current part of long term liabilities	Dividends payable	Other creditors
Currency analysis:						
UAH denominated	3,554	20	679	22	5	239
USD denominated	25	-	-	-	-	-
EUR denominated	-	-	101	-	-	6
RUB denominated	-	-	49	-	-	-
Total	**3,579**	**20**	**829**	**22**	**5**	**245**
Future undiscounted cash flow analysis:						
Up to 3 months	3,361	2	789	5	-	241
From 3 to 6 months	218	-	13	6	5	-
From 6 to 12 months	-	18	27	11	-	4
Total	**3,579**	**20**	**829**	**22**	**5**	**245**

23 Other Taxes Payable

As at 31 December other taxes payable were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Payroll taxes	416	287
Value-added tax	330	490
Other taxes	338	163
Total other taxes payable	**1,084**	**940**

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24 Revenue and Heat Tariff Compensation

Analysis of revenue by category is as follows:

In millions of Ukrainian Hryvnia	2012	2011
Sale of electricity to final customers	31,834	8,573
Sale of electricity to electricity pool	30,733	10,356
Heat generation	3,647	244
Sale of steaming and coking coal	7,059	17,344
Sale of electricity abroad	5,002	2,917
Other sales	65	160
Total	**78,340**	**39,594**

Analysis of revenue by regions is as follows:

In millions of Ukrainian Hryvnia	2012	2011
Domestic sales	70,584	33,110
Export sales	7,756	6,484
Total	**78,340**	**39,594**

Heat tariff compensation

Heat tariff compensation is a government grant and represents the difference between heat tariff required to cover all production costs plus reasonable margin and that imposed by the State, compensated to the Group regularly. The amount of the difference compensated to the Group by the State in 2012 was UAH 4,241 million (2011: nil), representing the tariff difference generated in 2009, 2011 and 2012.

25 Cost of Sales

In millions of Ukrainian Hryvnia	2012	2011
Cost of electricity purchased for resale	33,006	10,619
Raw materials	13,764	5,166
Staff cost, including payroll taxes	10,908	3,370
Depreciation of property, plant and equipment and amortisation of intangible assets net of amortisation of government grants	5,878	2,086
Transportation services and utilities	4,355	1,045
Cost of coal purchased for resale	1,060	6,061
Taxes, other than income tax	963	316
Equipment maintenance and repairs	713	162
Production overheads	601	261
Operating costs at Dobropolyeugol, Rovenkiantracyte, Sverdlovantracyte*	19	1,174
Change in finished goods and work in progress	(478)	(319)
Other costs	27	35
Total	**70,816**	**29,976**

*Following the conclusion of concession agreements, DTEK paid an operating fee to the State entities until all employees were transferred to DTEK.

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26 Other Operating Income

In millions of Ukrainian Hryvnia	2012	2011
Net movement in provision for impairment of trade and other receivables and prepayments made (Note 14)	2,576	-
Income from write-off of provisions	124	-
Income from extinguishment of accounts payable	114	122
Penalties	102	32
Assets received free of charge	95	73
Income from recovery on previously written off trade receivables	29	20
Gain on sales of inventory	10	-
Income from sale of certified emission rights	10	222
Other	205	46
Total	**3,265**	**515**

Income from sale of certified emission rights was recognised at the moment when they were approved by the relevant authority and there was a binding contract to obtain economic benefits from their sale.

27 Distribution Costs

In millions of Ukrainian Hryvnia	2012	2011
Transportation	456	114
Staff cost, including payroll taxes	39	19
Consulting services	-	15
Depreciation	10	7
Other costs	89	48
Total	**594**	**203**

28 General and Administrative Expenses

In millions of Ukrainian Hryvnia	2012	2011
Staff cost, including payroll taxes	1,507	779
Professional fees	297	229
Depreciation of property, plant and equipment and amortisation of intangible assets	136	43
Office costs	87	45
Transportation	76	23
Taxes, other than income tax	45	30
Other costs	85	35
Total	**2,233**	**1,184**

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29 Other Operating Expenses

In millions of Ukrainian Hryvnia	2012	2011
Social payments	397	167
Penalties	273	13
Maintenance of social infrastructure	150	9
Charitable donations and sponsorship	86	27
Expenses on idle capacity	84	137
Loss from disposal of non-current assets	83	35
Non-recoverable VAT	53	25
Loss on sales of services	-	102
Net movement in provision for impairment of trade and other receivables and prepayments made (Note 14)	-	48
Loss from sales of inventory	-	14
Other	282	105
Total	**1,408**	**682**

30 Finance Income and Finance Costs

In millions of Ukrainian Hryvnia	2012	2011
Gain on initial recognition of long term accounts payable	307	24
Interest income on bank deposits	256	164
Unwinding of discount on long-term restructured accounts receivable	25	19
Other finance income	14	15
Total finance income	**602**	**222**
Interest expense		
- bank borrowings	1,169	247
- bonds issued	379	400
Loss on early repayment of long-term payables	977	-
Unwinding of discounts on pension obligations	554	347
Unwinding of discounts on long term accounts payable	359	46
Change in fair value of derivative financial instruments (Note 19)	284	-
Unwinding of discounts on deferred consideration related to acquisition	273	130
Amortised cost expenses on borrowings	58	-
Unwinding of discounts on assets retirement provision	57	21
Unwinding of discounts on investment obligation relating to Dniproenergo	12	22
Loss on initial recognition of long-term restructured accounts receivable	2	43
Other finance costs	59	27
Total finance costs	**4,183**	**1,283**

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31 Income Taxes

Income tax expense comprises the following:

In millions of Ukrainian Hryvnia	2012	2011
Current tax	2,517	2,226
Deferred tax	(1,017)	(80)
Income tax expense	**1,500**	**2,146**

Deferred income tax related to items charged or credited directly to equity:

In millions of Ukrainian Hryvnia	2012	2011
Change in asset retirement obligation	1	-
Unrealised gain on available-for-sale financial assets	(4)	(28)
Property, plant and equipment:		
- revaluation of property plant and equipment	-	(1,052)
- reversal of deferred tax following April 2011 change in Tax Code	-	1,228
Income tax reported in equity	**(3)**	**148**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine). In 2012 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 21% (2011: 25% during January-March 2011, and 23% starting from 1 April 2011). In 2012, the tax rate for Cyprus operations was 10% (2011: 10%).

On 2 December 2010, a new Tax Code was adopted in Ukraine effective from 1 January 2011. According to the new Tax Code the rates for corporate income tax are due to decrease from 25% to 16% in several stages during 2011-2014. Deferred tax assets and liabilities are measured at the income tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates prescribed by the new Tax Code.

The tax base of the property, plant and equipment was also changed from 1 April 2011 with the aim to remove existing differences between tax and accounting bases. The Group has recognised the respective change in tax legislation regarding the tax base of the property, plant and equipment as at 1 April 2011 which resulted in a deferred tax charge of UAH 427 million in the income statement and deferred tax credit of UAH 1,228 million in other comprehensive income.

Reconciliation between the expected and the actual taxation charge is provided below.

In millions of Ukrainian Hryvnia	2012	2011
Profit before income tax, including	**7,422**	**5,668**
Profit before income tax of Ukrainian companies	7,244	4,806
Profit/(loss) before income tax of non-Ukrainian companies	178	862
Income tax at statutory rates of 21-25% (Ukrainian operations)	**1,521**	**1,147**
Profit taxed at different rates 25% (Dutch operations)	**(11)**	**(4)**
Profit taxed at different rates 10% (Cyprus operations)	**60**	**89**
Profit taxed at different rates 20% (Russian operations)	**(73)**	**-**
Effect of changes in income tax rates in Ukraine	(74)	(9)
Effect of changes in Tax legislation in Ukraine	-	427
Tax effect of items not deductible or assessable for taxation purposes:		
- non-deductible expenses	683	278
- non-taxable income	(697)	(101)
Share of result and impairment of associates	26	114
Share of result of associate on transfer to subsidiary (2011: on transfer from AFS investment to associate) and AFS transfer to subsidiary (2011: on transfer to associate)	94	143
Unrecognised deferred tax on tax losses carried forward	32	62
Tax effect of gain from a bargain purchase	(61)	-
Income tax expense	**1,500**	**2,146**

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31 Income Taxes (Continued)

The parent and its subsidiaries are separate tax payers and therefore the deferred tax assets and liabilities are presented on an individual basis. The deferred tax liabilities and assets reflected in the consolidated balance sheets as at 31 December are as follows:

In millions of Ukrainian Hryvnia	2012	2011
Deferred tax asset	899	549
Deferred tax liability	(1,499)	(937)
Net deferred tax liability	**(600)**	**(388)**

In millions of Ukrainian Hryvnia	1 January 2012	Acquisition of subsidiaries (Note 33)	Credited/ (charged) to income	Charged to equity	31 December 2012
Tax effect of deductible temporary differences					
Trade and other payables	142	76	160	-	378
Provisions for other liabilities and charges	99	15	(8)	-	106
Retirement benefit obligations	552	90	46	-	688
Trade and other receivables	237	801	(29)	-	1,009
Prepayments received	44	(7)	20	-	57
Inventories	30	29	209	-	268
Deferred consideration	281	-	34	-	315
Tax losses	103	-	(50)	-	53
Financial investments	51	(3)	190	(4)	234
Gross deferred tax asset	**1,539**	**1,001**	**572**	**(4)**	**3,108**
Tax effect of taxable temporary differences					
Property, plant and equipment	(1,856)	(1,461)	623	1	(2,693)
Other financial liabilities	(61)	-	(199)	-	(260)
Prepayments made	(10)	-	(8)		(18)
Trade and other payables	-	(766)	29	-	(737)
Gross deferred tax liability	**(1,927)**	**(2,227)**	**445**	**1**	**(3,708)**
Recognised deferred tax asset/(liability)	**(388)**	**(1,226)**	**1,017**	**(3)**	**(600)**

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31 Income Taxes (Continued)

In millions of Ukrainian Hryvnia	1 January 2011	Acquisition of subsidiaries (Note 33)	Credited/ (charged) to income	Charged to equity	31 December 2011
Tax effect of deductible temporary differences					
Trade and other payables	34	(15)	123	-	142
Provisions for other liabilities and charges	44	69	(14)	-	99
Retirement benefit obligations	234	335	(17)	-	552
Trade and other receivables	-	193	44	-	237
Prepayments received	449	7	(412)	-	44
Inventories	-	(3)	33	-	30
Deferred consideration	-	272	9	-	281
Tax losses	-	103	-	-	103
Financial investments	52	-	27	(28)	51
Gross deferred tax asset	**813**	**961**	**(207)**	**(28)**	**1,539**
Tax effect of taxable temporary differences					
Property, plant and equipment	(730)	(1,078)	(224)	176	(1,856)
Inventories	(23)	-	23	-	-
Other financial liabilities	(27)	-	(34)	-	(61)
Prepayments made	(531)	-	521	-	(10)
Trade and other receivables	(1)	-	1	-	-
Gross deferred tax liability	**(1,312)**	**(1,078)**	**287**	**176**	**(1,927)**
Recognised deferred tax asset/(liability)	**(499)**	**(117)**	**80**	**148**	**(388)**

As at 31 December 2012, the Group has not recorded a deferred tax liability in respect of taxable temporary differences of UAH 537 million (31 December 2011: UAH 747 million) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

32 Contingencies, Commitments and Operating Risks

Tax legislation. Ukrainian tax and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group conducts intercompany transactions. It is possible with evolution of the interpretation of tax law in Ukraine and changes in the approach of tax authorities under the new Tax Code, that such transactions could be challenged in the future. The impact of any such challenge cannot be estimated; however, management believes that it should not be significant.

The group has income tax liabilities in various countries. The ultimate tax consequences of many transactions and calculations are uncertain, partly because of uncertainty concerning their timing. The Group continually assesses such matters and where final tax sums differ from the estimates such differences are recognised as income tax provisions in the period in which the differences become apparent.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. Management believes that it has provided for all material losses in these financial statements.

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32 Contingencies, Commitments and Operating Risks (Continued)

Capital expenditure commitments. As at 31 December 2012 and 2011, the Group does not have contractual capital expenditure commitments in respect of property, plant and equipment.

In December 2012 Dniproenergo issued bonds at nominal value of UAH 1,010 million following the requirements of the amicable agreement to bring the entity out of bankruptcy. The bonds bear nominal interest of 0.01% and mature in 30 years. The bonds are aimed to finance Dniproenergo investment programme. All bonds were purchased by Pavlogradugol and Komsomolets Donbassa Mine.

As discussed in Note 33, the Group is committed to fund investment programmes of newly acquired mining assets totalling UAH 7,727 million during the period 2011 through 2016. As at 31 December 2012 the outstanding commitment equals UAH 5,538 million (31 December 2011: UAH 7,093 million).

Purchase commitments. As at 31 December 2012 and 2011, the Group did not have contractual purchase commitments.

Assets pledged and restricted. At 31 December the Group has the following assets pledged as collateral:

In millions of Ukrainian Hryvnia	**Asset pledged**	**2012 Related liability**	**Asset pledged**	**2011 Related liability**
Financial investments (Note 12)	84	128	211	19
Property, plant and equipment (Note 8)	555	265	1,127	446
Restricted cash (Note 12 and 15)	171	-	-	-
Total	**810**	**393**	**1,338**	**465**

As at 31 December 2012, proceeds from future sale of electricity with the cap of UAH 3,005 million were pledged as security for borrowings (Note 18). The amount of future proceeds pledged is capped in the loan agreements, and depends on the outstanding balance of the loan as at the balance sheet date.

Environmental matters. The enforcement of environmental regulation in Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. Management believes that there are no significant liabilities for environmental damage.

Compliance with covenants. The Group is subject to certain covenants related primarily to its Eurobonds and bank borrowings. Non-compliance with such covenants may result in negative consequences for the Group, including increase in the cost of borrowings, declaration of default and demand for immediate repayment of borrowings. The Group is in compliance with covenants as at 31 December 2012 and 2011.

Insurance. The insurance industry in Ukraine is developing and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have an adverse effect on the Group's operations.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In millions of Ukrainian Hryvnia	**2012**	**2011**
Not later than 1 year	236	16
Later than 1 year and not later than 5 years	6	3
Total operating lease commitments	**242**	**19**

Lease of land. The Group leases the land on which its assets are located. The annual lease payment in 2012 amounted to UAH 103 million (2011: UAH 21 million). Those payments are cancellable lease commitments.

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33 Business Combinations

Dniproenergo

On 13 March 2012 the Group acquired 25.00% of Dniproenergo PJSC ('Dniproenergo') in a State organised privatisation auction, for a cash consideration of UAH 1,180 million, thus taking its total share to 72.93%.

Dniproenergo is a power generation company located in Zaporizhzhya, and was acquired via a) a series of transactions resulting in total interest acquired of 47.55% at a total cost of UAH 2,238 million, and b) via privatisation tender on 13 March 2012 resulting in additional 25% interest for a cash consideration of UAH 1,180 million.

The investment in Dniproenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 206 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	4,633
Intangible assets	7
Other non-current assets	48
Inventories	623
Trade and other receivables (gross UAH 3,649 million)	1,780
Current income tax	29
Cash and cash equivalents	29
Borrowings	(1,045)
Other financial liabilities – non-current	(93)
Provisions for other liabilities and charges	(2)
Retirement benefit obligations	(198)
Deferred income tax liabilities	(261)
Trade and other payables	(998)
Other taxes payable	(227)
Fair value of 100% of net assets acquired	**4,325**
27.07% non-controlling interest	**(1,170)**
Share of net assets acquired	**3,155**
Purchase consideration:	**5,154**
Fair value of consideration paid	1,180
Fair value of previously held interest	3,974
Goodwill	**1,999**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	29
Consideration paid for acquisition of subsidiary	(1,180)
Net outflow of cash on acquisition of subsidiary	(1,151)

The non-controlling interest represents the share of the net assets cf the acquiree attributable to the owners of the non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Dniproenergo generation capacities due to synergies.

Revenue and net profit of Dniproenergo included in the consolidated income statement from the date of acquisition totaled UAH 7,546 million and UAH 1,355 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 1,685 million higher and net profit of the Group would be approximately UAH 400 million lower (unaudited).

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33 Business Combinations (Continued)

Zakhidenergo

On 10 January 2012 the Group acquired 45.10% of Zakhidenergo PJSC ('Zakhidenergo') in a State organised privatisation auction, for a cash consideration of UAH 1,932 million, thus taking its total share to 70.94%.

Zakhidenergo PJSC is an electricity generation company located in Lviv.

The investment in Zakhidenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 42 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment and intangible assets were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	3,031
Intangible assets	1,825
Other non-current assets	4
Inventories	528
Trade and other receivables (gross UAH 531 million)	393
Financial investments - current	30
Borrowings	(781)
Other financial liabilities – non-current	(26)
Retirement benefit obligations	(167)
Deferred income tax liabilities	(361)
Provisions for other liabilities and charges	(37)
Trade and other payables	(1,101)
Prepayments received	(640)
Other financial liabilities – current	(93)
Other taxes payable	(104)
Fair value of 100% of net assets acquired	**2,501**
29.06% non-controlling interest	**(727)**
Share of net assets acquired	**1,774**
Purchase consideration:	**3,039**
Fair value of consideration paid	1,932
Fair value of previously held interest	1,107
Goodwill	**1,265**

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Zakhidenergo generation capacities due to synergies.

As a part of net assets acquired there is an intangible asset of UAH 1,823 million recognised representing the unique capability of Burshtyn thermal power plant to supply the Central European market with electricity ("Burshtyn electricity island"). This intangible asset has a definite useful life of 13 years and is depreciated on a straight line basis over this period. Respective deferred tax liability of UAH 302 million was recognised as a part of net assets acquired.

Revenue and net profit of Zakhidenergo included in the consolidated income statement from the date of acquisition totaled UAH 9,626 million and UAH 174 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 242 million higher and net profit of the Group would be approximately UAH 40 million lower (unaudited).

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33 Business Combinations (Continued)

Donetskoblenergo

On 11 January 2012 the Group acquired 40.06% of Donetskoblenergo PJSC ('Donetskoblenergo') in a State organised privatisation auction, for a cash consideration of UAH 468 million, thus taking its total share to 71.34%.

Donetskoblenergo PJSC is an electricity distribution company located in the Donetsk region of Ukraine.

The investment in Donetskoblenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 137 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	1,957
Intangible assets	1
Other non-current assets	10
Inventories	46
Trade and other receivables (gross UAH 3,215 million)	367
Cash and cash equivalents	149
Borrowings	(30)
Other financial liabilities – non-current	(291)
Deferred income tax liabilities	(320)
Trade and other payables	(555)
Prepayments received	(260)
Income tax payable	(21)
Other taxes payable	(78)
Fair value of 100% of net assets acquired	**975**
28.66% non-controlling interest	**(279)**
Share of net assets acquired	**696**
Purchase consideration:	**832**
Fair value of consideration paid	468
Fair value of previously held interest	364
Goodwill	**136**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	149
Consideration paid for acquisition of subsidiary	(468)
Net outflow of cash on acquisition of subsidiary	(319)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Donetskoblenergo distribution network and the customer base due to synergies.

Revenue and net loss of Donetskoblenergo included in the consolidated income statement from the date of acquisition totaled UAH 5,355 million and UAH 168 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 169 million higher and net profit of the Group would be approximately UAH 4 million lower (unaudited).

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33 Business Combinations (Continued)

Dniprooblenergo

On 17 April 2012 the Group acquired 50.00% shares of Dniprooblenergo PJSC ('Dniprooblenergo') in a State organised privatisation auction, for a cash consideration of UAH 660 million thus taking its total share to 51.50%.

Dniprooblenergo PJSC is an electricity distribution company located in Dnipropetrovsk.

The investment in Dniprooblenergo held prior to the acquisition was accounted for as available for sale investment. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 59 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	2,486
Intangible assets	12
Inventories	75
Trade and other receivables (gross UAH 1,813 million)	379
Cash and cash equivalents	41
Other financial liabilities – non-current	(687)
Deferred income tax liability	(83)
Trade and other payables	(586)
Prepayments received	(341)
Current income tax payable	(12)
Other taxes payable	(55)
Fair value of 100% of net assets acquired	**1,229**
48.50% non-controlling interest	**(596)**
Share of net assets acquired	**633**
Purchase consideration:	**680**
Fair value of consideration paid	660
Fair value of previously held interest	20
Goodwill	**47**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	41
Consideration paid for acquisition of subsidiary	(660)
Net outflow of cash on acquisition of subsidiary	(619)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Dniprooblenergo distribution network and the customer base due to synergies.

Revenue and net profit of Dniprooblenergo included in the consolidated income statement from the date of acquisition totaled UAH 11,230 million and UAH 268 million, respectively. Since Dniprooblenergo has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

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33 Business Combinations (Continued)

Krymenergo

On 5 May 2012 the Group acquired 45.00% shares of Krymenergo PJSC ('Krymenergo') in a State organised privatisation auction, for a cash consideration of UAH 256 million thus taking its total share to 57.49%.

Krymenergo PJSC is an electricity distribution company located in Simferopol, Ukraine.

The investment in Krymenergo held prior to the acquisition was accounted for as available for sale investment. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 4 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	2,322
Intangible assets	3
Financial investments – non-current	5
Other non-current assets	19
Inventories	14
Trade and other receivables (gross UAH 1,001 million)	103
Cash and cash equivalents	28
Borrowings	(21)
Other financial liabilities – non-current	(444)
Deferred income tax liability	(155)
Trade and other payables	(88)
Prepayments received	(125)
Current income tax payable	(13)
Other taxes payable	(28)
Fair value of 100% of net assets acquired	**1,620**
42.51% non-controlling interest	**(689)**
Share of net assets acquired	**931**
Purchase consideration:	**327**
Fair value of consideration paid	256
Fair value of previously held interest	71
Gain from a bargain purchase	**(604)**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	28
Consideration paid for acquisition of subsidiary	(256)
Net outflow of cash on acquisition of subsidiary	(228)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Gain from a bargain purchase has been computed as the difference between the net assets acquired and the purchase consideration and occurred as a result of the term and conditions set out in the privatisation process used by the State Property Fund in establishing the starting price calculation. Gain from a bargain purchase is recognised in the income statement.

Revenue and net profit of Krymenergo included in the consolidated income statement from the date of acquisition totaled UAH 1,640 million and UAH 30 million, respectively. Since Krymenergo has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

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33 Business Combinations (Continued)

Bilozerska Mine

On 17 and 24 February 2012 the Group entered into agreements to acquire 95.44% of Bilozerska Mine ALC for a total cash consideration of UAH 202 million. Bilozerska Mine operates one coal mine located in the Donetsk region of Ukraine producing 0.60 million tons of coal per annum.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	1,100
Intangible assets	1
Inventories	24
Trade and other receivables (gross UAH 20 million)	20
Borrowings	(289)
Retirement benefit obligations	(94)
Other financial liabilities – non-current	(267)
Deferred income tax liability	(32)
Trade and other payables	(64)
Prepayments received	(142)
Other taxes payable	(45)
Fair value of 100% of net assets acquired	**212**
4.60% liability to non-controlling participants	**(10)**
Share of net assets acquired	**202**
Fair value of consideration paid	**202**

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Revenue and net loss of Bilozerska Mine included in the consolidated income statement from the date of acquisition totaled UAH 271 million and UAH 131 million, respectively. Since Bilozerska Mine has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

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33 Business Combinations (Continued)

Rostov Mines

During June 2012 the Group entered into agreement to acquire 100% of Public company Don-Anthracite, Public Mining Corporation Obukhovskaya, and Sulinathracite LLC, for a total cash consideration UAH 310 million. Those companies represent three mines located in Rostov region, Russian Federation.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Management is still in process of determining the fair values of all assets and liabilities.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	420
Intangible assets	16
Inventories	32
Trade and other receivables (gross UAH 46 million)	46
Cash and cash equivalents	14
Borrowings	(89)
Provisions for other liabilities and charges	(13)
Retirement benefit obligations	(45)
Deferred income tax liability	(14)
Trade and other payables	(57)
Fair value of 100% of net assets acquired	**310**
Share of net assets acquired	**310**
Fair value of consideration paid	**310**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	14
Consideration for acquiree's debt to previous owner	(307)
Consideration paid for acquisition of subsidiary	(3)
Net outflow of cash on acquisition of subsidiary	(296)

In case the subsoil exploration licences acquired in this business combination are not renewed by the Group in 2013, DTEK will have the right to claim the associated losses and expenses incurred against the previous owner of the Rostov mines. The latter will have the right to exercise a call option to buy the shares of the mines back. Until this call option agreement is terminated DTEK may not sell any of the shares or debt acquired from the previous owner or make any changes to the common shares of the entities acquired.

Revenue and net loss of Rostov Mines included in the consolidated income statement from the date of acquisition totaled UAH 102 million and UAH 387 million, respectively. Since Rostov Mines have not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

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33 Business Combinations (Continued)

Acquisitions during 2011

Acquisitions during 2011 – Dobropolyeugol

On 4 January 2011 the Group entered an agreement with the State Property Fund of Ukraine to lease the integrated property complex of the State Enterprise Dobropolyeugol ('Dobropolyeugol').

Dobropolyeugol comprises five coal mines located in the Donetsk region of Ukraine producing 3 million tons of coal per annum. The lease term is 49 years which substantially covers most of the economic life of the coal reserves. In addition, the Group assumed all current and non-current assets and liabilities of Dobropolyeugol. As the Group assumed all risks and rewards associated with the coal produced by Dobropolyeugol, this transaction has been recorded as a business combination following acquisition method of accounting.

The lease agreement required the Group to pay a monthly rental fee of UAH 7 million for the first month with all subsequent monthly payments being adjusted for the consumer price index ("CPI") in Ukraine. DTEK recognised the net present value of future rental payments as deferred consideration totalling UAH 909 million using CPI assumption of 7.00% per annum for the next five years and 5.00% per annum thereafter and a discount rate of 16.56%. Further, the lease agreement required the Group to commit to funding Dobropolyeugol's investment program totalling UAH 2,000 million during the period 2011 through 2015. As at 31 December 2012 the commitment totals UAH 1,145 million (31 December 2011: UAH 1,548 million).

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. Fair values of defined benefit obligations were determined by independent actuary. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	2,134
Intangible assets	32
Deferred income tax asset	168
Inventories	43
Trade and other receivables	38
Other non-current liabilities – restructured taxes payable	(153)
Borrowings	(160)
Retirement benefit obligations	(511)
Asset retirement provision	(8)
Trade and other payables	(598)
Other provisions for liabilities and charges	(76)
Fair value of 100% of net assets acquired	**909**
Fair value of deferred consideration payable	**909**

Revenue and net loss of Dobropolyeugol included in the 2011 consolidated income statement from the date of acquisition totalled UAH 580 million and UAH 183 million, respectively. If the acquisition had been completed on 1 January 2011, the revenues and net profit of the Group would not have changed significantly.

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Acquisitions during 2011 – Rovenkiantracyte and Sverdlovantracyte

On 1 December 2011, the Group entered two agreements with the State Property Fund of Ukraine for concession of the integrated property complex of the State Enterprise Rovenkiantracyte ('Rovenkiantracyte') and State Enterprise Sverdlovantracyte ('Sverdlovantracyte').

Rovenkiantracyte comprises six coal mines and Sverdlovantracyte comprises five coal mines located in the Lugansk region of Ukraine, each producing 6 million tons of coal per annum. The concession term is 49 years which substantially covers most of the economic life of the coal reserves. In addition, the Group assumed current and non-current assets and liabilities of Rovenkiantracyte and Sverdlovantracyte. The Group assumed all risks and rewards associated with the coal produced by Rovenkiantracyte and Sverdlovantracyte and accordingly this transaction has been recorded as a business combination following acquisition method of accounting.

The agreement requires the Group to pay a quarterly rental fee of UAH 19 million and UAH 14 million, respectively for the first quarter with all subsequent quarterly payments being adjusted for CPI in Ukraine and decreasing by quarterly depreciation charge that should be reinvested to capital expenditures during the next 5 years. DTEK recognised the net present value of future rental payments as a deferred consideration totalling UAH 557 million and UAH 359 million, respectively using CPI assumption of 7.00% per annum for the next five years and 5.00% per annum thereafter and a discount rate of 16.85%. Further, the agreement required the Group to commit to funding Rovenkiantracyte's and Sverdlovantracyte's investment program totalling UAH 2,998 million and UAH 2,729 million, respectively during the period 2012 through 2016. As at 31 December 2012 the commitment totals UAH 2,310 million and UAH 2,083 million respectively (31 December 2011: UAH 2,845 million and UAH 2,700 million respectively). In accordance with the agreements for concession, all movable and immovable properties and property rights of the above companies are encumbered with a tax lien.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. Fair values of defined benefit obligations were determined by an independent actuary. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	**Rovenkiantracyte**	**Sverdlovantracyte**
Property, plant and equipment, including mineral reserves	3,699	2,183
Intangible assets	31	15
Trade and other receivables	146	127
Inventory	113	145
Other non-current liabilities – restructured taxes payable	(456)	(79)
Borrowings	(606)	(437)
Retirement benefit obligations	(860)	(589)
Asset retirement provision	(83)	(153)
Trade and other payables	(732)	(508)
Other current liabilities	(407)	(214)
Deferred income tax liability	(286)	(131)
Fair value of 100% of net assets acquired	**559**	**359**
Fair value of deferred consideration payable	**559**	**359**

Revenue and net loss of Rovenkiantracyte included in the 2011 consolidated income statement from the date of acquisition totalled UAH 200 million and UAH 98 million, respectively. Revenue and net loss of Sverdlovantracyte included in the 2011 consolidated income statement from the date of acquisition totalled UAH 136 million and UAH 63 million, respectively. Since Rovenkiantracyte and Sverdlovantracyte have not produced IFRS financial information for the year ended 31 December 2011, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2011.

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33 Business Combinations (Continued)

Acquisitions during 2011 – Kyivenergo

On 13 December 2011, the Group acquired 25% of Kyivenergo JSC ('Kyivenergo') in a State organised privatisation auction for a cash consideration of UAH 451 million taking its cumulative interest to 71.82%.

Kyivenergo is an integrated complex, which generates, transmits and distributes all electricity for Kyiv. It has a monopoly in the Kyiv electricity market. In addition, Kyivenergo also supplies the majority of heat consumed in Kyiv.

The investment in Kyivenergo held prior to the acquisition was accounted for as investment in associate and as a result of revaluation of previously held interest to fair value UAH 334 million loss was recognised in the income statement (Note 11).

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	3,130
Intangible assets	3
Deferred income tax asset	132
Available for sale investments	15
Inventories	173
Trade and other receivables (gross UAH 3,632 million)	1,897
Cash and cash equivalents	497
Borrowings	(680)
Retirement benefit obligations	(97)
Long-term accounts payable	(170)
Trade and other payables	(3,122)
Prepayments received	(497)
Provisions for other liabilities and charges	(163)
Fair value of 100% of net assets acquired	**1,118**
28.18% non-controlling interest	**(315)**
Share of net assets acquired	**803**
Purchase consideration:	**1,286**
Fair value of consideration paid	451
Fair value of previously held interest	835
Goodwill	**483**
Cash flow from acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	497
Consideration paid for acquisition of subsidiary	(451)
Net inflow of cash on acquisition of subsidiary	46

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the consideration payable and is due to the expected synergies from the benefits as a result of increased revenues, and business growth by receiving more competitive position when combining Kyivenergo network with the existing distribution business of the Group.

Revenue and net loss of Kyivenergo included in the 2011 consolidated income statement from the date of acquisition totalled UAH 868 million and UAH 142 million, respectively. If the acquisition had been completed on 1 January 2011, the 2011 revenues of the Group would be approximately UAH 9,982 million higher and 2011 net profit of the Group would be approximately UAH 1,054 million lower.

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34 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management policies seek to minimise the potential adverse effects on the Group's financial performance for those risks that are manageable or noncore to the power generating business.

Risk management is carried out by a centralised treasury department working closely with the operating units, under policies approved by the supervisory board. The Group treasury identifies, evaluates and proposes risk management techniques to minimise these exposures.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Credit risk is managed on an entity by entity basis with oversight by the Group. Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions. For Banks only SCM related banks or upper tier Ukrainian banks are accepted, which are considered at time of deposit to have minimal risk of default. Customers can be analysed between Energorynok SE, which buys 100% of electricity generated, industrial consumers and other. Due to the monopolistic nature of electricity supply by region, the Group cannot choose its customers, and instead must supply all customers within its distribution network. Sales are metered and management monitors ageing of receivables for industrial customers on a regular basis and ultimately may cut off supply for delinquent customers. For supply to municipal and the general populous, due to the low tariff structure and the political nature of disrupting supply management will continue to supply in the event non-payment and will use non-payment as justification for higher tariff increases for industrial customers. The exposure to credit risk for other customers is approved and monitored on an ongoing basis individually for all significant customers. The Group does not require collateral in respect of trade and other receivables.

The Group establishes a provision for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this provision are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss provision is determined based on historical data of payment statistics for similar financial assets. The Group does not create provision for receivables from related parties.

The maximum exposure to credit risk at the reporting date is UAH 10,477 million (2011: UAH 14,725 million) being carrying value of financial investments, trade and other receivables and cash. The Group does not hold any collateral as security.

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34 Financial Risk Management (Continued)

Credit risks concentration. The Group is exposed to concentrations of credit risk.

The table below shows the balance of the major counterparties at the balance sheet date.

Counterparty	Classification in balance sheet	31 December 2012	31 December 2011
First Ukrainian International Bank (FUIB)**	Cash and cash equivalents	1,292	2,788
State Savings Bank of Ukraine PJSC*	Cash and cash equivalents	1,274	236
Ukrsotsbank PJSC*	Cash and cash equivalents	983	-
Subsidiary Bank Sberbank of Russia PJSC*	Cash and cash equivalents	335	-
Prominvestbank PJSC*	Cash and cash equivalents	285	2
VTB Bank PJSC*	Cash and cash equivalents	279	1,224
Marfin Popular Bank	Cash and cash equivalents	208	73
Ukreximbank PJSC*	Cash and cash equivalents	196	-
Ukrsibbank PJSC*	Cash and cash equivalents	158	233
OTP Bank CJSC*	Cash and cash equivalents	109	59
Russian Commercial Bank (CYPRUS) Limited	Cash and cash equivalents	75	3,152
Universal Bank PJSC*	Cash and cash equivalents	49	140
Erste Group Bank AG	Cash and cash equivalents	32	2,493
State Savings Bank of Ukraine PJSC*	Financial investment	17	-
Marfin Popular Bank	Financial investment	-	188
VTB Bank PJSC*	Financial investment	-	57
Prominvestbank PJSC*	Financial investment	-	23
State Company Energorynok	Trade and other receivables	1,824	1,045
Metinvest Holding LLC**	Trade and other receivables	220	45
LLC MAKO-Trading	Trade and other receivables	184	-
Azovstal Steel Works PJSC**	Trade and other receivables	13	9
State Company Belenergo	Trade and other receivables	3	83
Dniproenergo PJSC	Trade and other receivables	-	375

* These banks rank in the top 35 Ukrainian banks by size of total assets and capital (per National Bank of Ukraine).

** FUIB, Metinvest Holding and Azovstal Steel Works PJSC are subsidiaries of SCM.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity investments, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. The Group primarily operates within Ukraine and accordingly its exposure to foreign currency risk is determined mainly by borrowings, gross settled derivative financial instruments, cash balances and deposits, the majority of which are denominated in or linked to US dollars. As a result of the global financial crisis, the Ukrainian economy experienced reduced level of capital inflow and decrease in demand for exports. Additionally, the country ratings by international rating agencies were downgraded in October 2008. These factors, together with increasing domestic uncertainty, led to volatility in the currency exchange market and resulted in significant downward pressure on the Ukrainian Hryvnia relative to major foreign currencies. While management monitors this exchange exposure, the Group does not hedge its US dollar currency positions.

The following table presents sensitivities of profit or loss and equity before tax to reasonably possible changes in exchange rates applied at the balance sheet date relative to the functional currency of the respective Group entities, with all other variables held constant:

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

	At 31 December 2012		At 31 December 2011	
In millions of Ukrainian Hryvnia	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 25% (2011: 25%)	(2,931)	(2,931)	(1,354)	(1,354)
USD weakening by 25% (2011: 25%)	2,931	2,931	1,354	1,354
Euro strengthening by 25% (2011: 25%)	(1,499)	(1,499)	(339)	(339)
Euro weakening by 25% (2011: 25%)	1,499	1,499	339	339
RUB strengthening by 25% (2011: 25%)	(96)	(96)	(56)	(56)
RUB weakening by 25% (2011: 25%)	96	96	56	56

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34 Financial Risk Management (Continued)

Interest rate risk. As the Group normally has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rate. The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable interest rates expose the Group to interest rate risk. Borrowings at fixed rate expose the Group to fair value interest rate risk.

At 31 December 2012 and 2011, the majority of the Group's variable interest debt is USD, RUB and EUR denominated. As at 31 December 2012, 69% of the total borrowings was provided to the Group at floating rates (31 December 2011: 64 %).

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether fixed or variable rate would be more favourable to the Group over the expected period until maturity. The risk of increase in market interest rates is monitored by the Corporate Finance Department of the Company together with the Treasury Department. The Corporate Finance Department is responsible for planning the financing structure (levels of leverage) and borrowing activities. The key objective to financing is reduction of borrowing costs. As disclosed in Note 19, during 2011 and 2012 DTEK concluded agreements with Sberbank of Russia and Barclays for a swap of RUB floating rate loans for USD loans with fixed rate.

The borrowing activities are reviewed on a 12-month budget. Long-term investing activities and associated funding are considered separately.

The maturity dates and effective interest rates of financial instruments are disclosed in Note18. Re-pricing for fixed rate financial instruments occurs at maturity of fixed rate financial instruments. Re-pricing of floating rate financial instruments occurs continually.

At 31 December 2012, if interest rates on USD, EUR and RUB denominated borrowings had been 200 basis points higher with all other variables held constant, post-tax profit for the year would have been UAH 136 million lower (2011: UAH 118 million lower).

Other price risk. The Group has limited exposure to commodity price risk on electricity supply as pricing is determined based on the competitive pool model adopted by the National Electricity Regulatory Committee of Ukraine. The Group produces the majority of the coal needed to power the Group's generators and manages coal production to meet demand, however the Group is exposed to some commodity price risk on coal as the Group often needs to import coal of a particular grade. To manage this risk, the Group enters into supply contracts for coal with fixed prices.

The Group is also exposed to equity securities price risk because of the available-for-sale investments held by the Group. The Group limits its exposure to the Ukrainian power generation and distribution sectors, but is fully exposed to equity price risk within this sector.

If the equity quotations of the Group's investments had increased by 10% as at 31 December 2012 and 2011, with all other factors being equal, the Group's equity at 31 December 2012 would have increased by UAH 4 million (31 December 2011: UAH 5 million).

Liquidity risk. Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding to meet existing obligations as they fall due. Management monitors liquidity on a daily basis, management incentive programs use key performance indicators such as EBITDA and cash collections to ensure liquidity targets are actively monitored. Prepayments are commonly used to manage both liquidity and credit risks. The Group has capital construction programs which can be funded through existing business cash flows, however the Group also has significant investment and acquisition targets which will require incremental debt finance. To this end, the Group is in discussions with financial institutions with respect to long-term financing.

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34 Financial Risk Management (Continued)

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are undiscounted cash flows. The maturity analysis of financial liabilities at 31 December 2012 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6 -12 months	1 - 2 years	2 - 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 18)	2,749	1,910	4,312	10,802	557	20,330
Eurobonds (Note 18)	256	194	385	4,123	-	4,958
Gross settled derivative financial instruments – outflows	214	220	1,760	5,691	-	7,885
Gross settled derivative financial instruments – inflows	(375)	(376)	(2,093)	(5,980)	-	(8,824)
Other financial liabilities - external (Note 19)	131	99	315	1,885	61,957	64,387
Trade and other payables (Note 22)	6,156	118	-	-	-	6,274
Total future payments, including future principal and interest payments	**9,131**	**2,165**	**4,679**	**16,521**	**62,514**	**95,010**

The maturity analysis of financial liabilities at 31 December 2011 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6 -12 months	1 - 2 years	2 - 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 18)	2,228	724	1,415	9,350	182	13,899
Eurobonds (Note 18)	257	194	385	4,506	-	5,342
Gross settled derivative financial instruments – outflows	28	28	55	906	-	1,017
Gross settled derivative financial instruments – inflows	(42)	(43)	(85)	(951)	-	(1,121)
Other financial liabilities (Note 19)	483	156	162	522	53,469	54,792
- external	*59*	*50*	*162*	*522*	*53,469*	*54,262*
- Dniproenergo	*424*	*106*	-	-	-	*530*
Indebtedness under amicable agreement (Note 19)	-	-	12	-	-	12
Trade and other payables (Note 22)	4,640	60	-	-	-	4,700
Total future payments, including future principal and interest payments	**7,594**	**1,119**	**1,944**	**14,333**	**53,651**	**78,641**

Other financial liability external represents undiscounted future cash flows for deferred consideration payable related to acquisition of Dobropolyeugol, Rovenkiatrantracyte and Sverdlovantracyte, finance lease liability related to acquisition of Bilozerska Mine ALC and other balances.

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35 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return on capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as net liabilities divided by total capital under management. Net debt is calculated as total borrowing (current and long-term as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital under management equals equity as shown in the consolidated balance sheet.

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 2 - 5 years and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy. The Group has obtained a credit rating that matches the Sovereign rating of Ukraine.

	31 December 2012	31 December 2011
Total net debt	15,302	4,656
Total equity	32,687	24,826
Debt to equity ratio	46.81%	18.75%

36 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market, and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading and available-for-sale investments are carried in the balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Fair values were determined based on quoted market prices or third party valuations using discounted cash flows techniques.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows, expected to be received, discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Liabilities carried at amortised cost. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. The estimated fair values of the financial liabilities are summarised in the table below. Carrying amounts of trade and other payables approximate fair values.

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36 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments at 31 December 2012 were as follows:

In millions of Ukrainian Hryvnia	Measurement method: Quoted price in active market	Measurement method: Valuation using observable market inputs	Total fair value	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents (Note 15)				
- Bank balances payable on demand	-	4,959	4,959	4,959
- Term deposits	-	310	310	310
- Restricted cash	-	91	91	91
Trade and other receivables (Note 14)				
- Trade receivables	-	4,597	4,597	4,597
- Receivables under commission agreements	-	-	-	-
- Receivable for sale of financial instruments	-	-	-	-
- Other financial receivables	-	132	132	132
Other non-current assets				
- Trade and other receivables - non-current	-	46	46	50
Financial investments (Note 12)				
- Securities quoted on Ukrainian stock market	45	-	45	45
- Prepayment for shares	-	160	160	160
- Deposits placed with the maturity more than three months	-	102	102	102
- Restricted cash	-	80	80	80
- Loans receivable	-	1	1	1
TOTAL FINANCIAL ASSETS	**45**	**10,478**	**10,523**	**10,527**
FINANCIAL LIABILITIES				
Liability to non-controlling participants	-	5	5	5
Borrowings (Note 18)	-	16,715	16,715	16,721
Eurobonds (Note 18)	4,113	-	4,113	3,941
Other liabilities – non-current (Note 19)	-	4,100	4,100	3,860
Other financial liabilities – current (Note19)	-	235	235	235
Current part of deferred consideration (Note 19)	-	65	65	65
Trade and other payables (Note 22)	-	6,274	6,274	6,274
TOTAL FINANCIAL LIABILITIES	**4,113**	**27,394**	**31,507**	**31,101**

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36 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments at 31 December 2011 were as follows:

In millions of Ukrainian Hryvnia	Measurement method: Quoted price in active market	Measurement method: Valuation using observable market inputs	Total fair value	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents (Note 15)				
- Bank balances payable on demand	-	4,922	4,922	4,922
- Term deposits	-	5,504	5,504	5,504
- Restricted cash	-	-	-	-
Trade and other receivables (Note 14)				
- Trade receivables	-	3,070	3,070	3,070
- Receivables under commission agreements	-	45	45	45
- Receivable for sale of financial instruments	-	2	2	2
- Other financial receivables	-	225	225	225
Other non-current assets				
- Trade and other receivables - non-current	-	137	137	137
Financial investments (Note 12)				
- Securities quoted on Ukrainian stock market	71	-	71	71
- Prepayment for shares	-	355	355	355
- Deposits placed with the maturity more than three months	-	275	275	275
- Loans receivable	-	190	190	190
TOTAL FINANCIAL ASSETS	**71**	**14,725**	**14,796**	**14,796**
FINANCIAL LIABILITIES				
Liability to non-controlling participants	-	4	4	4
Borrowings (Note18)	-	10,977	10,977	11,162
Eurobonds (Note 18)	3,670	-	3,670	3,920
Other liabilities – non-current (Note 19)	-	2,615	2,615	2,615
Current part of deferred consideration (Note 19)	-	85	85	85
Investment obligation relating to Dniproenergo – current (Note19)	-	519	519	519
Other financial liabilities – current (Note19)	-	152	152	152
Trade and other payables (Note 22)	-	4,700	4,700	4,700
TOTAL FINANCIAL LIABILITIES	**3,670**	**19,052**	**22,722**	**23,157**

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37 Reconciliation of Classes of Financial Instruments with Measurement Categories

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2012:

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Total
ASSETS			
Cash and cash equivalents (Note 15)			
- Bank balances payable on demand	4,959	-	4,959
- Term deposits	310	-	310
- Restricted cash	91	-	91
Trade and other receivables (Note 14)			
- Trade receivables	4,597	-	4,597
- Receivables under commission agreements	-	-	-
- Receivable for sale of financial instruments	-	-	-
- Other financial receivables	132	-	132
Other non-current assets			
- Trade and other receivables - non-current	50	-	50
Financial investments (Note 12)			
- Equity securities	-	45	45
- Prepayment for shares	160	-	160
- Deposits placed with the maturity more than three months	102	-	102
- Loans receivable	1	-	1
- Restricted cash	80	-	80
TOTAL FINANCIAL ASSETS	**10,482**	**45**	**10,527**
NON-FINANCIAL ASSETS	-	-	**65,877**
TOTAL ASSETS			**76,404**

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2011:

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Total
ASSETS			
Cash and cash equivalents (Note 15)			
- Bank balances payable on demand	4,922	-	4,922
- Term deposits	5,504	-	5,504
- Restricted cash	-	-	-
Trade and other receivables (Note 14)			
- Trade receivables	3,070	-	3,070
- Receivables under commission agreements	45	-	45
- Receivable for sale of financial instruments	2	-	2
- Other financial receivables	225	-	225
Other non-current assets			
- Trade and other receivables - non-current	137	-	137
Financial investments (Note 12)			
- Equity securities	-	71	71
- Prepayment for shares	355	-	355
- Deposits placed with the maturity more than three months	275	-	275
- Loans receivable	190	-	190
TOTAL FINANCIAL ASSETS	**14,725**	**71**	**14,796**
NON-FINANCIAL ASSETS	-	-	**41,552**
TOTAL ASSETS			**56,348**

All of the Group's financial liabilities at 31 December 2012 and 2011 are carried at amortised cost.

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38 Subsequent events

There were no significant events subsequent to the year end.

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