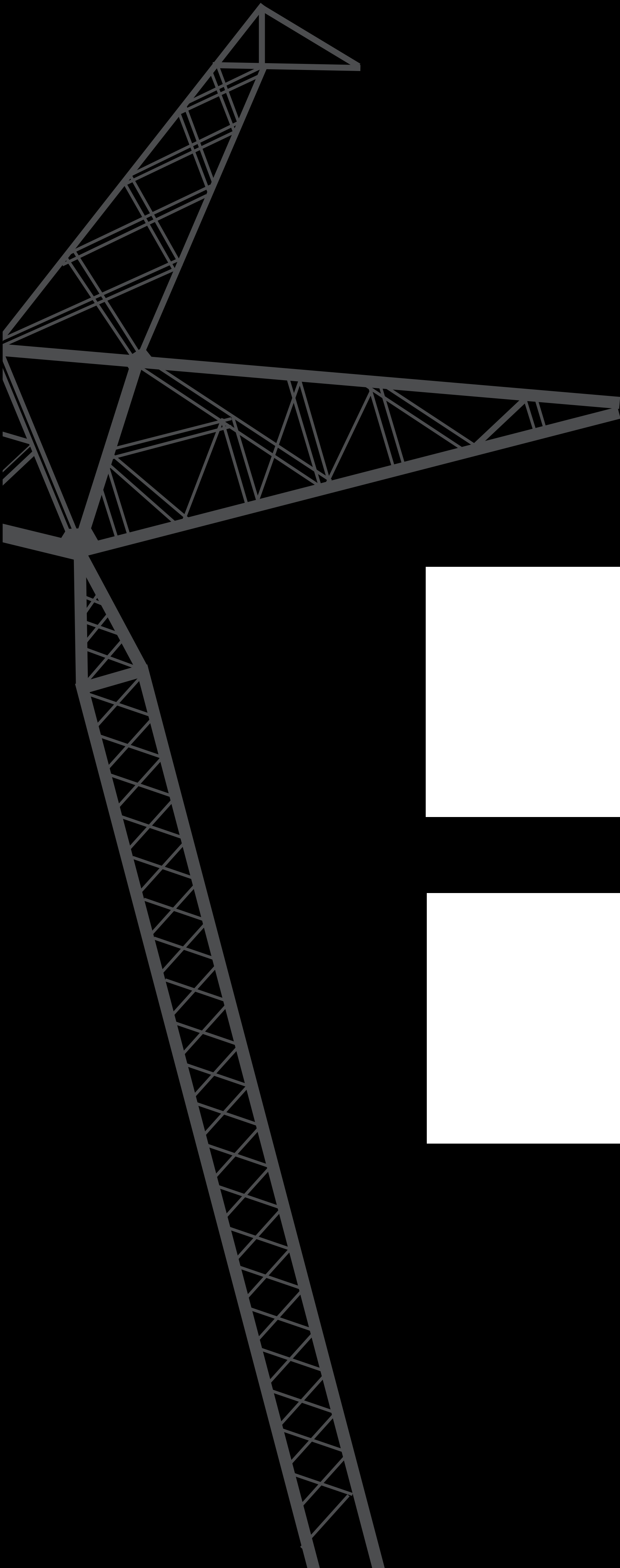
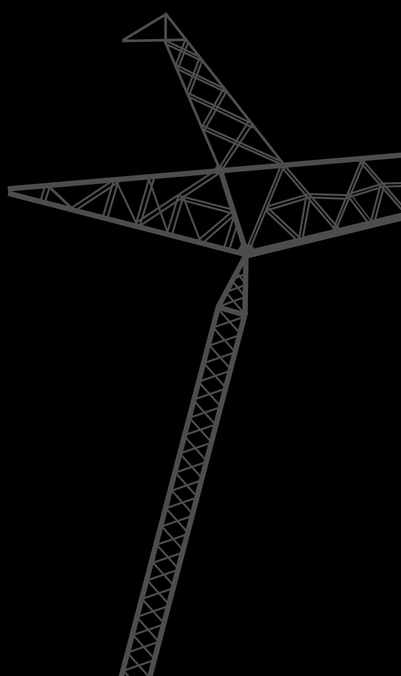


Annual report 2006



Annual report 2006

Message from the Chairman of DTEK's Supervisory Board

SCM has been investing in Ukraine's electric power industry – one of the national economy's strategic industries – since 2002. Five years ago, SCM acquired a controlling interest in the Group's first energy enterprise, which was the first step towards creating and developing a major line of business. We also made the strategic decision to make long-term investments in the electric supply industry; we later developed a concise development strategy for this business. Over the next three years, we worked constantly to create a vertically integrated chain of electric power generation and production, investing funds in developing our enterprises and acquiring the missing links.

In 2005 – a time when the business grew considerably – we took the next important step and united all of SCM's electric power enterprises into the independent company DTEK, which thus became the first and the only private, vertically integrated company in Ukraine. The decision to establish a captive company was based on our intention to increase the efficiency of management at SCM's energy enterprises, make full use of potential inter-branch synergies, create the conditions for these new enterprises to integrate, and provide our assets with access to innovative technologies.

DTEK's main strategic aim is to become the largest electric energy company in Ukraine.

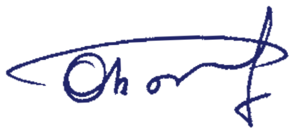
In 2006, DTEK's management expended vast amounts of effort in creating a sustainable foundation to achieve this aim, first, by developing and adopting a development strategy up to 2012, and second, by forming a team of professionals who helped to create the program and are now implementing it.

At the same time that DTEK was building a foundation for future growth, the company was also working efficiently to strengthen its positions in Ukraine's electric power and coal mining markets. The company has demonstrated positive dynamics for all key financial and production indicators.

In energy supply – and all of SCM's other fields of activity – our aim is to increase the value of our business. We are strongly convinced that this is only possible if we apply the world's best practices and standards while ensuring a transparent, intelligible business structure that is clear for investors, employees and customers alike. I am proud to say that Donbass Fuel-Energy company meets all of these requirements.

I believe that implementing DTEK's long-term development strategy will cause both SCM and the business communities of Ukraine and Eastern Europe to take pride in our company.

Oleg Popov
Chairman of DTEK's Supervisory Board



Message from DTEK's Chief Executive Officer

In many respects, 2006 was a crucial year for Donbass Fuel-Energy company. In February, we presented DTEK to the general public and announced our ambitious plans to establish ourselves as a leader in the fuel and energy market. The results of the previous year allowed us to prove that our ambitions were supported by our actions. We were able to make full use of the inter-branch synergy of our vertically integrated enterprises and to fulfill their production potential: we ramped up coal production (by 300,000 tons against 2005), and increased electric energy production (by 3.7 billion kWh) and distribution (by 304 million kWh). In 2006, DTEK's generating enterprises produced one-quarter of all thermal electric energy in Ukraine, and the company's mines produced one-fifth of all of Ukraine's procured coal. During the reported period the highest coal production level in the history of Ukraine's independence was reached at Pavlogradugol OJSC – 12,228,000 tons – and for the first time in the enterprise's history, Komsomolets Donbassa Mine produced over 3 million tons of coal product. Vostokenergo's volume of 16.3 TWh of electric power supply was the highest in the enterprise's history.
This substantial growth in production was reflected in the company's financial performance.

Sales revenue growth compared to the previous year amounted to 35.38%, reaching $999.76 million; EBITDA and net profit grew 55.66% and 86.3%, to $233.3 million and $97.6 million, respectively. The company's profitability was the highest in the industrial branches (thermal coal production, thermal generation and electric power distribution).

Obviously, such results are only possible given large investments in new highly productive equipment, IT, labour safety, and personnel training. Last year, we used investments in the amount of $106.371 million. We adopted and approved a mining program which includes the usage of roof bolting and frame bolting technology progressive for Ukraine. This technology will allow us to decrease the percentage of manual labor in the nearest future and will help us increase performance at Pavlogradugol to 52.9 tons per person per month, and at Komsomolets Donbassa to 63.4 per person per month. Investments aimed at modernizing our generating equipment have allowed us to increase the efficiency of our energy units to 31.5%, as well as to decrease the amount of unscheduled equipment downtime and reduce the specific consumption of fuel to 390 g/kWt /hour.

The key event of 2006 was the development and approval of DTEK's five-year development strategy. We managed to lay a foundation for our company's future, create a roadmap for our way to leadership in the electricity energy industry. Sustainability-based leadership, efficiency and growth are the key elements of the strategy that we announced in 2007. Last year we also completed DTEK's legal restructuring, which has enabled us to complete the holding's efficient, vertically integrated structure.

To be leader for DTEK means not just maintaining the top market positions but also developing business in compliance with international standards. DTEK strives to be a socially responsible employer, using modern methods for organizing work and investing in human resources. We have launched large-scale projects aimed at assessing and developing personnel, which will allow us to create an effective system of forming a personnel reserve and carry out proper career planning for every worker. This activity has increased the company's competitiveness and contributes to its status as one of the best employers in Ukraine.

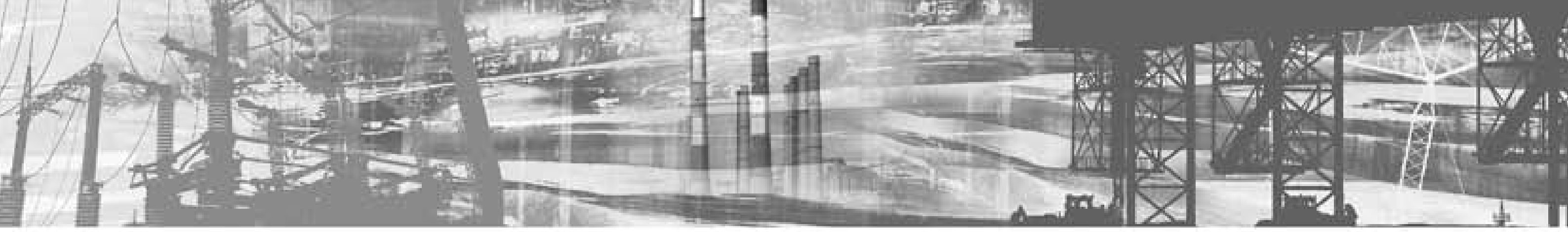
In late 2006, while implementing an energy-saving strategy and pursuing an environmental priorities policy, DTEK developed and approved a project to develop a new degassing system for Komsomolets Donbassa Mine. This project will allow us to have a positive effect on the environment, and reduce the miner's methane emissions, and, the most important, improve work safety for the miners.

In 2006, we continued our active and fruitful collaboration with World Bank consultants on the reformation of the wholesale electricity energy market. The main goals of this collaboration were to introduce reforms to the electric energy industry, switch to a brand-new model of electric energy markets, and to provide the necessary conditions for effective cooperation between the state and private businesses.

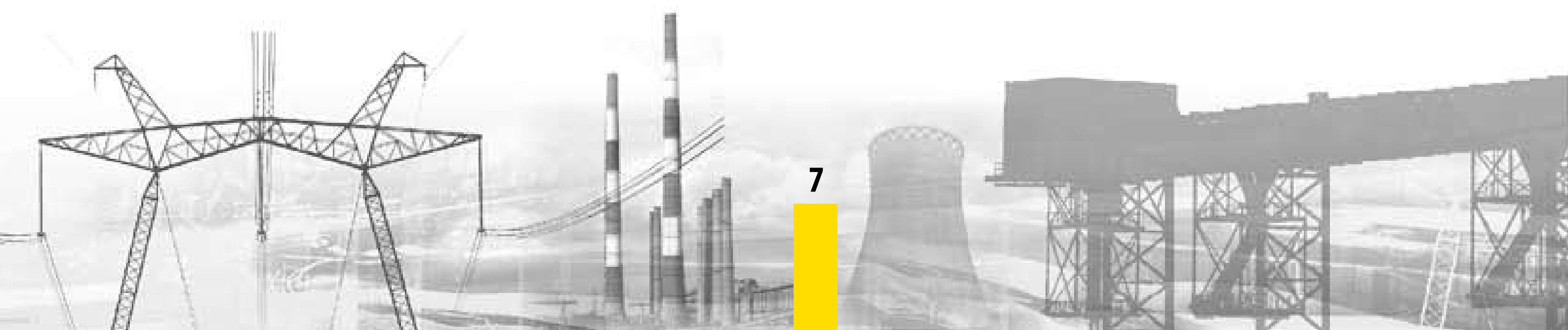
Naturally, these achievements are backed up by the well-coordinated work of a professional team at the managing company and at each of DTEK's incorporated enterprises. We have created a strong, competitive team of managers that have worked in the largest companies in this field and have vast international experience.

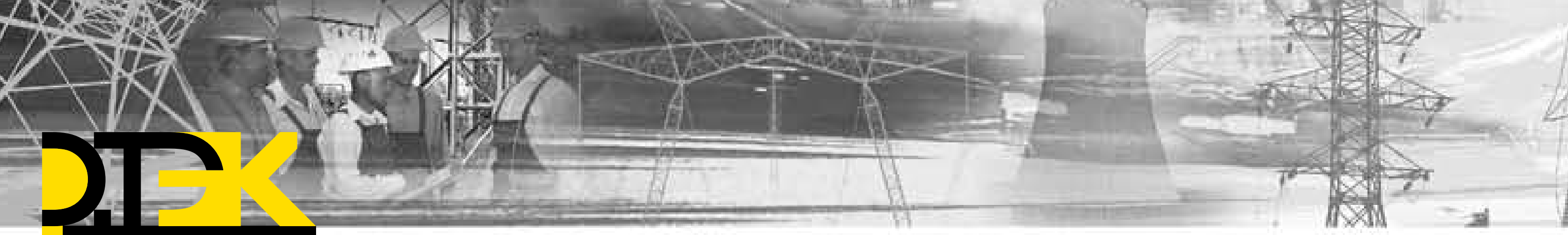
We believe that our business will equally compete with leading European energy companies in due course. DTEK's successful development will guarantee the energy security of this country. Our confidence is not just based on our ambitions but rather on our appraisal and deep analysis of both the current situation and the future of fuel and energy industries in Ukraine and other countries throughout the world.

Maxim Timchenko
DTEK's Chief Executive Officer



Contents





1. Key Results and Events in 2006

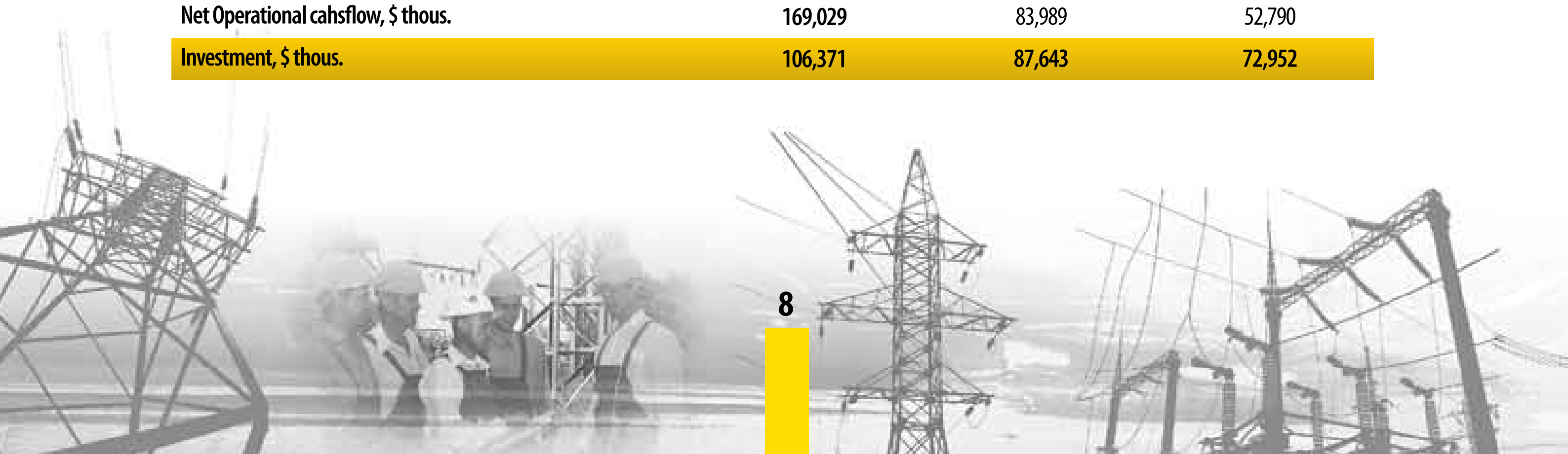
Production

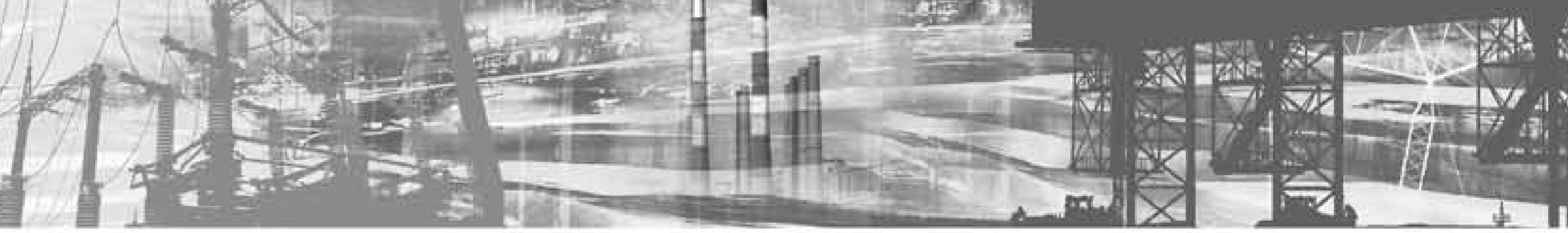
Item	2006	2005	2004
Coal production and enrichment			
Coal production, thous. tons	15,322.9	15,033.0	13,824.0
Mine workings, km	125.8	126.5	121.2
ROM coal enrichment, thous. tons	5,640.2	5,648.7	5,402.8*
Power generation			
Power supply, mln kWh	16,331.3	12,607.5	11,725.3
Installed Capacity Utilization Rate, %	50.8	39.9	36.3
Specific consumption of standard fuel, g/kWh	390	396	397
Power distribution			
Power transmission, mln kWh	10,621.4	10,317.3**	9,792.0**
Technological losses in networks, %	2.33	2.54	2.81

**Pavlogradskaya and Kurakhovskaya were leased out in 2004*
*** PES – Energougol and Service-Invest were acquired in 2006, information was provided for corporate purposes only.*

Financial performance

Item	2006	2005	2004
Net assets, $ thous.	1,025,891	472,889	329,705
Sales revenues. $ thous.	999,760	738,447	485,228
EBITDA, $ thous.	233,298	151,525	61,989
EBITDA profitability, %	23.34	20.52	12.78
Net profit, $ thous.	97,603	52,386	41,424
Net Profit efficiency, %	9.76	7.09	8.54
Net Operational cahsflow, $ thous.	169,029	83,989	52,790
Investment, $ thous.	106,371	87,643	72,952





DTEK Main Events – 2006

January

- Two processing plants, Pavlogradskaya Coal Enrichment Plant and Kurakhovskaya Coal Enrichment Plant, began functioning as independent economic entities.

February

- At a press conference in the Chamber of Commerce and Industry of Ukraine, the management of SCM and DTEK announced the creation of a company to manage SCM Group's energy assets.

March

- SCM made a contribution to the charter capital of DTEK Holdings Ltd. in the form of 25% of Service-Invest shares.

April

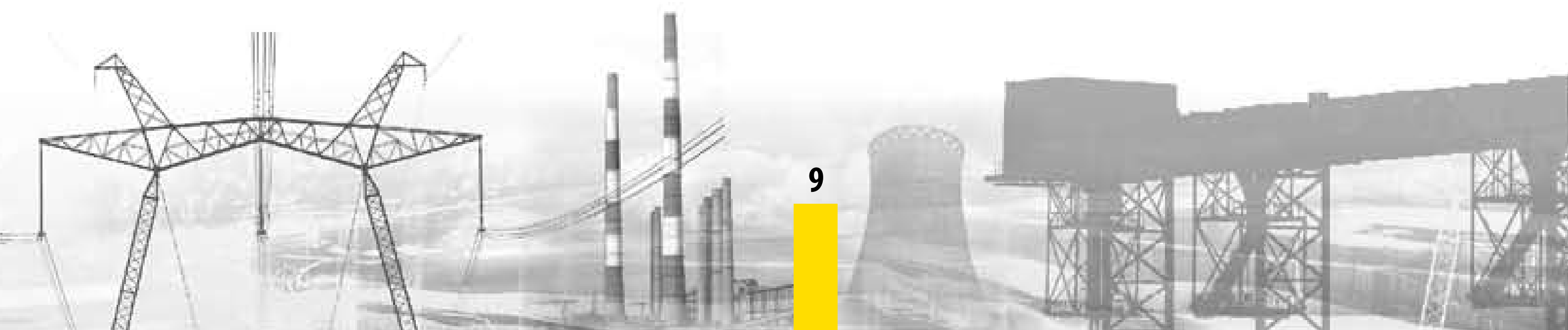
- As the result of a tender, PricewaterhouseCoopers was selected to audit IFRS financial statements.
- A joint workgroup including representatives from the administration of Pavlogradugol, trade unions and municipal authorities of Pavlograd, Ternovka and Pershotravensk was created to settle issues in the assigning of social assets to community property.
- A collective agreement was signed with Komsomolets Donbassa Mine.

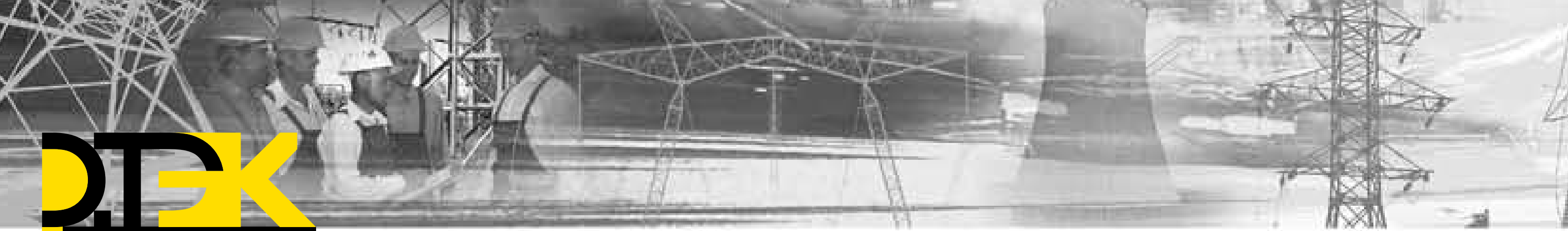
May

- There was a press tour at Zuevskaya thermal power plant (Vostokenergo) and Komsomolets Donbassa Mine, with participation from journalists representing leading business media in Ukraine.

June

- On June 8, Garry Levesley was appointed Chief Operating Officer.
- A decision was made to transfer all of Pavlogradugol's social assets to a separate balance of Sotsugol branch in order to optimize the management of social assets.
- Service-Invest announced the accreditation of its dispatch station and switched to an independent dispatch system for all networks. The dispatch station is equipped with a shared display interface made of 10 "video cubes" manufactured by the Belgian company Barco, a world leader in high-capacity information display systems.
- Representatives of SCM Group and DTEK recognized the 10 best students in the Master of Economics program





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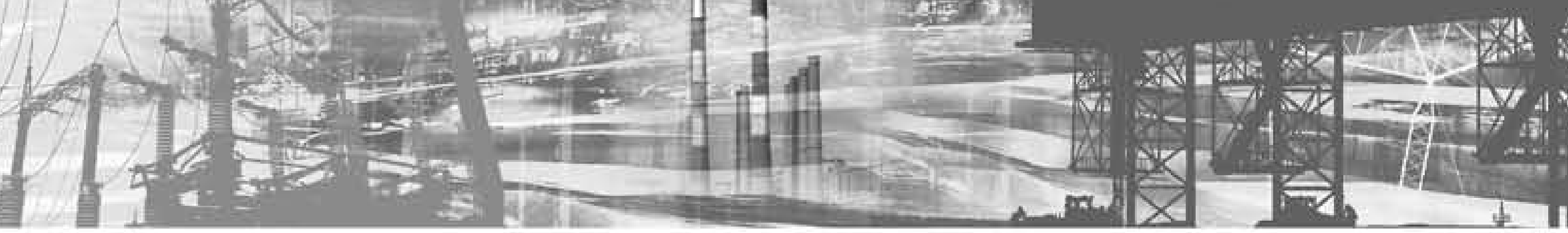

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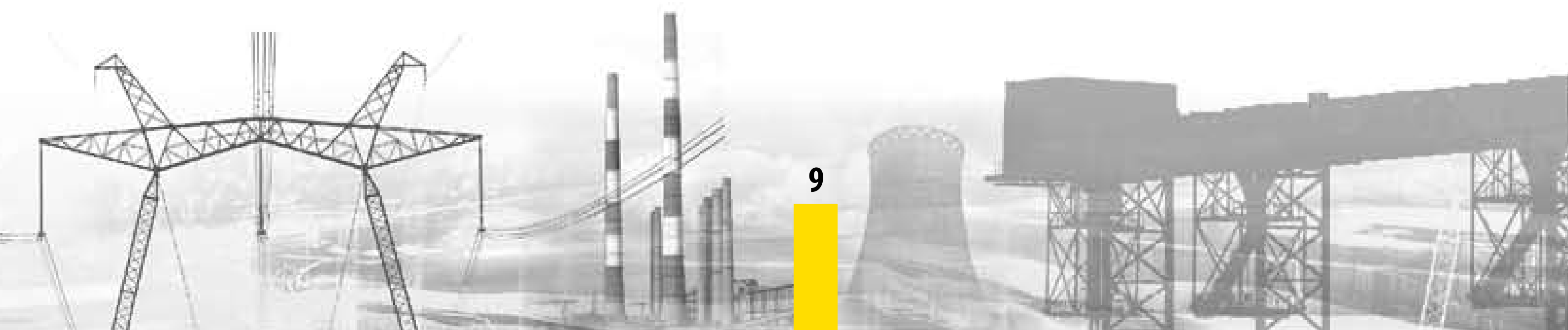
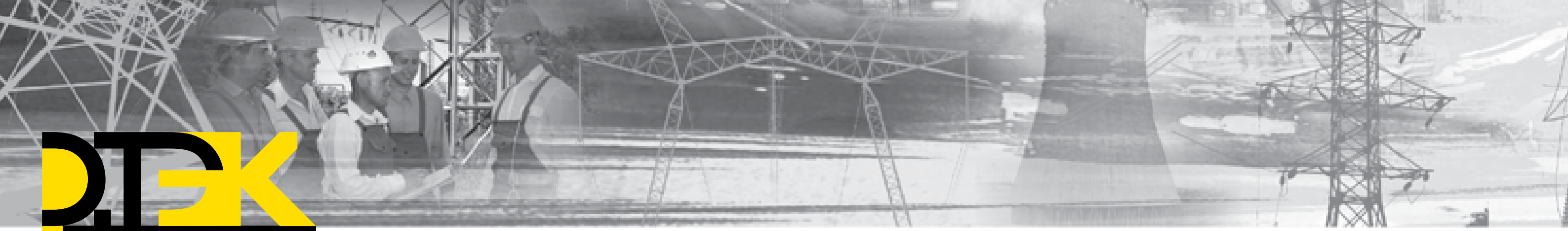




Company Information

Company Description

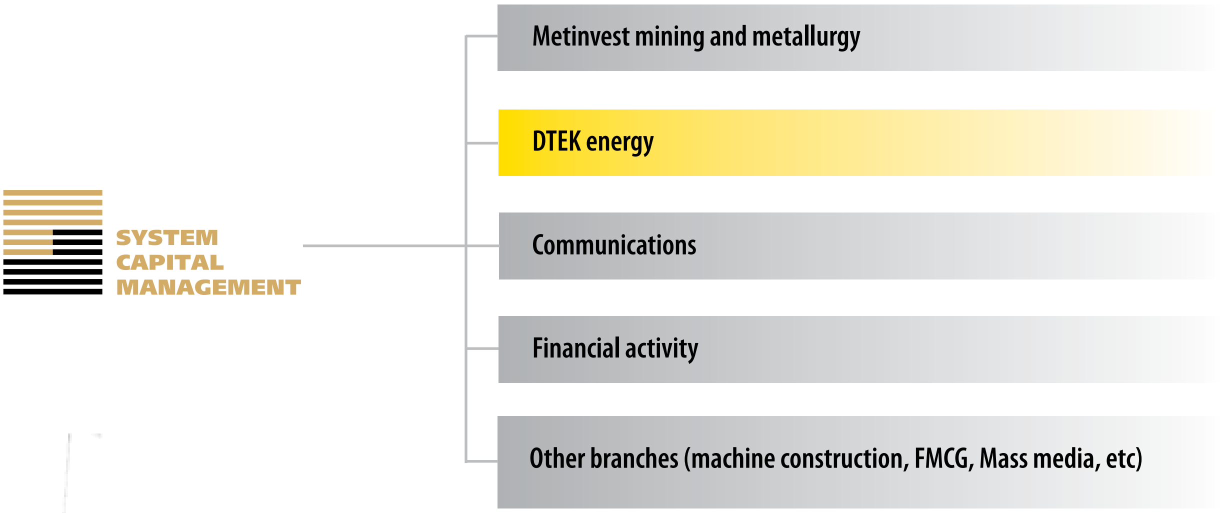
Donbass Fuel-Energy Company (DTEK) is an integration of the energy assets of SCM Group (System Capital Management) and is the only private Ukrainian company whose enterprises form an efficient production chain, from coal production (Pavlogradugol OJSC and Komsomolets Donbassa Mine OJSC) to electric power generation (Vostokenergo Ltd.) and distribution (Service-Invest Ltd. and PES-Energougol OJSC).

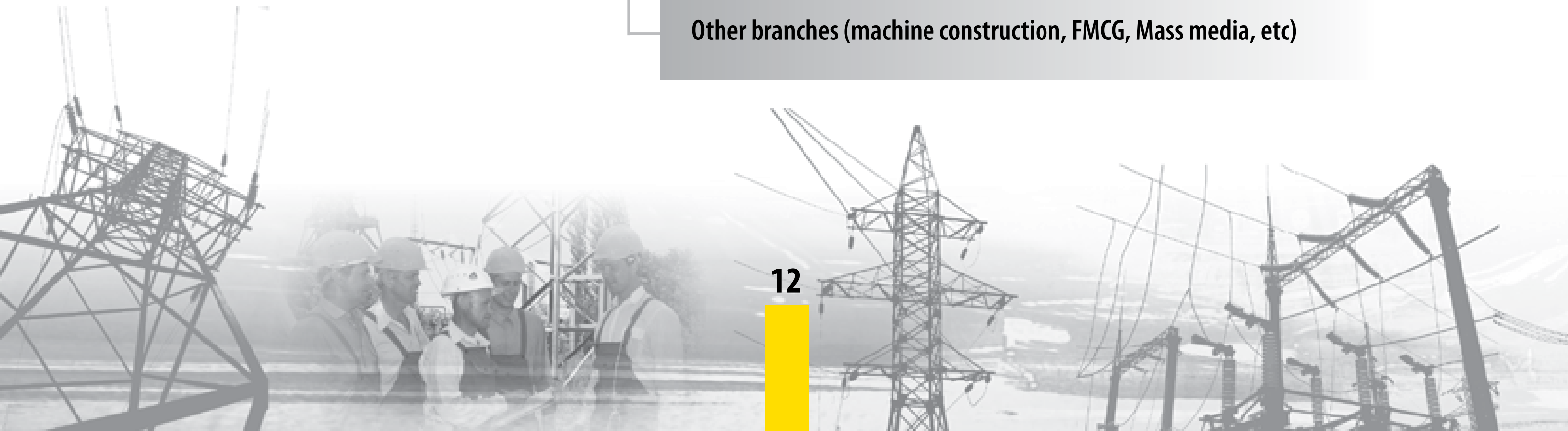
DTEK is the leader in the Ukrainian fuel-energy market, thanks to the mutually beneficial co-operation between coal mining enterprises and generating companies, the introduction of advanced technologies, professional management and a balanced social policy .

In 2006, DTEK's coal mining division took a 25.5% share in all thermal coal mining activity in Ukraine, while the power-generating division took a 25.7% market share of electric power produced in Ukraine's thermal power plants. In the reporting period, DTEK's share of power delivery activity made up 5% of all power delivered to consumers in Ukraine.

The company's major strategic initiatives for the next five years foresee further optimization of production, an increase in the effectiveness of corporate governance, and DTEK's participation in the reform of the coal and electric power markets.

DTEK's role within the SCM Group





Our Mission, Vision, Values

Our Mission

We work for the sake of progress and the prosperity of society. Our energy brings light and warmth to people.

Vision

We are a dynamically developing Ukrainian company, which pursues leadership in the European energy market. Our success and uniqueness are based upon the professionalism of our people and application of advanced technologies.

Values

- ***Professionalism***

Our employees possess professional expertise, responsibility and diligence in the fulfilment of their duties, and accomplish assigned tasks in a timely and quality manner. We strive to achieve the best results with optimal use of human, natural and financial resources.

- ***Responsibility***

We build our activity on the belief that all our efforts shall serve public interests. We are responsible for work quality and adherence to corporate standards, performance of our obligations, prudent use of resources and environmental safety. We bear responsibility for those who make our company successful – our employees.

- ***Pursuit of Excellence***

We create conditions to develop the talents and skills of our staff, introduce the most advanced technologies, and improve production and management processes. Building up our business, we inspire our employees and contribute to the successful development of Ukraine.

- ***Unity***

We appreciate team spirit, unity and solidarity. Only as a team, we can achieve great results. We enjoy both working and having a rest together. Diverse expertise and knowledge of each person creates common potential for the company's development. All company employees are united by the idea and goal we equally pursue, understanding and supporting each other.

- ***Openness***

We openly inform our employees, partners, shareholders and other external parties concerning important issues of our company's development, laying the foundation for trust-based cooperation. We conduct our business based on principles set out clearly for our employees and partners.

Management

Maxim TIMCHENKO

Mr. Timchenko graduated with honors from Donetsk State Academy of Management in 1997, qualified in "Management in Production Sphere". He continued his education at the University of Manchester, graduated from it with honors and is a Bachelor of Arts in Economics and Social Studies. Maxim Timchenko is a member of the Association of Chartered Certified Accountants.

He started his career as a consultant in "Pricewaterhouse Coopers" (1998-2002), where he rose to the position of the senior auditor.

In 2002-2005 he worked as a senior manager of System Capital Management.

Since July 2005 Mr. Timchenko has been the Chief Executive Officer and Member of the Board of Directors of DTEK.

Garry LEVESLEY

Mr. Levesley has a BSc in Engineering (The Open University) and is a certified Chief Engineer (Marine)

Starting with Shell Tankers (UK) Ltd. in 1976, he rose from an engineering officer to the rank of Chief Engineer.

After that Mr. Levesley was a Utilities Manager at Hickson International chemical complex (Yorkshire, Great Britain).

From 1994 till 2006 Garry Levesley held various top managerial positions at AES Corporation in Hungary, Kazakhstan, Russia, Georgia and United Kingdom, in 2000 he was made a Vice President of the Corporation.

In 2003 Mr. Levesley was appointed the Chief Executive Officer of AES Ukraine (Kiev).

In May 2006 he joined DTEK as COO of the Company.

Evgeny ROMASCHIN

Mr. Romaschin received higher education at Tula State University (TGU), qualified in 'Business Economics and Management'.

He completed the post-graduate course at TGU, qualified in 'National Economy Management', defended his dissertation entitled 'Business Costs and Performance Results Management'.

In 2000 Evgeniy Romaschin participated in the Presidential Programme of Managers Education, courses 'Management' and 'Financial Management'.

From 1995 Mr. Romaschin worked as Economist of the Planning Economy Unit of 'Stroymaterialy Tulachermet' OJCS.

In 1999 he headed the Expenditures Accounting Unit of 'Stroymaterialy Tulachermet' OJSC.

From September 2000 Evgeniy Romaschin worked in 'Severstal' Company. In April 2001 he was appointed Economy and Finances Director of 'Karelsky Okatysh' OJSC.

From August 2005 Mr. Romaschin was the Director of Finance in DTEK.

Guerman AINBINDER

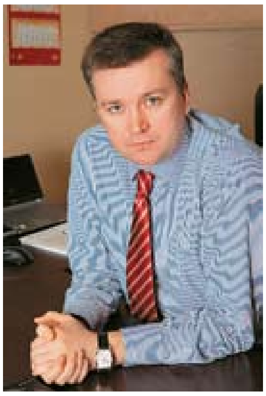
In 1991, Mr. Ainbinder graduated from Moscow Technological University (Stankin). In 1993, after completing the School of Business and Economics at the Academy of National Economy under the Government of the Russian Federation and California State University (Hayward), he was awarded the degree of Master of Business Administration (MBA).
From September 1993 to January 1995, Ainbinder took various positions in the School of Business and Economics at the Academy of National Economy. In 1995, he transferred to the management consulting group at Deloitte and Touche CIS. In February 1997, he began working at the Russian division of the pharmaceutical company Merk Sharp & Dohme Idea, where he was in charge of business development. In 1999, he transferred to KPMG's Strategy and Organizational Planning Group, where he advanced from junior manager to senior manager.
Since August 2005, he has been the head of corporate development at DTEK.

Sergey Kordashenko

Mr. Kordashenko graduated from Moscow Aviation Institute in 1994, qualified in 'Applied Mathematics'.
In 2005 he received the degree of International Executive MBA at Stockholm School of Economics.
Mr. Kordashenko started his working activities in 1993 in Ernst & Young Company.
His HR career was continued in Procter & Gamble company. After that Sergey Kordashenko was appointed to the position of Deputy General Director on HR of 'Vesso-Link' Company (Russia, telecommunications).
From January 1997 till April 1999 he worked as HR Manager of AGA Industrial and Medical Gases (Sweden).
After that Sergey Kordashenko took up the post of HR Manager of 'Pivovarnya Moskva-Efes' company.
Since August 2005 Mr. Kordashenko has been in charge of the HR and Corporate Communications Directorate of DTEK.

Vitaly Butenko

Mr. Butenko graduated with honors with a degree in foreign languages from the University of Chernovtsy (Ukraine) in 1993. He received an MBA from the Asper School of Business, University of Manitoba (Canada), in 1996. During this time, he also worked as an associate at the European Bank for Reconstruction and Development in London (1995).
From 1996 to 2004, he worked in some of the leading investment banks in the USA, Canada and the CIS, including Bank of Nova Scotia (Toronto), Credit Suisse First Boston (New York), and IB TRUST (Kyiv / Moscow).
From January 2005, Mr. Butenko worked as Chief Investment Officer of Inter RAO UES (Moscow), where he was responsible for the development and implementation of the company's M&A and investment strategy, which focused on the CIS, Central and Eastern Europe, Turkey, Central Asia, the Middle East and China.
In April 2007, Mr. Butenko was named Director of Strategic Development at DTEK.



Main Enterprises

Donbass Fuel-Energy Company (DTEK) is a vertical integration of enterprises that form an efficient production chain, from coal production to electric power generation and distribution.

The company's main enterprises are Pavlogradugol OJSC and Komsomolets Donbassa Mine OJSC, both of which are coal-producing companies. DTEK's coal enterprises are responsible for every fifth ton of coal produced in Ukraine, including 25.5% of thermal coal.

The three coal enrichment plants incorporated in DTEK; they are Mospinskoye CEP Ltd.,* Kurakhovskaya CEP Ltd. and Pavlogradskaya CEP Ltd., processing about 9 mln tons of coal annually.

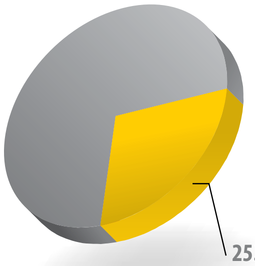
Vostokenergo – which comprises Zuevskaya, Kurakhovskaya, and Luganskaya thermal power plants – is another key component in the vertically integrated structure of DTEK and one of the most effective power generation companies in Ukraine. DTEK's share in the total volume of electric power generation is 25.7%.

This electric power is delivered to consumers by PES-Energougol and Service-Invest.

Over 50,000 people work at DTEK's enterprises in regions Donetsk, Dnepropetrovsk and Lugansk .

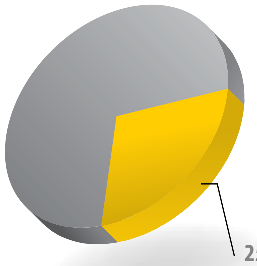
PRODUCTION

Thermal coal production in Ukraine – 50 mln. ton



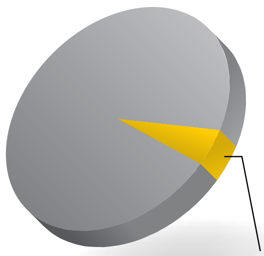
GENERATION

Electric power generation by TPPs in Ukraine – 70 bln kWh



DISTRIBUTION

Elecrtic power supply in Ukraine – 143 bln kWh



**Mospinskoye CEP was acquired in 2007, information was provided for corporate purposes only.*

Coal production assets

DTEK's coal production unit is represented by Pavlogradugol OJSC (which consist of 10 mines in Western Donbass) and Komsomolets Donbassa Mine OJSC.
In 2006, coal mining at DTEK enterprises increased by 1.9% compared with 2005, amounting to 15,323,000 tons. The priority of DTEK Group's coal mining sector is to secure an uninterrupted supply of coal to its power generating units.

Pavlogradugol OJSC
Pavlogradugol Trust was founded in January 1965 to operate two mines in Western Donbass: Pershotravnevaya and Ternovskaya. Later, the trust was reorganized into a Production Association, incorporating 11 mines that had been constructed in the region over 20 years. In June 2004, Avdeevskiy Coke-Processing Works OJSC acquired ownership of Pavlogradugol Holding Company's assets. In 2005, Pavlogradugol was incorporated into Donbass Fuel and Energy Company. Today, Pavlogradugol is one of the largest coal producing enterprises in Ukraine, incorporating 10 mines and other divisions. Over 30,000 people are employed by the enterprise. The Association's share in all coal mining activity in Ukraine in 2006 was 15.2%. Pavlogradugol's coal products are mostly supplied to thermal power stations and coke-chemical plants.
In 2006, 40 fully mechanized longwall faces were prepared and put into operation, which was over 50% of the total number of longwall faces introduced in Ukraine.

Komsomolets Donbassa Mine
Komsomolets Donbassa Mine was founded in 1980. In 1992, it became the first independent mine in Ukraine subordinated directly to the State Coal Committee. As an experiment, the entity was reformed into an open joint-stock company in July 1996. In 2001, for the first time in the history of the Ukrainian coal industry, a control stake representing 61.25% of the charter capital was offered for open competitive bidding. Avdeevskiy Coke-Processing Works OJSC became Komsomolets Donbassa's first owner. In 2005, the mine was incorporated into DTEK.
Komsomolets Donbassa Mine is the biggest producer of thermal coal in Ukraine. In 2006, its rock winding machine was replaced and it became one of the top three coal-producing mines in the country for the year.
The mine is equipped with its own processing plant. This ensures a decreased ash content in the ready-for-sale product. L-grade (lean) coal is a thermal coal with a high-quality chemical composition. Its calorific properties are close to those of anthracites. Procured T-grade (meager) coal is a thermal type of coal with a high-quality chemical composition. Its heat conducting ability is very close to that of anthracites. Most of the coal is supplied to DTEK's power generating company, Vostokenergo.
In 2006, DTEK deposited over $10.1 million into investment programs at Komsomolets Donbassa Mine.

Coal enrichment plants

The three coal enrichment plants incorporated into DTEK deal with coal processing; they are Mospinskoye CEP Ltd.*, Kurakhovskaya CEP Ltd. and Pavlogradskaya CEP Ltd.
In 2006, a total of 9.6 million tons of coal was processed by the incorporated coal enrichment plants, which included 5,640,200 tons of run-of-mine coal and 4,071,600 tons of concentrate.

Pavlogradskaya Coal Enrichment Plant

Pavlogradskaya Coal Enrichment Plant, which began production in 1974, has a planned production capacity of 5.2 million tons of coal per year. The Plant was designed to process the coal from Pavlogradugol Production Association mines in coal beds in Western Donbass. It engages in the enrichment of LG- and G-grade (long-flame gas and gas) rough coal. The Pavlogradskaya plant was incorporated into DTEK in 2005. Currently, the plant is completely automating the technological process and improvements to equipment and new construction are ongoing. The plant's development plan foresees an improvement in its tailings pond, the installation of a supplementary facility for processing slurry and some other activities aimed at the plant's further development.
In 2006, the plant processed over 2.85 million tons of coal, resulting in 2.1 million tons of concentrate.

Mospinskoye Coal Enrichment Plant Ltd.

Mospinskaya Briquette-Processing Plant was built in 1934. In 1975, Mospinskaya CEP's briquetting line was closed down. The plant switched over to enriching high-ash T-grade (meager) coal to produce quality fuel for thermal power plants. In March 2007, Mospinskoye CEP was incorporated into DTEK.
The plant processes rough LG- and G-grade (long-flame gas and gas) coal and anthracites. It has an annual production capacity of 2 million tons of ROM coal.
The plant uses the wet processing production method. Due to the slaking of rock and high ash content in the fine slurry of LG- and G-grade coal from Pavlogradugol mines – and in order to save electric power – the plant mastered a process of dewatering the fine slurry using high-frequency screens. The plant also enriches ROM T-grade (meager) coals to produce concentrate for powdered coal combustion at thermal power plants. Mospinskoye CEP uses the newest thermal-coal enrichment technologies. In 2006, almost 1.3 million tons of coal were processed, resulting in nearly 890,000 tons of concentrate.

Kurakhovskaya Coal Enrichment Plant Ltd.

Kurakhovskaya Coal Enrichment Plant was built according to a design by a French PIK company and Dneprogiproshaht Institute. The plant was put into operation in September 1963 and incorporated into DTEK in 2005.
The plant enriches ROM LG- and G-grade (long-flame gas and gas) coal to produce concentrate which shipped to thermal power plants. The plant uses the wet cleaning method.
In 2006, the plant processed over 1.5 million tons of ROM coal, with the year's production of concentrate coming in just under 1.1million tons. Full reconstruction of the plant is planned in future aiming at a considerable increase in the volume and quality of coal processing.

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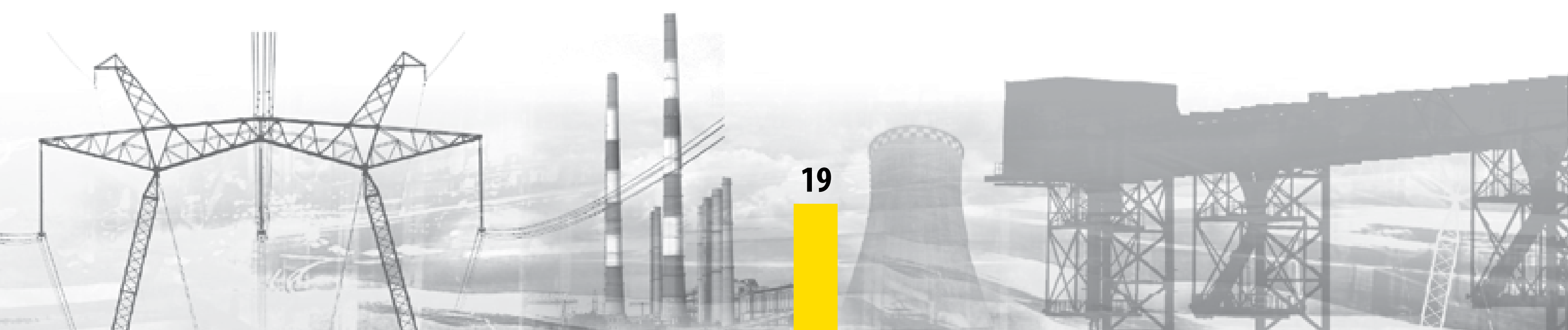
* Mospinskoye CEP was acquired in 2007, information was provided for corporate purposes only.



Power generation assets

Vostokenergo Company

The power generation line of DTEK Group is represented by Vostokenergo company which operates three thermal power plants - Zuevskaya, Kurakhovskaya (the Donetsk region) and Luganskaya (the Lugansk region) owned by Tekhrempostavka LLC. At the end of 2006, the company had a 25.7% share in the total production of thermal electric power in Ukraine.

Vostokenergo was officially registered on December 17, 2001. It is the first and the only private power generation company in Ukraine. In March 2002, Vostokenergo was licensed by the NERC (National Electricity Regulatory Commission) to perform entrepreneurial activities in electric power generation. In 2005, the power generation company was incorporated into DTEK.

Vostokenergo's thermal power plants run on thermal coal, mined by DTEK enterprises: Pavlogradugol OJSC and Komsomolets Donbassa Mine.

Within five years of operation, over $139 million was invested in maintenance, replacement of equipment, capital construction, and maintenance of buildings and structures. In 2001, Vostokenergo's power plants still owned by the state institution Donbassenegro consumed 436.4 million cubic meters of natural gas. By 2006, thanks to proper management, the consumption of natural gas had decreased to 57.8 million cubic meters; Vostokenergo also had the lowest cost of electric power production, and the company is taking steps to further decrease this indicator. Following an energy-saving strategy and its policy of environmental priorities, the company has managed to reduce atmospheric emissions by over 20%.

The company intends to achieve a level of 16 TWh of electric power delivery per year while keeping its operating capability at 3,900 megawatts.

Zuevskaya TPP

Zuevskaya state district power plant was put into operation in 1932. By 1977, ZSDPP had completed its production lifetime. In March 1982, power generating unit No. 1 began operating in Zuevskaya SDPP-2. In 1986 and 1988, two more units were put into operation.

In 2002, Zuevskaya thermal power plant joined Vostokenergo. The overall estimated capacity of power generating units at the beginning of 2007 was 1,200 MW.

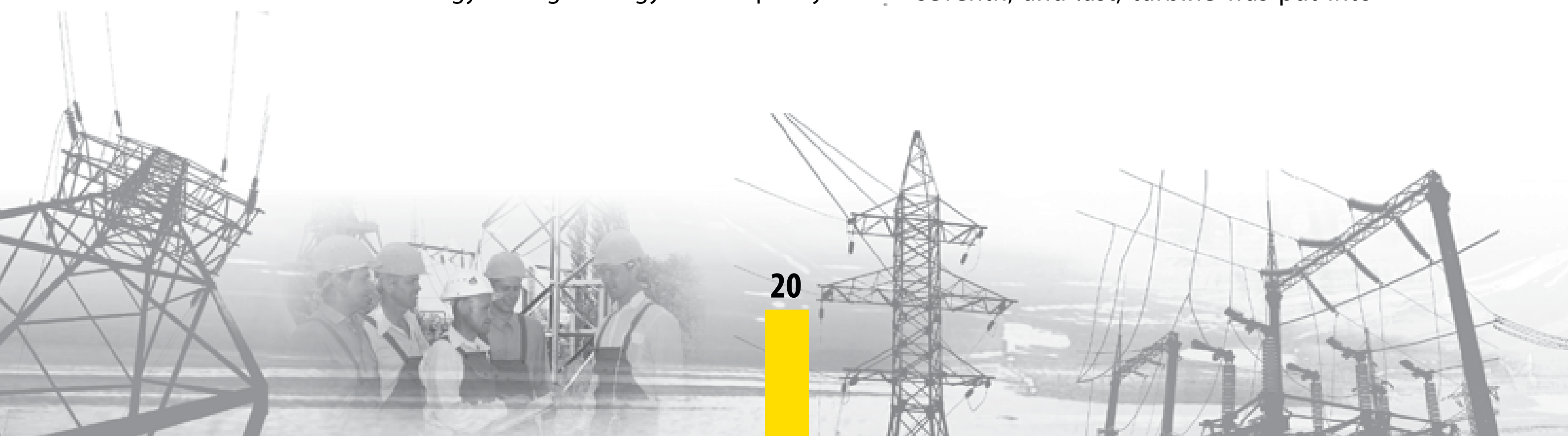
Kurakhovskaya TPP

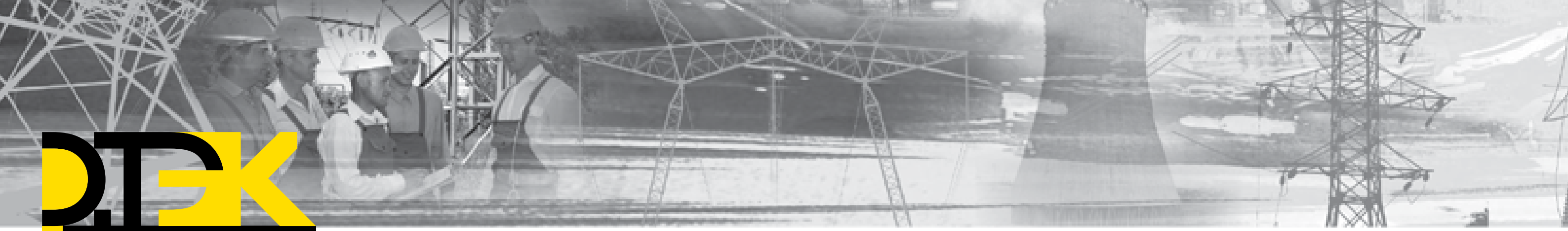
Kurakhovskaya SDPP's first turbogenerator with a capacity of 50,000 kWh began generating power in 1941. The station was demolished during World War II, but was put back into operation in 1946. Kurakhovskaya SDPP was included in Donbassenergo system's general grid.

In 2002, Kurakhovskaya thermal power plant was incorporated into Vostokenergo. After withdrawing all outdated equipment from the power plant's initial setup, the plant's capacity was increased to 1,460 MW.

Luganskaya TPP

Two of Voroshilovgradskaya SDPP's turbogenerators began operating in September 1956. In 1957, four turbines and seven boilers were assembled. The seventh, and last, turbine was put into





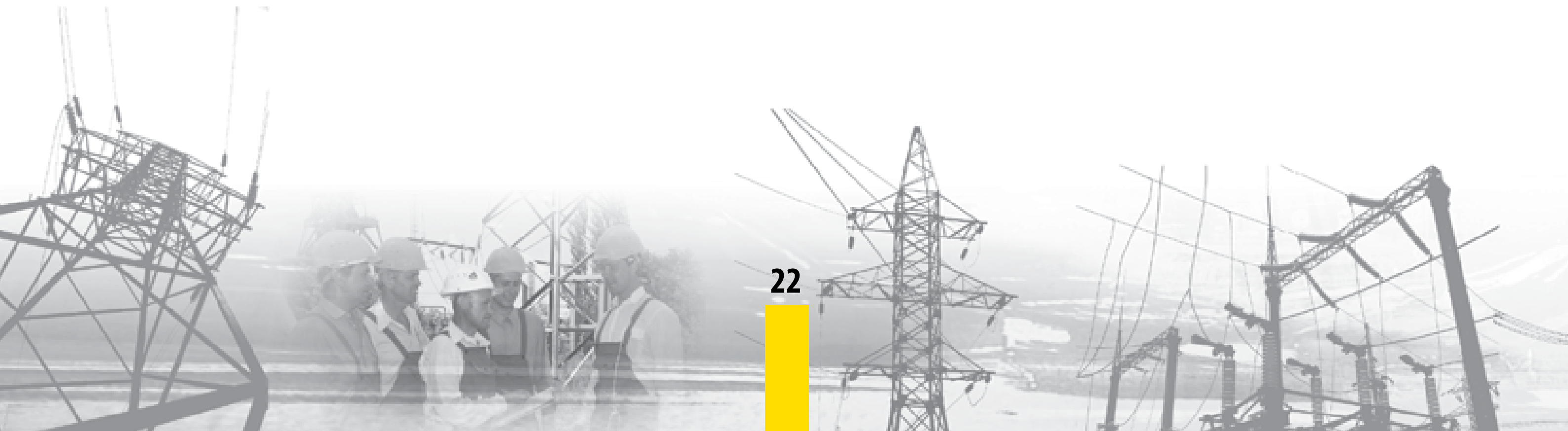
operation in December 1958, thus finalizing the first stage of construction of Voroshilovskaya SDPP, which was the largest thermal power plant in the Soviet Union at the time.
In 2002, Luganskaya thermal power plant became a part of Vostokenergo. The plant has an estimated production capacity of 1,400 MW.

Power supply assets

Within DTEK, two companies deal with the transmission of power to consumers; they are Service-Invest and PES-Energougol OJSC. In 2006, these companies had a 5% share of sales in the wholesale power market. DTEK's power lines total more than 3,000 kilometers in length. Service-Invest is the seventh-largest domestic power supplier, holding about 30% of the power supply in the Donetsk region. Both Service-Invest and Energougol supply electric power to metallurgical, coal, machine-building and other large plants in Donbass. In 2006, 10.621 million kWh of power was supplied, which is 3,723 million kWh more than in 2005.

Service-Invest
Service-Invest power supply company was founded in 2000. In 2001, it began its licensed power transmission activity, and in 2002 it began supplying electric power to consumers in the Donetsk region. On its licensing date, Service-Invest owned 15 power substations and 16 transformer facilities, as well as overhead and cable power lines in the Donetsk and Dnepropetrovsk regions. In 2001, Service-Invest expanded its network by acquiring new power facilities. In 2006, Service-Invest, one of the leading power distribution companies in Ukraine, was incorporated into DTEK. Currently, several Donbass power-consuming industrial enterprises, such as Donetsk Metallurgical Plant, MK Azovstal, Ilyich MMK, Enakievsk Metallurgical Plant, Avdeevsky KHZ, Concern Stirol, and a number of others are the consumers of Service-Invest. The total power transmitted through the enterprise's network in 2006 amounted to 9.511 TWh.

PES-Energougol OJSC
PES-Energougol OJSC was founded in 1989. Its initial task was to supply power to mines, other coal production enterprises and miners' settlements.
In 2006, DTEK became the owner of Energougol.
Energougol purchases power in the wholesale market in Ukraine and then supplies and transmits it through local power network. The enterprise's main function is to provide uninterrupted power supply to coal production plants, as well as to enterprises in the machine-building, light and food industries, budget organizations and the general population. The enterprise has its own preproduction line, an area for assembling and adjusting mine equipment, a metrological laboratory, a large fleet of special vehicles and other assets. Energougol services 76 distribution substations, 288 transformer substations, 489.9 kilometers of overhead power lines and



620.4 kilometers of ground cable power lines. When improving and constructing power lines, the enterprise replaces outdated steel-aluminum power cables with self-bearing insulated cables and uses modern cable fittings. In 2006, the Energougol power network transmitted 1,110 million kWh of power.

Human Resources and Social Policy

The company's ambitious development strategy places strategic importance on attracting and holding professional employees, and also focuses on their training and development.

The priorities of DTEK's personnel policy are to create a united professional team, to create and maintain conditions to ensure the effective use and development of personnel capacities and to ensure continuous improvement of the knowledge and skills required to fulfill the company's current and future goals.

DTEK has an honest, open and fair policy toward its employees. This policy is based on the following principles:

- compliance with current labor laws and human rights;
- providing worthy and competitive remuneration to employees based on their contribution, professionalism, and the complexity of their duties and responsibilities;
- developing managerial capacity and ensuring highly professional and stable management in the company;
- investing in employees' education and training in order to help them realize their full potential and improve their contribution to achieving the company's results;
- providing employees with social assistance, the size and format of which depends on the effectiveness of the company's business.

Special departments have been created throughout DTEK's enterprises in order to implement unified corporate policies in the management of personnel. The management company develops methodology and corporate standards for personnel management.

In 2006, the HR and Corporate Communications Department developed a performance management system that provides for an individual approach to employee's motivation depending on each employee's contribution to the improvement of the company's key performance indicators. DTEK gives its employees an opportunity to effectively develop and grow to become managers of any level. The most outstanding employees are selected from each enterprise and the management company in order to create a professional reserve.

The professional-reserve management system consists of three key steps: The first step is to complete a full annual appraisal of personnel based on employee competencies and results. The appraisal of results includes an analysis of key performance indicators (which are prepared for each employee individually and are based on the company's overall strategy) as well as subtasks developed for each particular business period or for a year. For the second step, employees who achieved the best results during the year pass through the Development Center, which assesses their actual competence level and their capacities. The consolidated results of the full appraisals and the Development Center help make decisions when filling the professional reserve. These results are also taken into consideration when making

individual development plans for each employee. Therefore, each company employee has the opportunity to develop his/her professional skills and to build his/her career.

The company's enterprises have close connections with specialized educational institutions: For instance, Pavlogradugol OJSC has a long-standing tradition of collaborating with the National Mining University in Dnepropetrovsk. Pavlogradugol's management organizes meetings with the university's students to tell them about the enterprise's work. The students, on their side, have internships at the open joint-stock company. In addition, Pavlogradugol pays the tuition for promising young workers of the company as well as the children of employees to study at NMU.

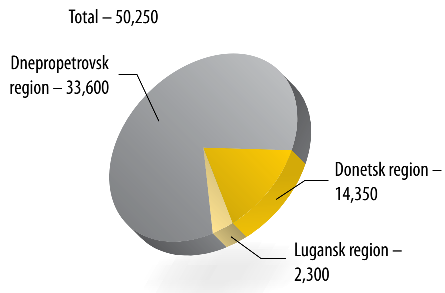
The company strives to provide its employees with the best and most comfortable conditions for work and recreation. Socis and Sotsugol, a branch of Pavlogradugol, were specially created to manage social assets in an efficient manner. Transfer of social assets to these companies in 2006, allowed us to optimize the system of core operations management by relieving the enterprises' management from resolving issues not related to their main duties.

By the end of 2006, Socis had incorporated 34 facilities, including holiday centres, recreational camps, sport complexes and cultural clubs. In 2006, Socis's recreational camps served over 1,300 people, and 1,225 employees received medical treatment in its holiday centres.

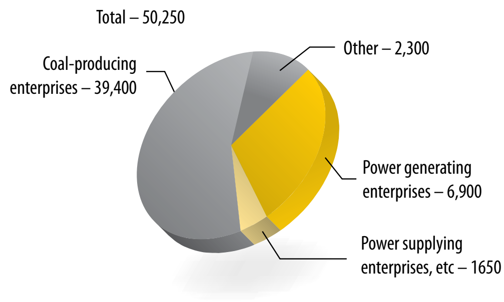
In June 2006, the Ukrainian National Swimming Championship was held in the open swimming pool at the Olimpiysky Sports Complex (also a part of Socis), which is the best swimming pool in Ukraine. Olympic champions Yana Klochkova, Oleg Lisogor, and Andrei Serdinov took part in the competition.

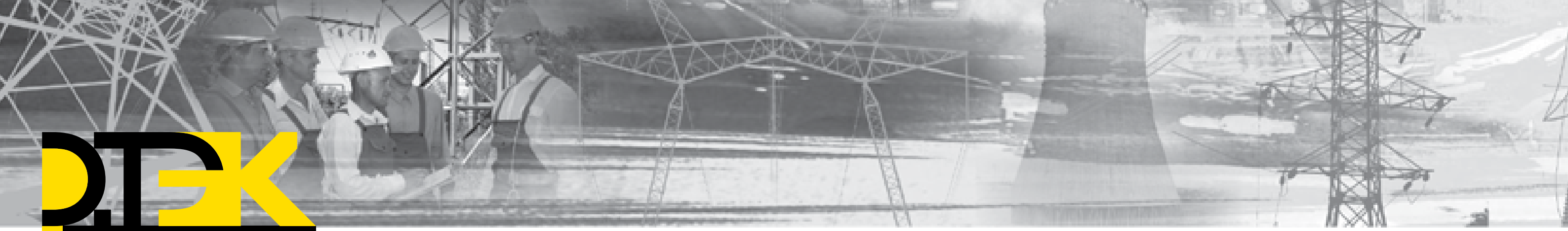
Sotsugol (a branch of Pavlogradugol) was created in 2006, and currently comprises a number of public facilities located in the regions of Western Donbass, Zaporozhye and Herson, as well as in the

Employees Distribution according to the location of DTEK enterprises, people



Employees Distribution according to the activities of DTEK enterprises, people





Crimean Autonomous Republic. Sotsugol comprises a hotel, catering facilities, dormitories, recreational camps, children's health camps, sports facilities, a culture club, a young engineers club, and holiday centre. In 2006, Sotsugol's 11 recreational camps accommodated 8,500 miners and their families, and 2,652 miners' children spent their summer vacation in its five health camps.

Merging of companies from different branches into a single company has set for DTEK's management the task of forming a corporate identity among its employees. A number of actions have been taken to develop internal communications within DTEK, and to achieve this goal.

In summer 2006, the company conducted an art contest for young artists and writers whose parents are working for the company. The topic of the contest was "My home town and I," with categories for the best drawing and the best essay. Children aged 7 to 15 were eligible to participate. Judges reviewed 340 works from cities in the regions of Dnepropetrovsk, Donetsk, and Lugansk, and selected 16 contest winners, who were awarded with prizes and a three-day trip to Kiev.

Sport unites people of all ages and occupations. In 2006, the company founded a new tradition: an annual sports and athletics competition, where each team represented a DTEK's enterprise. Football was selected for the first competition, and there are plans to extend the list of sports considerably in the future.

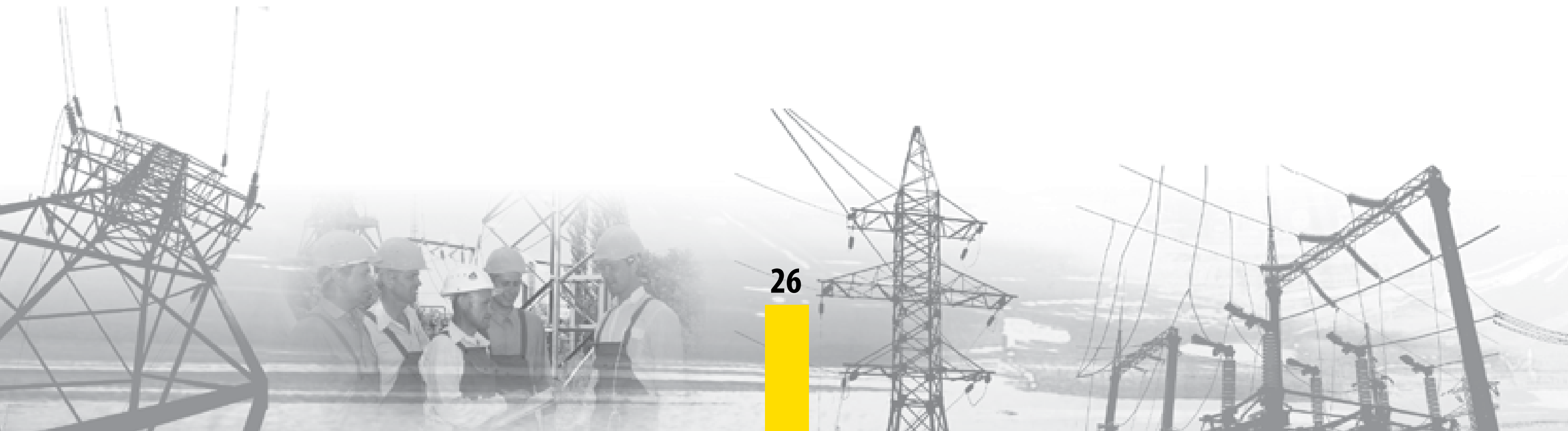
Komsomolets Donbassa Mine provides both financial and technical support for the Anthracite sports club (football and motoball teams). It helps organize the teams' trips to regional championships and the European League, and finances the maintenance, spares, and fuel for motorcycles, as well as uniforms and accessories for the players.

Many DTEK enterprises are city-forming structures, that is why systematic cooperation with the local authorities and communities is very important for the company.

DTEK maintains relationships with municipal authorities in cities where the company's enterprises are located, and deeply cares about improving living conditions in the cities where company's employees work. In addition to regular tax deductions for the local budgets, additional assistance is provided to improve cities and organize holiday celebrations.

In the cities where enterprise divisions are located, Pavlogradugol OJSC, Komsomolets Donbassa Mine and Vostokenergo assist institutions in carrying out maintenance works, supplying fuel for heating schools, kindergartens, and city hospitals and preparing the city's housing for the winter.

Both the Management Company and the enterprises provide material assistance to amateur art groups, finance updates to book collections in city libraries, and organize citywide cultural events, such as Victory Day, Miner's Day, Energy Worker's Day, and City Day. Over UAH 6 million has been invested in social activities in the cities of DTEK's presence.



Development Strategy

In 2006, the Supervisory Board approved a business development strategy for the company up to 2012. This document outlines DTEK's strategic goals in coal mining, power generation and distribution, and contains a forecast for the company's business development over the next five years.

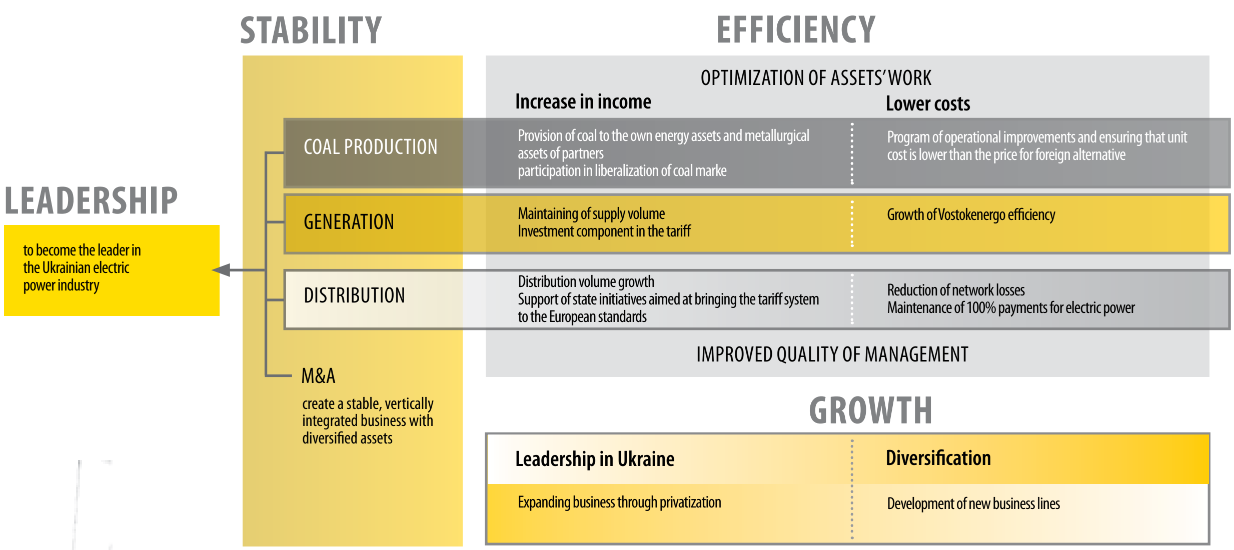
DTEK's main strategic objective is to become the leader in the Ukrainian electric power industry. To achieve this, the company is guided by the following philosophy: DTEK is the largest vertically integrated Ukrainian power company, and was the first to introduce European business standards to the Ukrainian market.

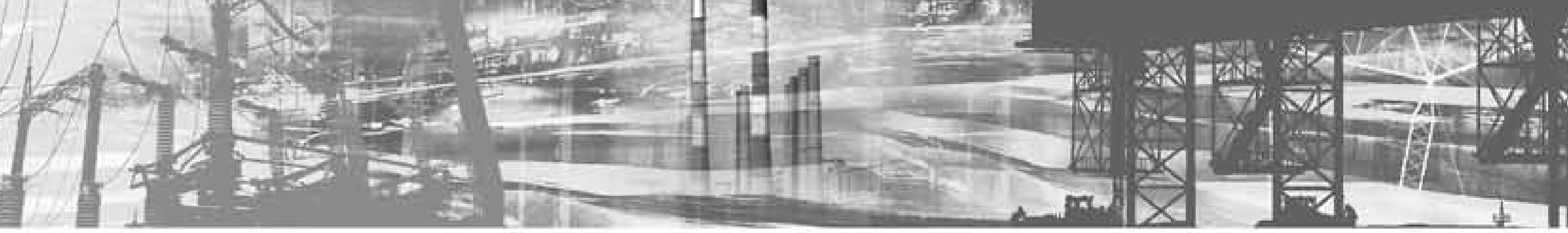
There are a number of key factors that underlie the company's success, including the following:

- a vertical structure: coal mining–power generation–power distribution;
- attracting and developing professional managers;
- investing in improvements in production capacities and modern technologies;
- a program for optimization the management process at the company's enterprises;
- supporting the principles of unrestricted competition in the reform of the electric power market.

The major strategic principles that should help to achieve DTEK's goals are leadership, stability, efficiency, and growth.

Matrix of Company's Strategic Goals





Main Strategic Principles

Leadership

The company will maintain and improve its leading position in the Ukrainian electric power market.

DTEK is already the largest producer of steam coal and thermal electric power. In 2006, the company had a 25.5% share in the total volume of thermal coal mined in Ukraine, and a 25.7% share in the thermal electric power market.

Stability

The company will preserve the vertically integrated structure of its assets and plans to get the maximum use out of the synergy of its business units.

From the moment they were incorporated into DTEK, these enterprises have demonstrated positive growth dynamics in major financial indicators. There are two factors responsible for the company's market stability:

1. Vertical integration. The full cycle, mining – generation – distribution, makes it possible to control costs while reducing the risks associated with the fluctuation of prices for raw materials and securing market demand.

2. Business diversification. Coal mining enterprises currently prevail among the company's industrial assets. DTEK tries to maintain a balanced portfolio of assets, which makes it possible to optimize the ratio of risks and benefits. The company intends to expand its list of assets in power generation and power distribution, in part through privatization.

In addition to existing areas of business, the company is exploring investment opportunities in other sectors of the fuel and energy sector. Moreover, we are exploring investment possibilities in adjacent areas of business, such as co-generation and rendering services (water supply, heating) for the general population.

Ukraine remains a key region for expanding DTEK's business. The company is also looking to invest in promising power facilities in CIS countries and Central Europe.

Efficiency

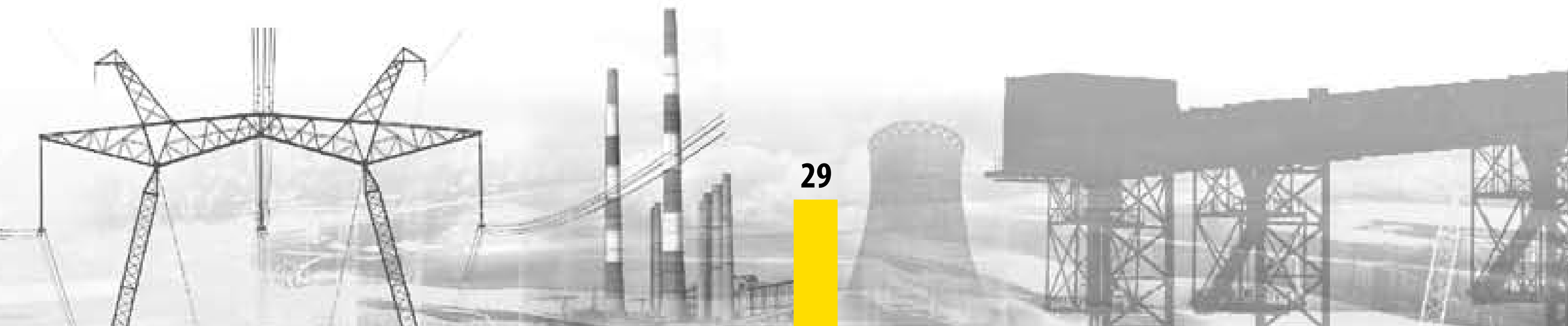
The company will use a set of operational improvements in order to optimize production costs, increase income and implement programs to improve the quality of its management. Such programs require the company to create an efficient strategic planning process as well as efficient systems of internal control and information support for internal and ex ternal communications, industrial safety and environmental protection.

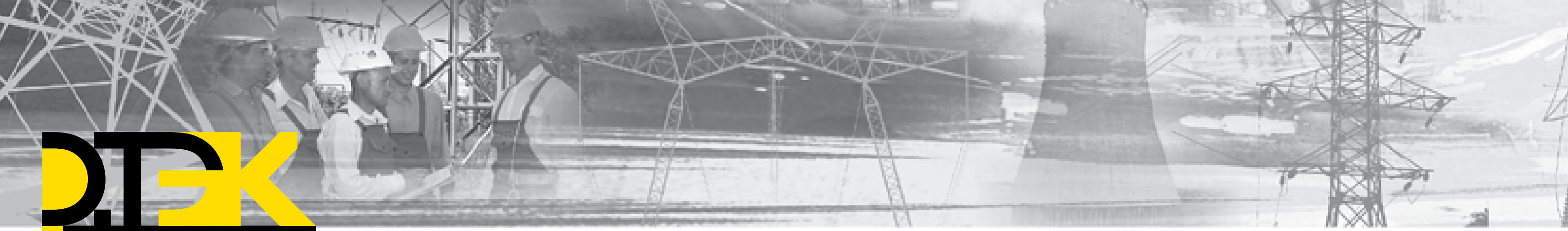
Other major management tasks are ensuring the optimal planning and improvement of personnel qualifications, developing the company's professional reserve, improving IT and attracting financial resources from international markets to implement the company's Development Strategy.

Growth

The company will consider participating in the privatization of energy assets in Ukraine, and will be reviewing the development of new areas of business.

Within the next five years, DTEK will strengthen its position as a solid market player in Ukraine and Europe by investing at least $1.64 billion in modernizing its





assets. According to projections, the average annual growth of income from existing assets will be 15% in coal mining, 10% in power generation, and 15% in power distribution.

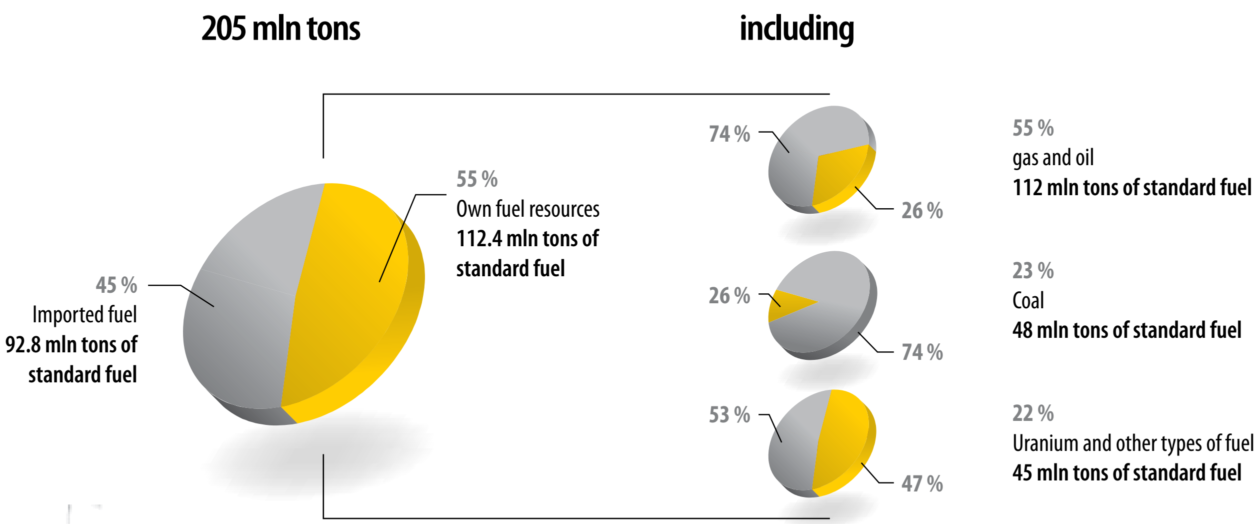
By 2012, the company plans to have expanded its business considerably by participating in the privatization of power generation and power distribution industries, where the market share of state is currently 90% and 60% respectively.

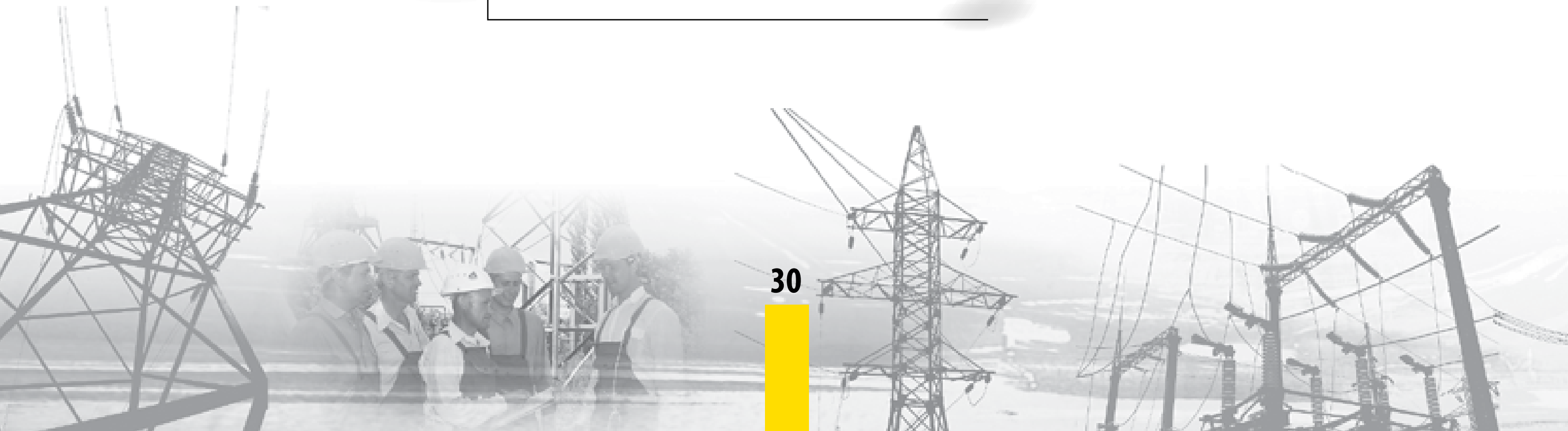
DTEK bases its development strategy on the general goals of the Ukrainian power industry. In 2006, the Government of Ukraine adopted a Power Industry Strategy valid until 2030. This program outlines strategic goals (such as integrating the Ukrainian power grid with the European-wide system), improving reliability for the transit of Russian energy products and ensuring Ukrainian independence in power resources. Private energy companies are expected to play an important role in the achievement of the latter goal.

Ukraine's power industry strategy foresees further growth in the economy and a decrease in the import of natural gas and oil. This may be possible if Ukraine develops its nuclear-power, oil-production and coal-mining industries.

The Ukrainian electric power industry has a great capacity for growth. The Power Industry Strategy assumes that the country's consumption of electric power will grow by 10% in 2005–2010, and by

Consumption of fuel and energy resources in Ukraine, 2006



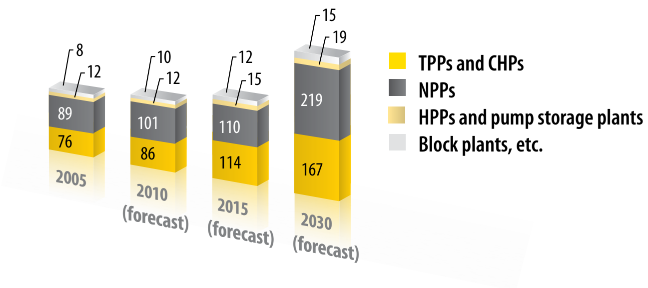


2030, it will have increased 3.5 times. Since the import of energy products will be continuously reduced, the growing demand for electric power in Ukraine will be satisfied by domestic power companies. Considering the dynamic growth of the Ukrainian electric power market and the projected increase of rates for power distribution, DTEK is building its business development strategy on increasing the company's market share in thermal power generation and power distribution. Ukraine's energy strategy foresees the growth of coal mining throughout Ukraine from 80 million tons in 2006 to 120 million tons in 2011. Private coal mining companies have been assigned a key role in increasing the volume of coal mining due to their best business efficiency.
Accordingly the government plans to continue privatization of coal mines.
The draft law "On the Specifics of the Development and Privatization of the Coal Mining Industry" is currently being developed; this law will define the procedure and conditions for privatization in Ukraine.
The experience of DTEK, the largest private operator in the Ukrainian energy industry, shows that domestic coal enterprises can be competitive. The privatization of the coal industry is the most efficient way to reduce expenses on energy resources.

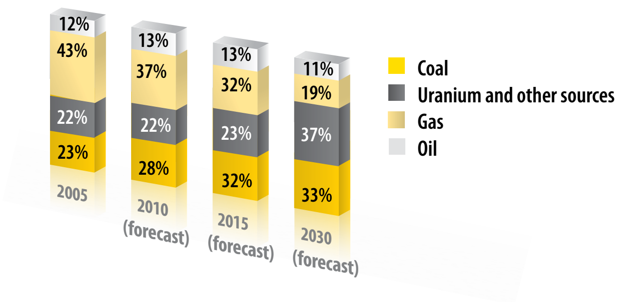
Development Forecast for the company's Coal Business

DTEK's priorities in the coal mining sector are to ensure uninterrupted suppliy of coal to the company's power generating assets and to meet the demand of the domestic thermal coal market in Ukraine.

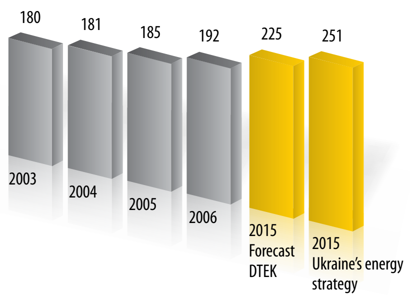
Electric power generation in Ukraine by producer, TWh



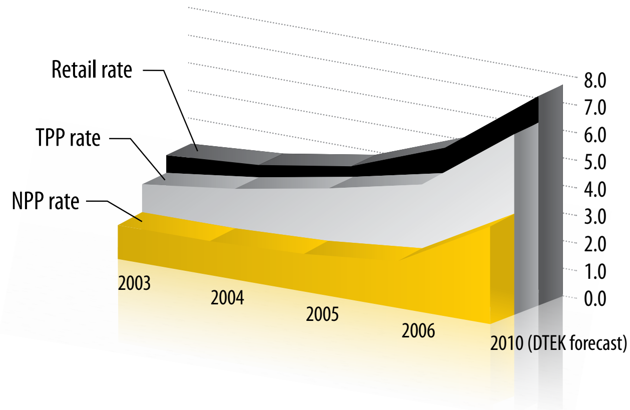
Electric power consumption in Ukraine, %



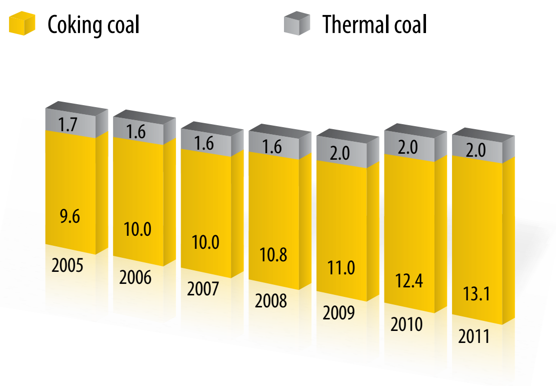
Electric power generation in Ukraine, TWh



Tariff for electric power for thermal generation, cent/kWh



Forecast of coal concentrate sales, mln tons

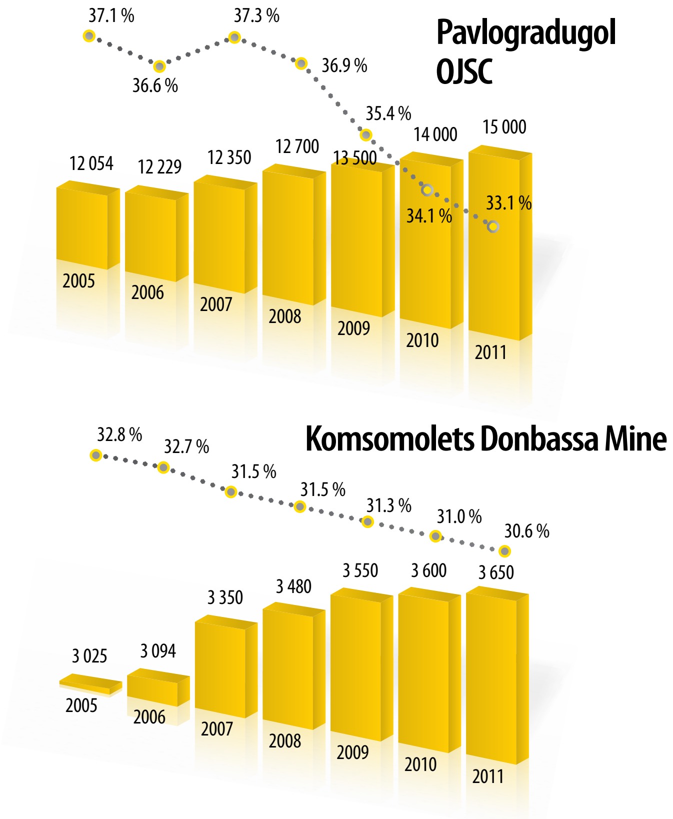


The company will increase its mining volume of G-grade coking coal to fully meet the demand of the company's partners who use coking coals in their production processes.

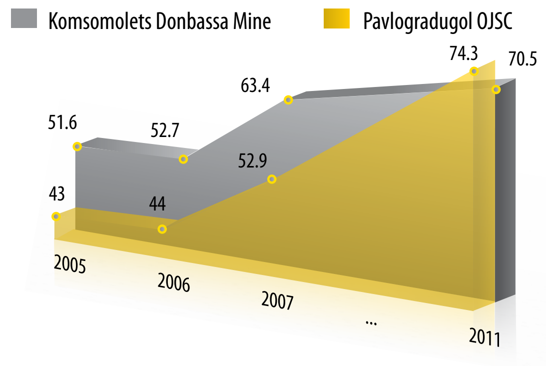
Before the company can develop its coal mining business, advanced technologies must be introduced and there must be an increase in productivity in existing equipment. DTEK plans to introduce roof-bolting & arch supports technologies as early as 2007. The company also intends to explore and appraise the possibilities of using olough technology in the second working stage. Operational improvements and the best practice in cost-reduction initiatives will be used to increase the competitiveness of the company's coal products, as well as to achieve a unit cost level that is considerably lower than that of imported products by 2012. In order to achieve this, the company plans to optimize its long-term mine development plans, reduce the percentage of manual labor, automate operations, improve reserve mining technologies, reduce down times when commissioning, and decommissioning longwalls faces and also increase the length of mine longwalls. The company plans to decrease material consumption rates and industrial service costs by 7–8% at Pavlogradugol OJSC, and by 10% at Komsomolets Donbassa Mine, and to decrease unit electric power costs by 15% at Pavlogradugol, and by 10% at Komsomolets Donbassa Mine. Furthermore, the company plans to reduce the unit cost of the purchase and maintenance of mining equipment by 10% throughout the company's

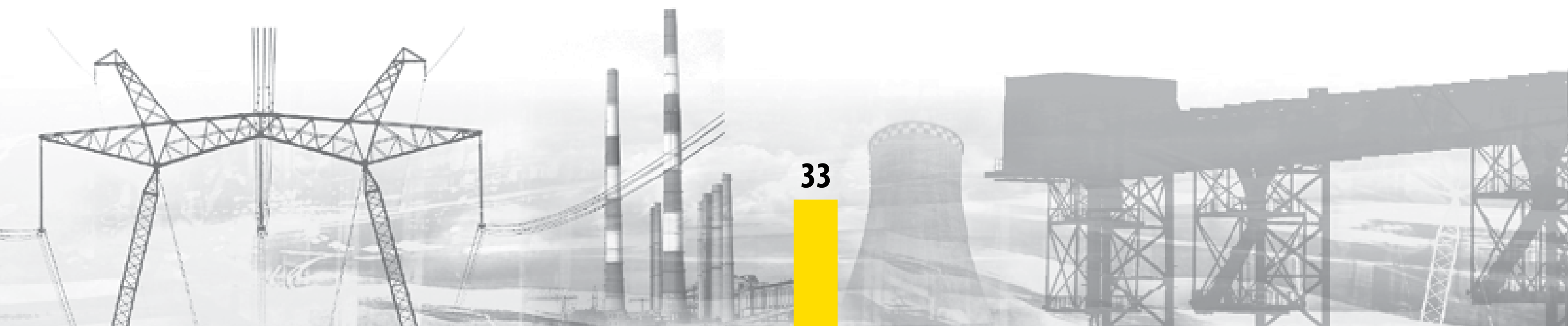
coal mining enterprises. This will allow the company to achieve its target ash content of 33.3% in Pavlogradugol mines, and 30.2% at Komsomolets Donbassa, by 2012.
Thermal coal mined in DTEK mines already has the lowest production cost all over Ukraine. The company's goal is to reduce the production cost below that of imported coal, in particular coal imported from Russia. One of the key factors for decrease in production cost is to increase productivity, which accounts for three-quarters of the product's cost. Currently, one miner in DTEK's coal mining enterprises has a productivity of about 50 tons per month. The company expects that by implementing production upgrade and improvement programs will help to increase productivity by an average of 40%.
As before, special attention will be paid to the development and introduction of industrial safety and environmental protection programs throughout the company's mines. One of the largest projects is the introduction of a new degassing system at Komsomolets Donbassa Mine.
The company plans to actively participate in improving the existing coal market model. Together with governmental organizations the company will develop transformation and development programs for the market, eliminate double subsidies within the industry and encourage a switch to a direct contract model.

Coal production forecast (thous. tons) and ash content reduction

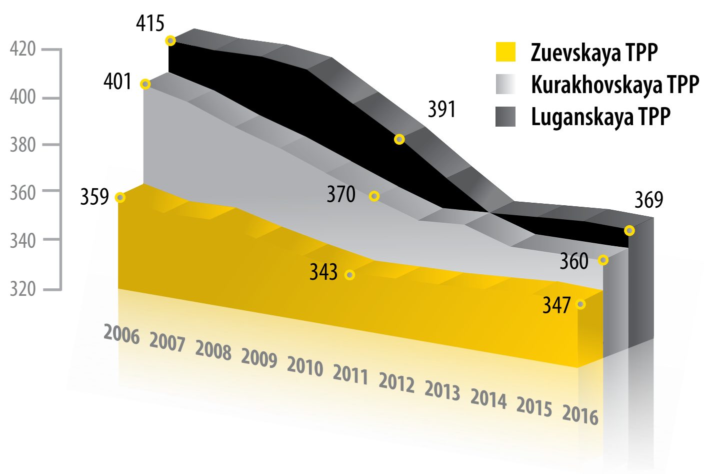


Production efficiency, ton/person/month

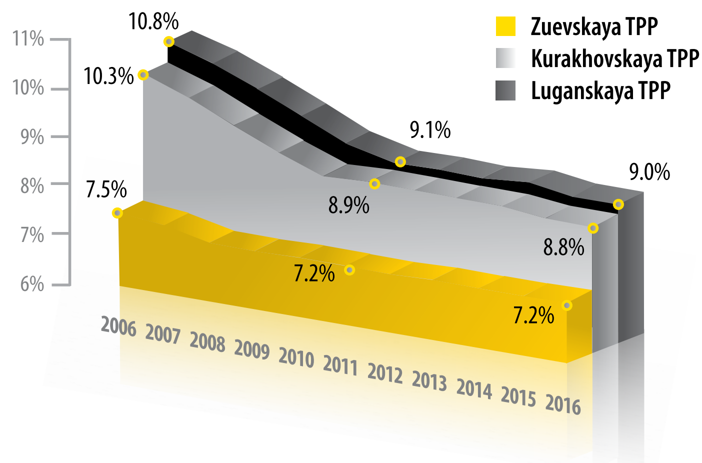




Specific consumption of standard fuel at DTEK enterprises g/kWh



Electric power self-consumption, %



Development Forecast for the company's Power Generating Business

One of the principal goals of development for the company's power generating business is to achieve an optimal volume of power generation that is supported by market demand and secured with fuel resources. The company plans to achieve a power supply volume of 16 billion kWh per year.

Within the next five years, the company will reconstruct 11 of 17 existing power generating units with capacities of 200 MW and 300 MW in all three thermal power plants in order to increase the equipment's reliability, efficiency, maneuvering capabilities, and operating lifetime. The cost of reconstructing of each unit will be in the range of $20.79 million to $34.65 million. Organizing immediate and medium-term maintenance as well as complete overhauls of the generating units in accordance with maintenance schedules will make it possible to decrease specific consuption of fuel for power generation and to reduce electric power consumed by the units. All of these actions, combined with the introduction of advanced technologies such as circulating fluidized bed, will make it possible to increase the efficiency of the power generating units to 34%.

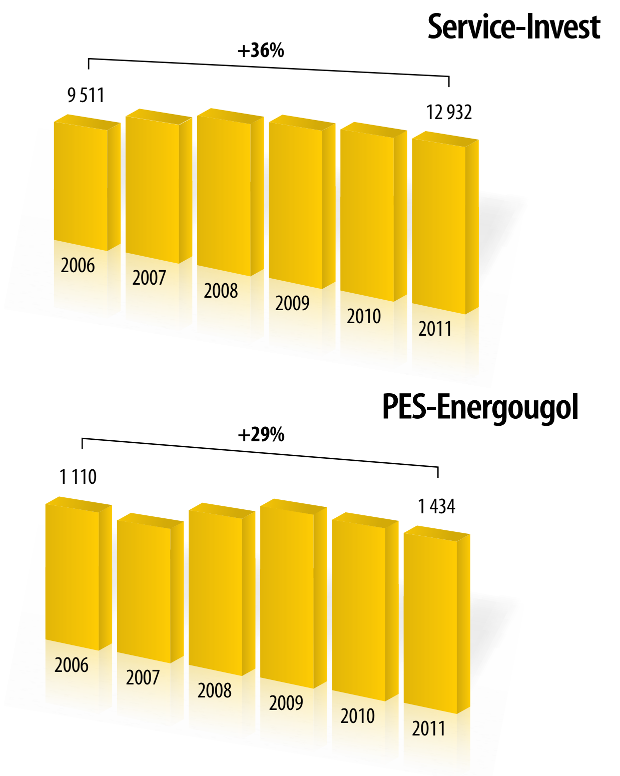
Planned investments in the power generation business over the next five years will amount to $515.84 billion (including $1.98 million in 2007). One of the company's priorities for development in the power generation business is to

include an investment component in its electricity supply tariff, which implies designing the projects of TPP's power generating units reconstruction and upgrade and having them approved by state bodies. It will also increase the profitability of thermal power generating enterprises by increasing incoming payments for the capacity and maneuvering capability of the generating units. Furthermore, the company supports rapid market liberalization in line with the wholesale electricity market development concept.

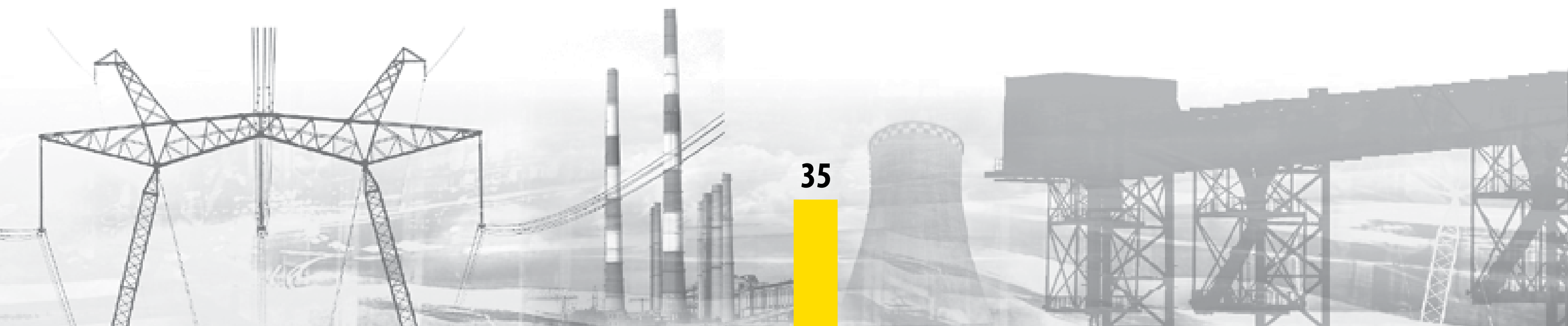
Development Forecast for the company's Distribution Business

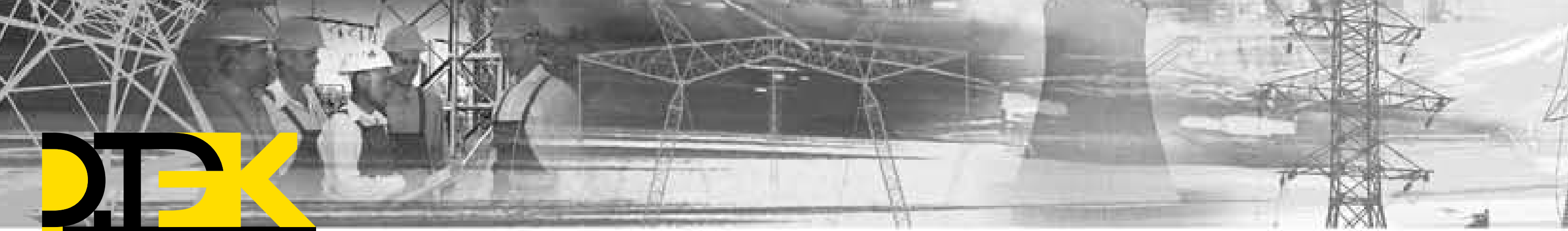
One of the principal goals of the power distribution business is to achieve a volume of power transmission not less than 14 TWh per year while maintaining equipment to ensure a reliable supply of power to consumers. Another important goal is to search for opportunities to connect new consumers to the power distribution system and to expand the geography of the company's activity. DTEK specialists will participate actively in the development of proposals to reform the tariff-setting system. During the first stage, the company has deemed it necessary to develop and introduce a full "cost plus" system with motivational components. This system will increase the quality of competition within the industry, will reduce double subsidies and will unify the tariff-setting system for all power distribution companies in the Ukrainian market.

Forecast of electric power transmission, mln kWh



The company's priorities in the power distribution business are to decrease power losses during transportation and to preserve 100% of its electric energy accounts. In order to achieve this, large investments will be made in reconstructing the grid and quality improving in power supply and distribution control; furthermore, actions will be taken to prevent unauthorized connections to the grid.





Production performance

Main production indicators, 2006 (compared to 2005)

Parameter	Unit	2006	2005	Change (±)	Change (%)
Coal production	thous. tons	15,322.9	15,033.0	289.9	1.9
Including:					
Thermal	thous. tons	12,766.0	12,166.2	599.8	4.9
Coking	thous. tons	2,556.9	2,866.8	–309.9	–10.8
Coal enrichment					
ROM coal enrichment	thous. tons	5,640.2	5,648.7	–8.5	–0.2
Coal concentrate production	thous. tons	4,071.6	4,179.2	–107.6	–2.6
Electric power generation					
Electric power supply	mln kWh	16,331.0	12,608.0	3,723.0	29.5
Electric power transmission					
Electric power transmission by networks	mln kWh	10,621.0	10,317.0*	304.0	2.9

** PES-Energougol and Service-Invest were acquired in 2006, information was provided for corporate purposes only.*

Coal production

Currently the company includes the following coal production enterprises: Pavlogradugol OJSC and Komsomolets Donbassa Mine. In 2006, the company's enterprises produced 15,322,900 tons of coal, which is 1.9% more than in 2005. Due to the increase in demand for thermal coal, the production volume of coking coal was reduced by 10.8% in 2006, while the production volume of thermal coal grew by 4.9%. In 2006, Pavlogradugol OJSC reached the highest production volume in the history of Ukraine's independence – 12,228,500 tons (15.4% of the country's total production) – and Komsomolets Donbassa Mine produced 3,094,400 tons of coal (3.8% of the country's total production).

DTEK's share of the coal market, 2006, thous. tons

Main production indicators, coal production, 2006 (compared to 2005)

Pavlogradugol OJSC

Parameters	Unit	2006	2005	Change (±)	Change (%)
Coal production	thous. tons	12,228.5	12,056.4	172.1	1.4
Including:					
Thermal	thous. tons	9,671.6	9,189.6	482.0	5.2
G	thous. tons	4,288.7	3,288.3	1 000.4	30.4
DG (long flame)	thous. tons	5,382.9	5,901.3	–518.4	–8.8
Coking (G)	thous. tons	2,556.9	2,866.8	–309.9	–10.8
Ash content	%	36.6	37.0	–0.4	–

Komsomolets Donbassa Mine

Parameters	unit	2006	2005	Change (±)	Change (%)
Coal production					
Thermal (T)	thous. tons	3,094.4	2,976.6	117.8	4.0
Ash content	%	32.7	32.8	–0.1	–

4. Production performance

Investments in DTEK's coal division have allowed its enterprises to purchase new and upgrade existing equipment. To a great degree, this made coal enterprises' operation successful and trouble-free in 2006.

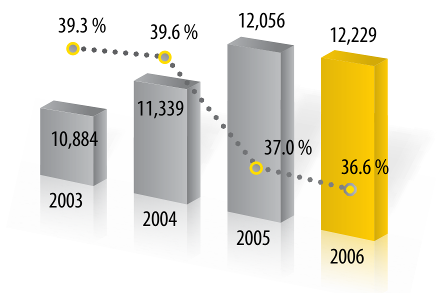
Preliminary work units prepared new long walls on time; 40 new longwall mine faces (more than 50% of all mine faces set into operation in Ukraine) were prepared and set into operation in Pavlogradugol.

Most of Pavlogradugol's mines produced over 1 million tons of coal and successfully achieved their goals for the year.

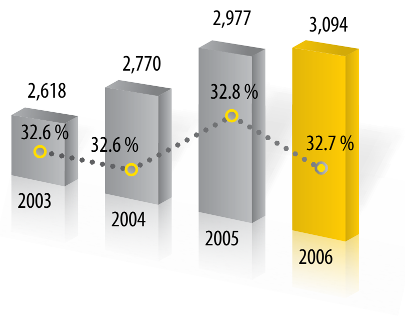
Komsomolets Donbassa produced 3 million tons of coal, which pushed it ahead of its annual plan. This was a new milestone in the enterprise's history, which contributed to the mine's position as one of Ukraine's top three coal mines in 2006.

Changes in coal production (thous. tons) and ash content over the Company's enterprises

Pavlogradugol OJSC

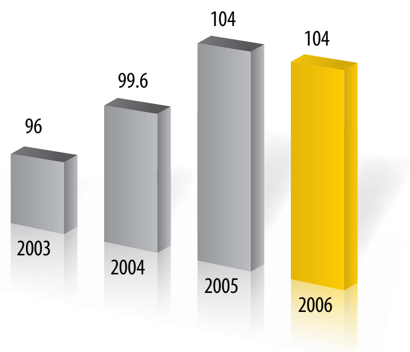


Komsomolets Donbassa Mine

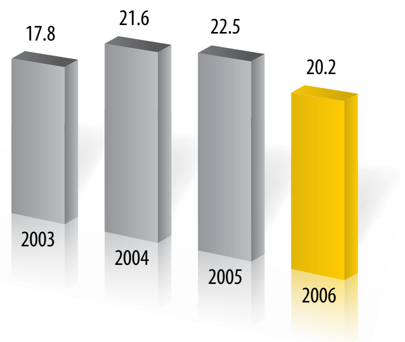


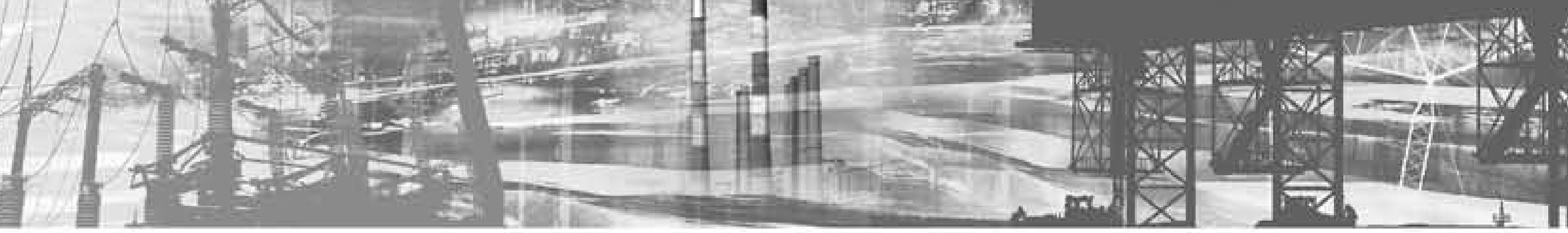
Mine workings, km

Pavlogradugol OJSC



Komsomolets Donbassa Mine





Coal Enrichment

Coal enrichment is an integral part of the company's vertical integration. The three coal enrichment plants incorporated into DTEK – Mospinskoye CEP Ltd. (DG, G, A and T), Kurakhovskaya CEP Ltd. (DG and G) and Pavlogradskaya CEP Ltd. (DG and G) – deal with coal processing. Komsomolets Donbassa Mine has its own enrichment factory that processes T-grade coal to increase its calorific capacity up to 5,900–6,000 kcal/kg.

The company's enrichment plants are consumer oriented: they can process different types of thermal coal, producing a wide range and required quality of coal (with a calorific capacity of 4,800–6,500 kcal/kg).

In the mid-term future, the company plans to increase its installed enrichment capacity by 18%.

The increase in the product quality of the company's coal assets due to the lower ash content of the produced coal (on average by 0.3% compared to 2005), as well as the growing demand for the company's ROM coal, resulted in a slight decrease in coal enrichment and coal concentrate production in 2006 by 0.2% and 2.6%, respectively.

Key production indicators, coal enrichment, 2006 (compared to 2005)

Mospinskoye CEP Ltd.*

Parameter	Unit	2006	2005	Change (±)	Change (%)
ROM coal enrichment	thous. tons	1,259.6	1,653.0	–393.4	–23.8
Concentrate production	thous. tons	889.2	1226.0	–336.8	–27.5

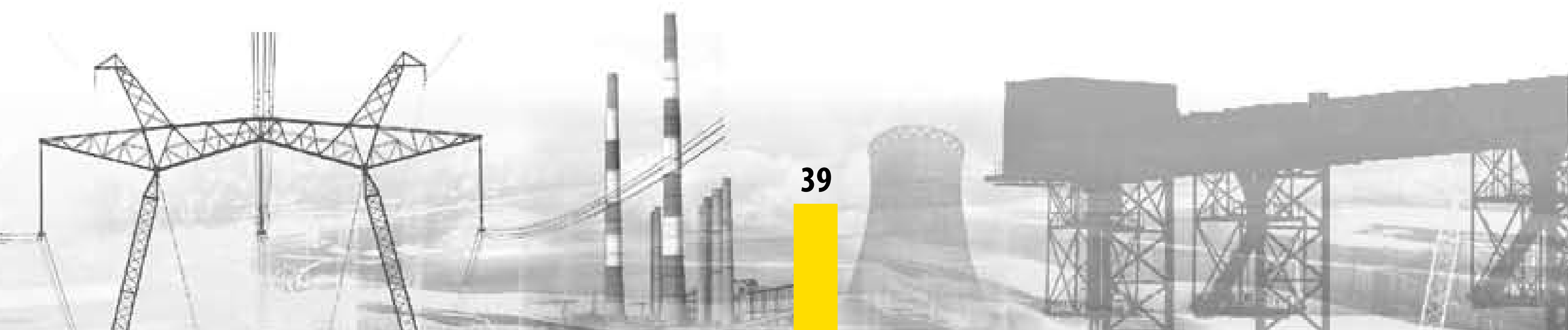
Pavlogradskaya CEP Ltd

Parameter	Unit	2006	2005	Change (±)	Change (%)
ROM coal enrichment	thous. tons	2,852.5	2,883.6	–31.1	–1.1
Concentrate production	thous. tons	2,104.6	2,181.0	–76.4	–3.5

Kurakhovskaya CEP Ltd.

Parameter	Unit	2006	2005	Change (±)	Change (%)
ROM coal enrichment	thous. tons	1,528.1	1112.1	416	37.4
Concentrate production	thous. tons	1,077.9	772.2	305.7	39.6

**Mospinskoye CEP was acquired in 2007, information was provided for corporate purposes only.*



Power Generation

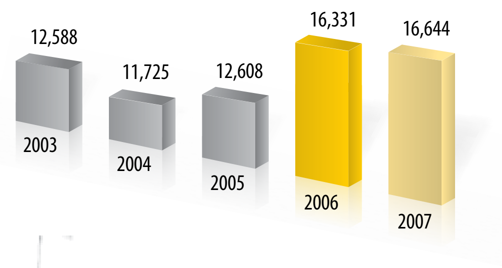
Key production indicators, thermal power generation at Vostokenergo, 2006 (compared to 2005)

Parameter	Unit	2006	2005	Change (±)	Change (%)
Electric power supply	Mln kWh	16,331	12,608	3,723	29.5
Share of Ukrainian thermal generation market	%	25.7	22.6	3.1	–
Installed capacity utilization rate	%	50.8	39.9	10.9	–
Electric power self-consumption	%	8.95	9.52	– 0.57	–

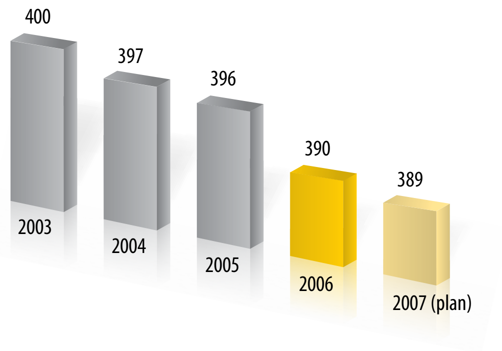
The company's generating activity is represented by "Vostokenergo" company which operates three thermal power plants, Zuevskaya, Kurakhovskaya and Luganskaya, that are owned by "Tekhrempostavka" LLC. Vostokenergo's TPPs consume a minimal volume of gas, comprising 1% of the fuel's structure. The main fuel used by TPPs is the high-quality thermal coal produced by DTEK enterprises.
In 2006, Vostokenergo had a 25.7% share of the Ukrainian thermal generation market and remained the leading company in this industry within Ukraine. Annual electricity generation reached 16,331 million kWh, which is 29.5% higher than that of 2005. The utilization rate of

Changes in key production indicators, thermal power generation by the company's enterprises

Electric power supply, mln kWh



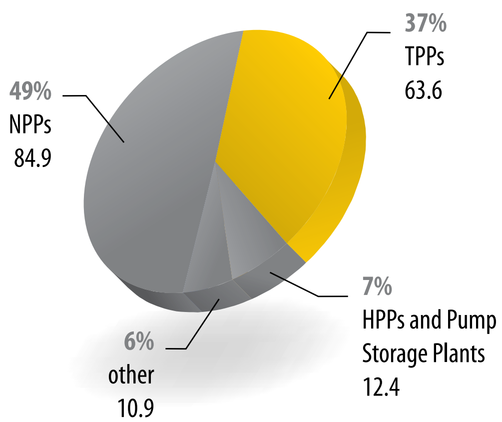
Specific consumption of standart fuel for electric power generation, g/kWh



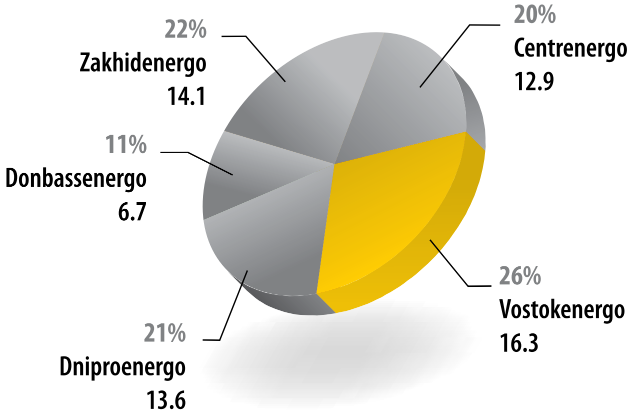
Vostokenergo's installed capacity grew substantially, reaching 50.8% in 2006 – the highest level ever reached in Ukraine. This growth in production performance was due to improved production at the TPPs, the professionalism of the management and operational staff and the reduced net cost of electric power and sustainable coal supplies ensured by the company's coal producing enterprises.
The company's vertical integration makes up for the traditional disadvantages of the Ukrainian energy generating industry, both external and internal. Firstly, this concerns fuel resources: up to 90% of Vostokenergo's coal needs are satisfied by DTEK enterprises.
The second important factor is to restore technological conditions at the TPPs. According to experts, almost 70% of Ukraine's power generating units are completely outdated, as they were equipped in the 1960s and '70s. Thanks to investments in reconstruction and repairs of various complexities, as well as capital construction and technical maintenance of the equipment, the company has been able to increase the capacity of several power generating units and lower the specific consumption of fuel for electric power supply.

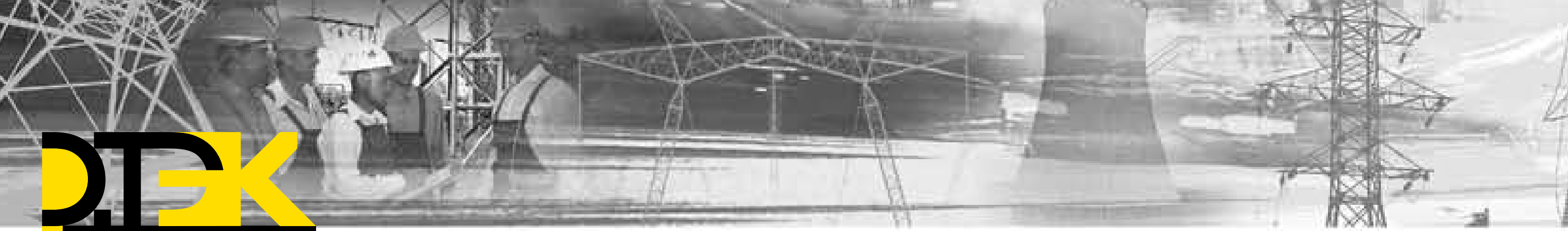
Ukrainian electric power generation, 2006, TWh

Total generation volume



Thermal electric power supply in Ukraine in 2006, TWh





Power Distribution

Key production indicators, electric power distribution in 2006 (compared to 2005)

Service-Invest

Indicator	Meas unit	2006	2005*	Change (±)	Change (%)
Network transmission	Mln kWh	9,511	9,158	353	3.9
Including that to independent suppliers	Mln kWh	2,981	2,963	18	0.6
Settlements with Energorynok SE	%	100.15	100.12	0.03	–

PES-Energougol

Indicator	Meas unit	2006	2005*	Change (±)	Change (%)
Network transmission	Mln kWh	1,110	1,160	–50	–4.3
Settlements with Energorynok SE	%	103.74	96.22	7.52	–

* PES-Energougol and Service-Invest were acquired in 2006, information was provided for corporate purposes only.

Power supplying companies PES-Energougol OJSC and Service-Invest Ltd. deal with the transmission of electric power to consumers. They have a 5% share of the power distribution market in Ukraine (10 TWh and over 1 TWh, respectively). Service-Invest has the lowest coefficient of technical losses in power transmission (1.67%) in Ukraine.

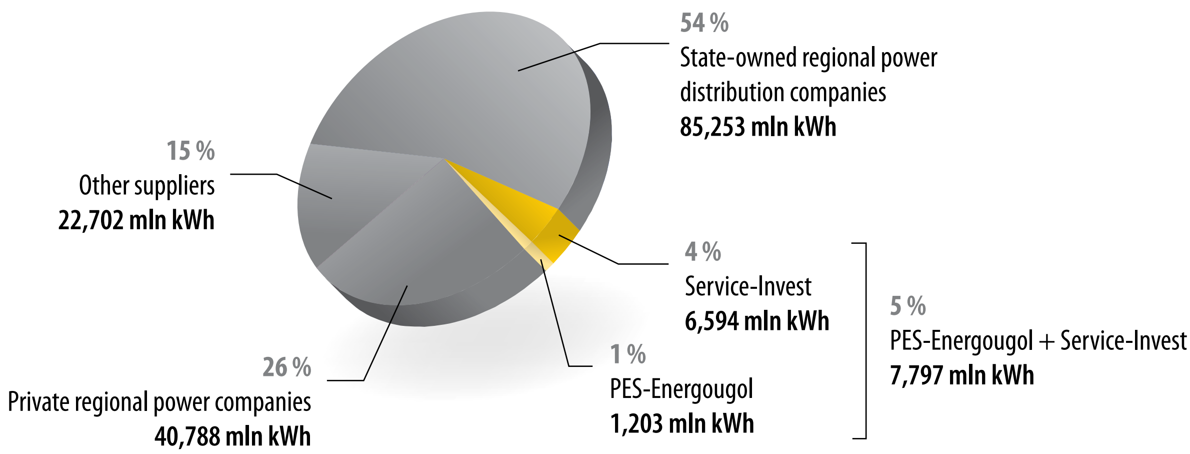
In 2006, the company's networks transmitted a total of 10.621 mln kWh of electric power, which is 3% more than in 2005. This increase was mainly due to an increase in production capacity of the company's main consumers. In 2006, PES-Energougol managed to settle all payments to Energorynok for electric power received; for the first time after its establishment PES-Energougol achieved 100% accounts seltlement with SE Energorynok upon results 2006.

Service-Invest transmission volumes experienced an increase in 2006 that was caused by an increase in electric power consumed by the company's main customers – steel mills.

Due to decreased power consumption of coal industry enterprises, PES-Energougol's transmission volume dropped.

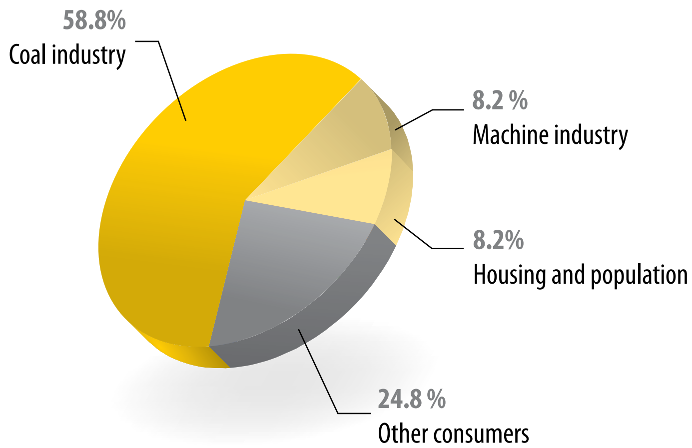
There was a reduction in technological electric power losses due to the implementation of the investment program and the complex program for technological losses reduction.

Electric power supply breakdown, 2006

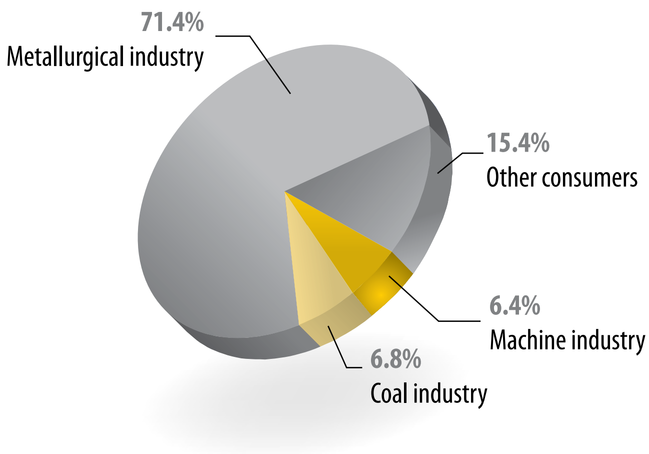


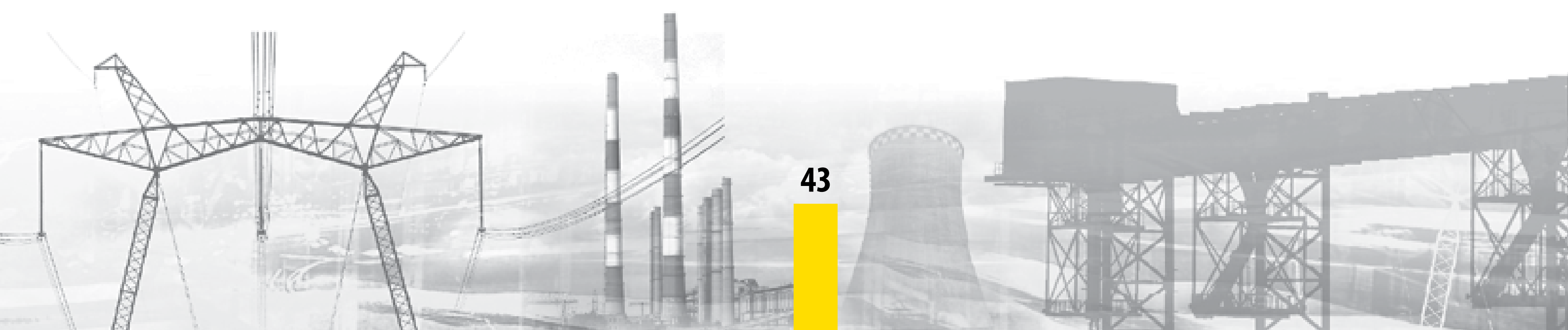
Electric power consumers' structure, 2006

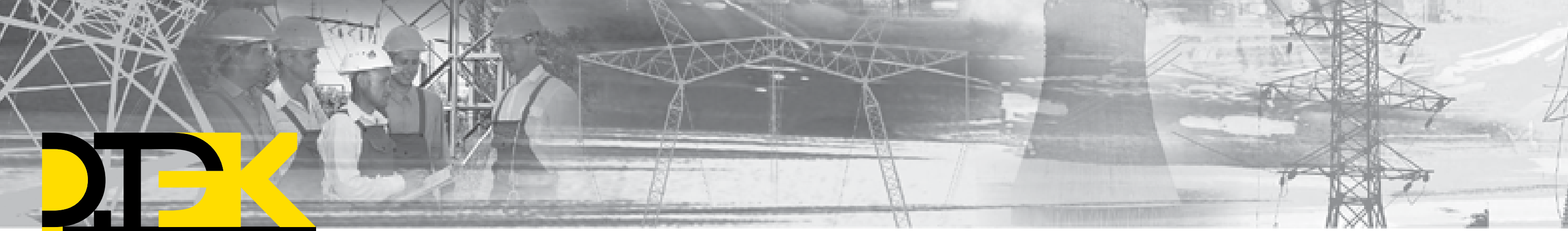
PES-Energougol



Service-Invest

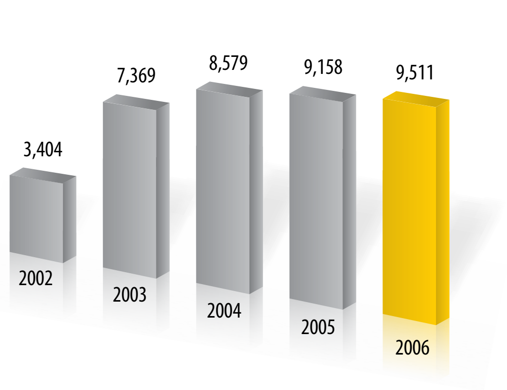




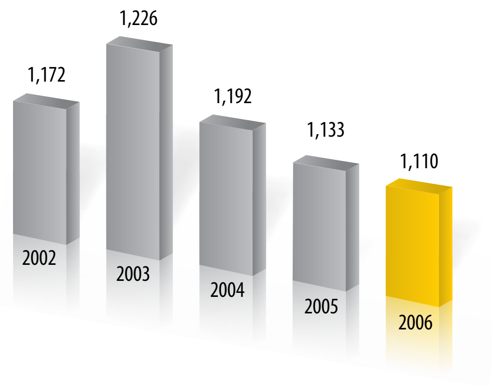


Electric power transmitted over the company's networks, mln kWh

PES-Energougol

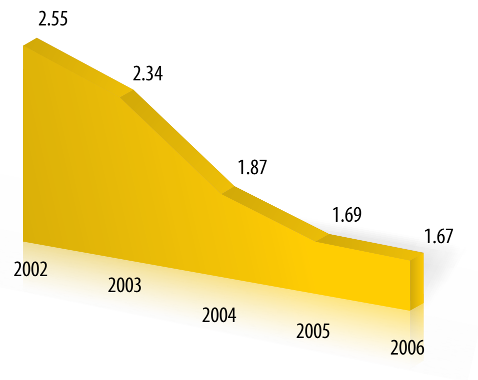


Service-Invest*

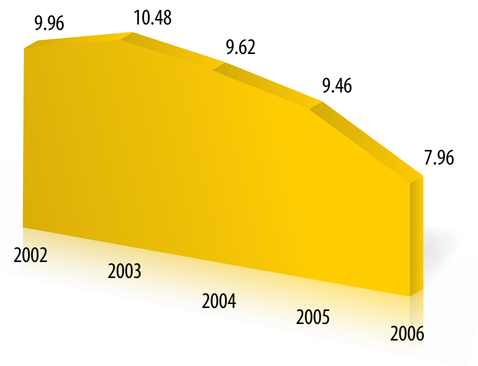


Technical losses of electric power in the networks, %

Service-Invest



PES-Energougol*



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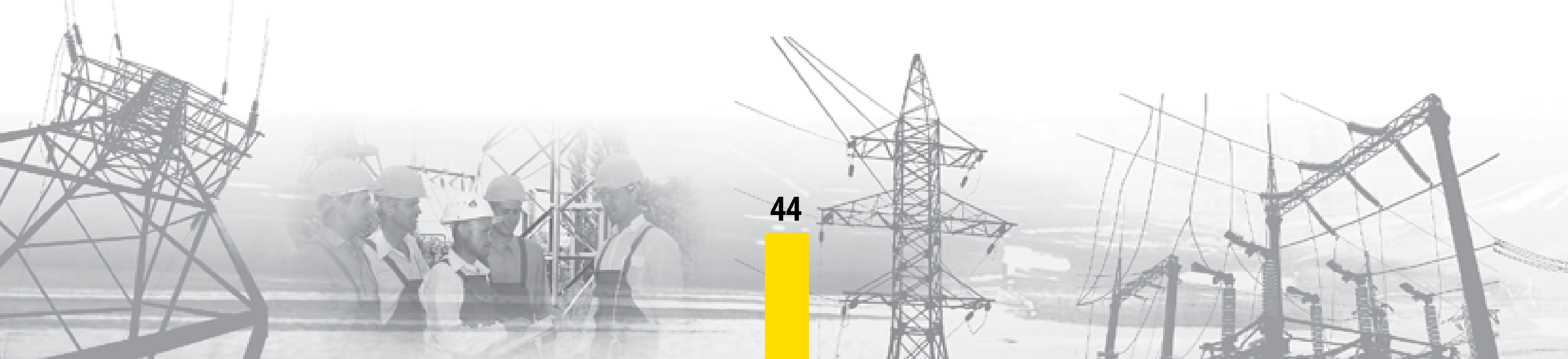
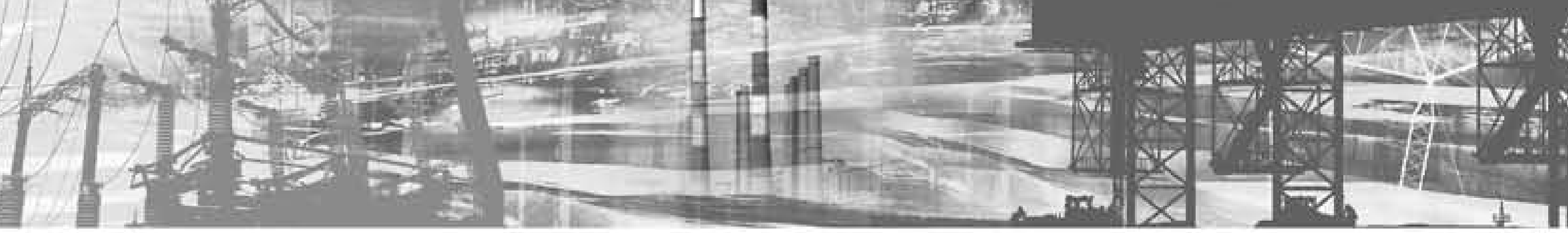


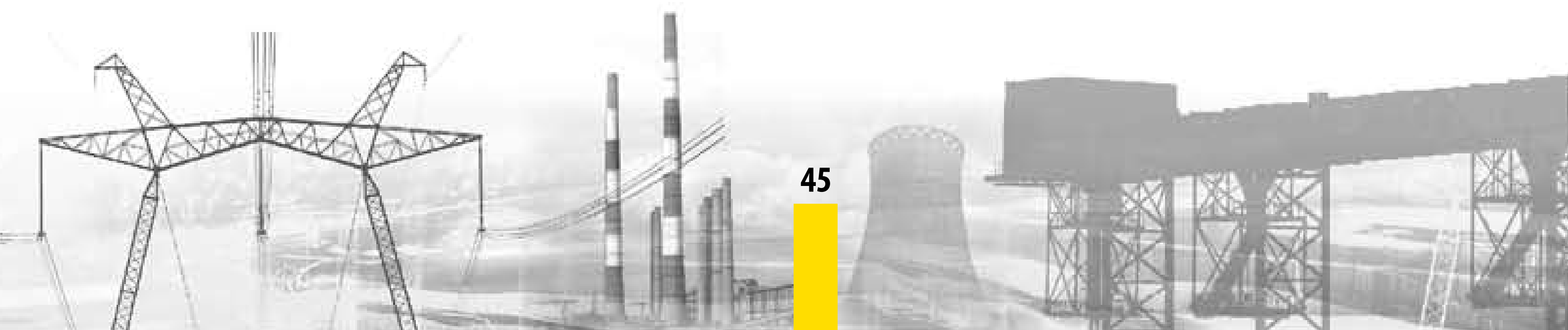


Investments

Last year, the volume of financing for the company's investment programs grew more than twofold compared with 2005. Investments in new and highly productive equipment, IT, labor safety, staff education and development allowed the company to improve performance within the year. Production performance at coal producing enterprises increased, as did the efficiency of TPPs; the number of unplanned shutdowns was reduced and there was a decrease in specific consumption of standard fuel per kWh.

DTEK's main investment projects in coal production

Project	Investments in 2006, $ mln	Project results
Stripping and developing Pavlogradugol coal seams	23.2	Investments are aimed at driving the permanent workings and coal seams preparation for coal extraction. These investments have allowed the mines to cover 21,813 running meters of roadways.
Purchasing mine cars Pavlogradugol mines	6.7	Cargo and passenger mine cars are available to deliver cargo and workers to operating faces. This project allowed the Company to purchase 780 mine cars for Pavlogradugol OJSC.
Purchasing an MB-12-2VP shearer and CZK 228/800H conveyer for Komsomolets Donbassa Mine	2.5	MB-12 shearer can develop coal seams of 0.8 m without out-of-seam dilution, which has a positive influence on the ash content of the produced coal.
Purchasing cableways for Pavlogradugol OJSC	1.6	Cableways ensure that cargos are safely transported in coal beds with high slope angles where electric rail vehicles cannot be used.
Replacing the electric part of the MK-5x4 coal winding machine at Komsomolets Donbassa Mine	1.4	This project allowed Komsomolets Donbassa Mine to prolong the service life of its coal winding machine.



Project	Investments in 2006, $ mln	Project results
Purchasing a 2S4*1.8 coal winding machine for Pavlogradskaya mine (Pavlogradugol OJSC)	1.0	A coal winding machine was purchased in 2007 to replace the outdated one, further use of which was impossible.
Purchasing high-voltage KRUV-6 units for Pavlogradugol OJSC mines	0.9	The replacement of the old RVD-6 units with new KRUV-6 units increased labor safety in the mine.

DTEK's main investment projects in coal enrichment

Project	Investments in 2006, $ mln	Project results
Cleaning section 1 of the tailings storage facility at Pavlogradskaya	1.3	This project allowed the company to clean a part of the tailings storage facility used to store the liquid waste that results from coal enrichment; it also provided an opportunity for further cleaning of the tailings storage facility during the coal's extraction
Major overhaul and the upgrading of a drying machine at Pavlogradskaya	0.4	Overhaul and partial reconstruction of a drying machine used in the enrichment chain allowed Pavlogradskaya to increase its production capacity.

DTEK's main investment projects in electric power generation

Project	Investments in 2006, $ mln	Project results
Major overhaul of 14 units at Luganskaya TPP, 9 at Kurakhovskaya TPP and 3 at Zuevskaya TPP	11.6	There was an increase in the total capacity of power generating units, with a decrease in specific consumption of standard fuel. The equipment's maintenance parameters were reestablished and the unit's maintenance parameters were improved.
Constructing section 2 of ash-disposal area 3 at Luganskaya TPP	1.9	There was an increase in the capacity of the ash-disposal area used to store the ash and slag that results from the power plant's work. This project took four years to complete (2003–2006).
Major overhaul of cooling tower 1 at Zuevskaya TPP	1.1	Major overhaul of the cooling tower reestablished its cooling capacity, which increased the capacity of all of the TPP's power generating units. This project took four years to complete (2003–2006).

DTEK's main investment projects in electric power distribution

Project	Investments in 2006, $ mln	Project results
Reconstructing the 10 kW substation Donetskaya (Service-Invest)	1.8	The reconstruction will ensure higher reliability and a long period of high-quality, uninterrupted power supply for substation consumers, while lowering maintenance costs and providing an increase in the volume of power consumption. This project will be completed in 2007.
Installing an automated commercial energy accounting system at Service-Invest	1.5	The automated commercial energy accounting system will provide the necessary speed and precision in measuring the volume of electric power transmitted, and will provide timely information on machine measurements as well as on any problems. A process for analyzing and improving the company's daily load pattern has been introduced. This project was started in 2005 and will be completed in 2007.
Reconstructing the 110 kW overhead line Mirnaya-Sartana-Ilyich (Service-Invest)	0.6	Mirnaya-Sartana-Ilyich substation's sustainable energy supply for consumers has been secured, the power supply rate preserved, and the volume of technological power losses has decreased in the overhead line wire due to the section's smaller area. The overhead line can transmit additional power volumes, which will increase the transmission service volume. This project took four years to complete (2003–2006).
Reconstructing the 110 kW substation Davydovka-Severnaya (Service-Invest)	0.6	Reconstruction ensured stable work at the substation, eliminating the risk of accidents. Othewise the 100 kW busbar system could have been cut off together with Komsomolets Donbassa's power supply.

Labour Safety

DTEK pays great attention to creating and maintaining a safe and healthy working environment. The company strives to inform, educate and involve all DTEK employees, contractors, and other individuals in the process of improving work conditions, since as work safety depends not only on equipment being kept in order, but also on the competence of employees, the work culture and people's awareness concerning these issues.

In 2006, all of the company's main enterprises managed to decrease their accident rates significantly – they are now at a level several times lower than the industry average.

This was primarily achieved thanks to routine work and modern technologies aimed at ensuring work safety and labor protection.

For example, Pavlogradugol has adopted the following innovations:

- loud-speaking emergency communications at Ternovskaya mine;
- a unified telecommunications dispatch control system at Stepnaya mine;
- new water filters in the mines' saturating facilities;
- random alcohol tests on mine employees before shifts;
- new main ventilation machines installed in three of the enterprise's mines;
- weekly teleconferences between the chief executive officer and the mines' management;
- weekly radio broadcasts on labor protection and measures aimed at its improvement;
- regular warning letters to the families of employees breaching safety requirements that could cause accidents.

Komsomolets Donbassa Mine has reduced the total length of its mines and has reconstructed mines that did not meet fire safety requirements.

Vostokenergo enterprises have implemented complex programs aimed at reconstructing natural and artificial lighting, and repairing and reconstructing ventilation and aspiration systems as well as production areas and bathroom facilities.

All workers are fully equipped with modern protective garments, shoes, and necessary means of individual protection and they are trained in labor protection issues.

The company has developed and adopted strategic targets concerning labor safety for the next five years (2007–2012), which include:

- reaching an accident rate of 1.2 or less per 100 workers per year by the end of 2008 (there were 3.69 and 2.20 accidents in Pavlogradugol and Komsomolets Donbassa Mines in 2006);
- developing and adopting by the end of 2008, and also certifying in Q1 2009, a modern corporate system of labour safety that meets OHSAS 18001 requirements at Pavlogradugol, Komsomolets Donbassa Mine, and Vostokenergo.

A plan was developed and approved aimed at achieving goals in strategic labor safety, including:

- creating a Department of Labor Safety and Environment within the company;
- creating a two-year program for introducing a modern corporate system of labor safety management;
- developing a corporate labor safety policy.

Within this strategy, the company has developed a new corporate system of managing labor safety, including:

- training employees in state-of-the-art methods for managing labor safety;
- risk assessment for all work locations, operations and production processes;
- introducing an internal auditing system;
- introducing a reporting system for labor protection;
- introducing labor safety committees headed by the enterprises' top managers.
- introducing an internal-investigation and analysis system for accidents that take place at the company's enterprises;
- setting unified labor protection objectives;
- informing employees of labor safety issues;
- monitoring the safety of contractor services;
- introducing behavioral auditing aimed at detecting any dangerous activity on the part of employees.

Industrial injuries analysis

Number of accidents at the company's main enterprises

Enterprise	2006	2005
Pavlogradugol OJSC	435	581
Komsomolets Donbassa Mine	153	181
Vostokenergo	5	8
Service-Invest	1	0*
PES-Energougol	0	0*

Expenditures on protective garments and other means of individual and collective protection, 2006

Enterprise	$, thousands
Pavlogradugol OJSC	6,495
Komsomolets Donbassa Mine	990.1
Vostokenergo	214.85
Service-Invest	15.25
PES-Energougol	19.21

* PES-Energougol and Service-Invest were acquired in 2006, information was provided for corporate purposes only.

Environment

Environmental protection is one of DTEK's top priorities. The company bases its work on the following principle: business can have steady development only when the company has minimized its negative effects on the environment. The company is aware of its important role in – and its responsibility for – national and global processes of sustainable development.

DTEK's activity concerning environmental protection is based on the following principles:

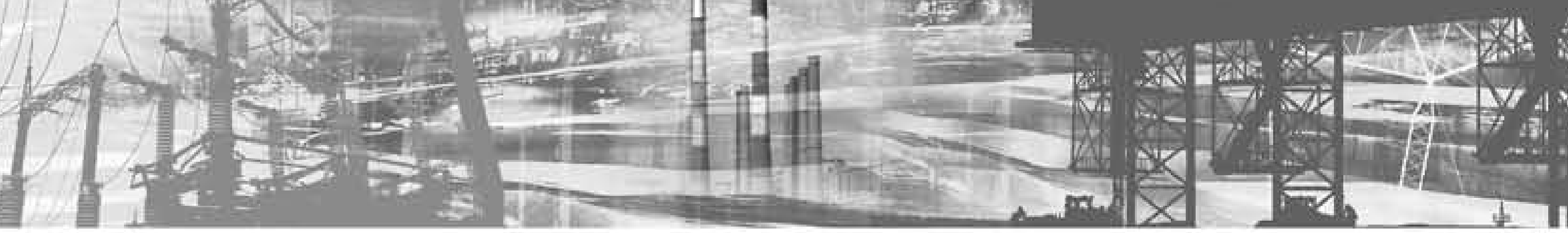
- taking the social responsibility for the environment;
- striving to apply the best possible technologies;
- preventing environmental pollution;
- respecting natural resources (water, soil, trees);
- reducing emissions and waste.

The growing volume of investments in environmental protection has a direct effect on reductions in figures that indicate environmental effect.
The volume of investments in environmental protection in 2006 amounted to $34,861,386, including:

- $12,551,089 in coal producing enterprises;
- $2,044,356 in coal enrichment enterprises;
- $20,261,188 in energy generating enterprises;
- $4,752 in distributing enterprises.

The company plans to continue increasing its investments in environmental protection measures.

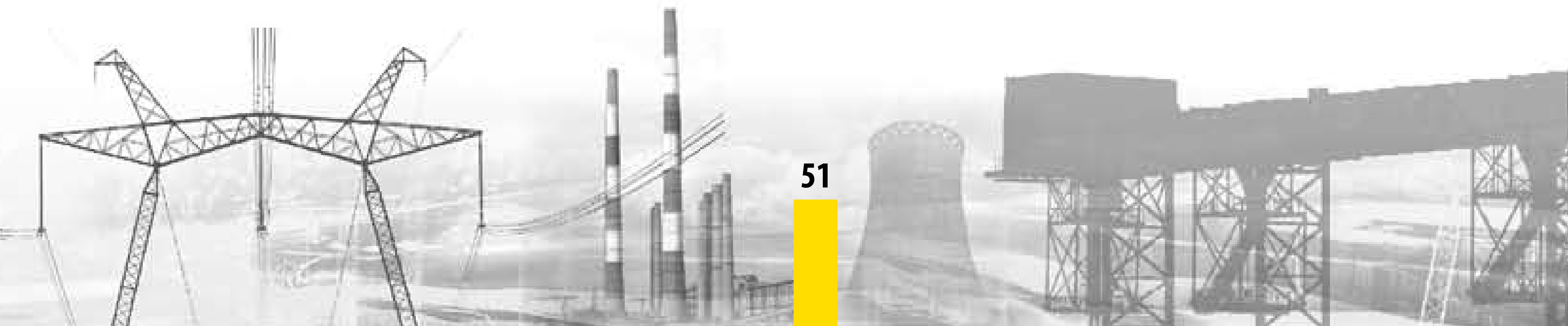
One of the main priorities of the company's environmental policy is to protect the atmosphere. The company pays attention to the condition of gas treatment facilities at its energy enterprises. From 2003 to 2006, the company reconstructed electric filters at its TPPs, which resulted in an increase in purification to 96–99% (before reconstruction this figure was 89–91%): the company managed to reduce emissions by 19,600 tons.
The company has implemented a project to quench the waste dumps at Komsomolets Donbassa Mine, with reductions in gas emissions of 1,215 tons. Considerable attention is being paid to issues of water consumption and disposal.
Innovative technologies have been used to develop an investment project for

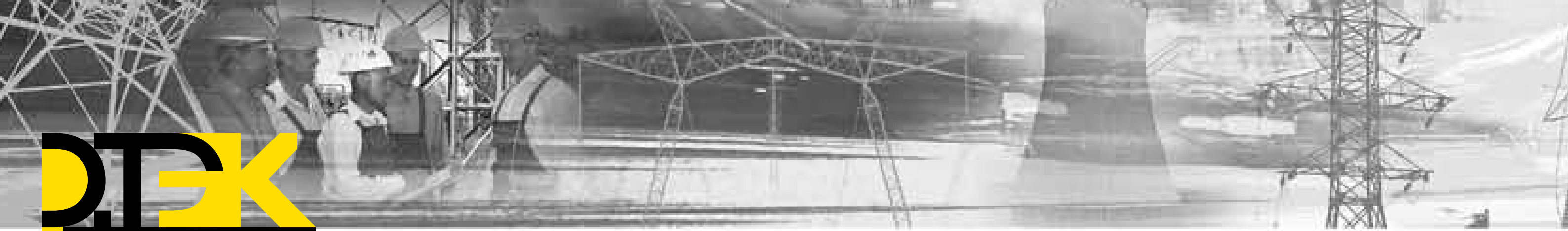


the biological purification of domestic wastewater at Komsomolets Donbassa Mine; this project will considerably decrease the content of harmful substances in the wastewater.
The company is considering the possibility of demineralizing mine waters at its coal producing enterprises.
Energy generating enterprises have screened off ash-disposal areas in order to localize pollution in the drinking water intake facility. This project cost $811.9 thous.

One of the key issues in environmental protection is the improvement of waste disposal systems. Part of the waste is recycled by both the enterprises themselves and by specialized units. The other part of it is dumped.
DTEK has developed and is now implementing a complex project for bulk coal waste disposal in its coal producing enterprises (Pavlogradugol); the Company is combining this project with the simultaneous reclamation of settled and impounded land plots.
Over the entire coal mining period in Western Donbass, about 2,815 ha of processed land was reclaimed: 517 ha was changed into fields, forests and grasslands; 1,295 ha of forest was protected by drainage systems; and 949 ha of ponds and water reservoirs were created. Three waste heaps with a total area of 32 ha were fully greened up using about 90 million tons of soil. The majority of reclaimed lands were returned to agricultural use.
In order to green up waste piles, Pavlogradugol has implemented a new technology that allows to decrease reclamation costs fivefold. The technology, which uses wood waste, sludge and soil, has made it possible to green up 5.5 ha of waste piles and plant various types of trees. A 49-hectare garden and park area has been created on the Company’s land, and 19,884 trees and bushes have been planted.

The company is open to work with the state on issues of environmental protection. DTEK enterprises react quickly to any claims made by local residents.





Financial Statements

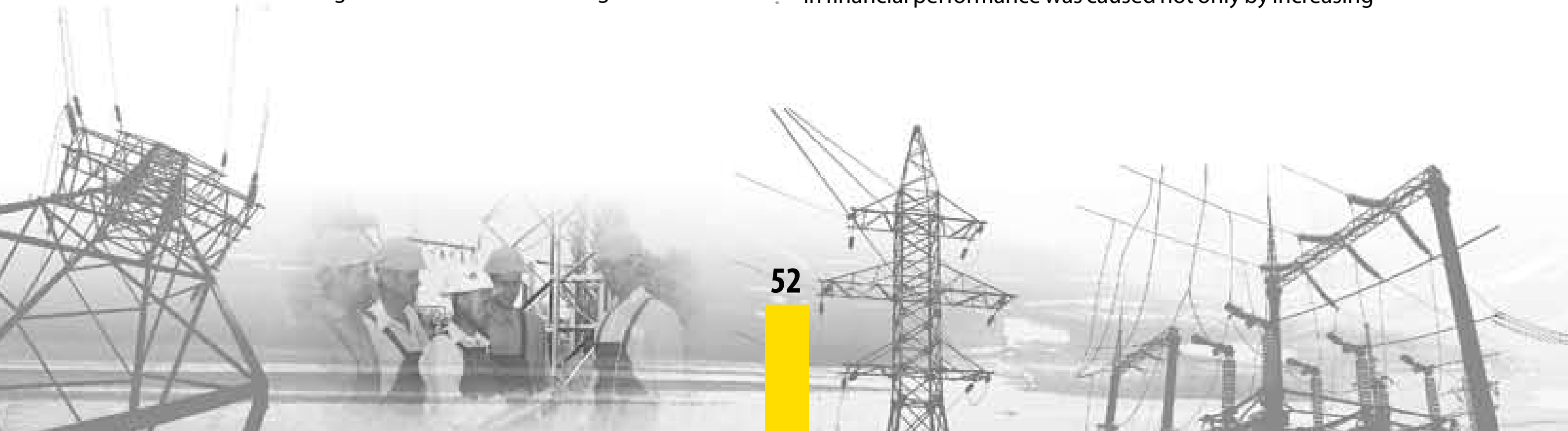
The Company's Financial Performance

In 2006, DTEK's total assets grew by 2.2 times, reaching $ 1,736.0 bln. This growth was caused by the growing number of enterprises incorporated into the Group, a significant increase in production volumes and the revaluation of assets. Non-current assets have been growing slightly faster than current assets due to investment activity and operational improvement in the management of current assets.

At the end of 2006, 70% of the balance was made up of fixed assets. The value of these assets grew by over $ 628.1 bln due to revaluation and by over $ 105.0 mln due to the incorporation of new enterprises. The revaluation was based on reports from independent experts. Financial investments as of year-end amounted to $ 92.7 mln. These investments form a part of the Company's expansion – DTEK's balance sheet contains the minority interest in Ukrainian power companies. Current receivables grew over twofold and as of year-end amounted to 40% of the Group's current assets. This growth was caused by the acquisition of distribution companies and the growing sales volume of electric power. While net current receivables amount to $ 49.6 mln, the reserve for doubtful receivables is $ 66.1 mln – mainly due to Energorynok's loans and borrowings for electric power supplied. Considerable growth in the cash balance was conditioned by turnover of DTEK accounts due to the acquisition of power distribution companies and an essential increase in revenue in other branches of business.
DTEK's equity grew by 2.2 times up to $ 1,025.9 bln. Mostly this growth was due to the creation of a reserve for the revaluation of fixed assets – $ 471.2 bln – and the financial result of the reporting year – $ 141.4 mln. Long-term liabilities account for 55% of the Group's total liabilities.
Thirty percent of long-term liabilities as of year-end were for benefit obligations in accordance with the relevant legislation and collective labor agreements. The size of the benefit obligations is calculated using the actuarial method. The obligations underwent a growth of 19.4%. The main reasons for this growth were an increase in the labor-compensation fund and improvements in social protection.
This substantial growth in long-term liabilities was caused by the recognition of deferred tax liabilities ($ 147.9 mln), and growth in the long-term financing volume ($ 30.0 mln).
The Group's loans and borrowings as of year-end amounted to $ 169.9 mln, which is 5.8 times more than at the beginning of the year. At the same time, it is noteworthy that the ratio of DTEK's debt to its equity is 16.6%, which is rather low for an industrial company. Ukrainian bank credit takes first place in the debts' structure. In the future the Group's strategy will be aimed at increasing unsecured financing in the international capital markets and with the largest international banks.
Sales revenue in 2006 amounted to $ 999.8 bln, 35.38% more than in 2005, and was caused by the following main factors:

- The incorporation of power distribution enterprises;
- Growth in electricity sales. In 2006 the Company supplied 16.3 bln kWh to Energorynok, which is 3.7 bln kWh more than in 2005. This was caused by both growth in the Ukrainian electric power market and the growth of DTEK's share in the generation of thermal power;
- Growing prices for electric energy and coal.

Salary expenses accounted for 40% of the self-cost, which is explained by the Company's coal enterprises where salary expenses account for 60% of the self-cost. The salary ratio in 2006 grew by 5% compared to 2005, which was caused by an increase in average salary at the Company. At the same time, the workforce optimization program made it possible to keep the labor compensation fund at an acceptable level. In 2006 EBITDA reached $ 233.3 bln. The Company's net profit amounted to $ 97.6 mln, which is 86.3% more than in 2005. This substantial improvement in financial performance was caused not only by increasing



sales revenue but also by operational improvements. The Company has taken measures:

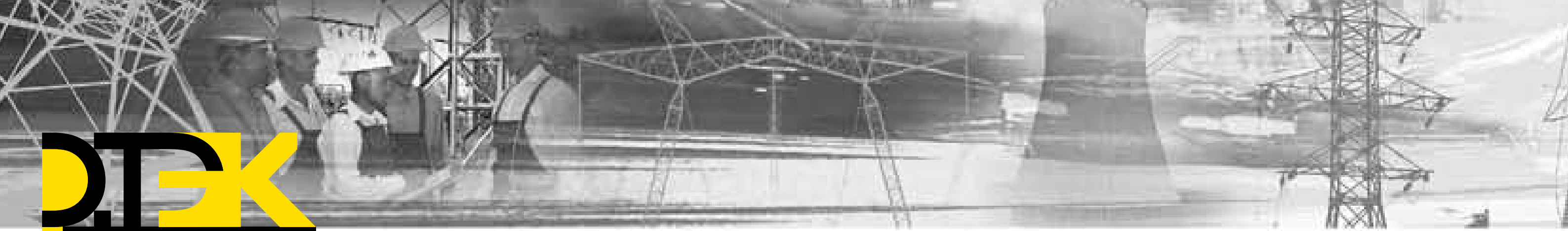
- to improve the technologies it uses;
- to optimize the number of its employees;
- to introduce new coal technologies, power-saving technologies and commercial power-accounting systems to reduce power losses.

The slight decrease in the ROA and equity in 2006 compared to 2005 (by 1.1% and 1.73%, respectively) was caused by the revaluation of fixed assets and, consequently, an increase in the value and equity of the assets.

Due to growth in production and financial performance, the Group's cash flow from operating activities increased by 101%, reaching $ 169.0 mln. Financing of the Group's investment programs grew over twofold due to growth in the capital investment budget, the acquisition of Service-Invest and PES-Energougol and the acquisition of minority shares in several Ukrainian power companies.

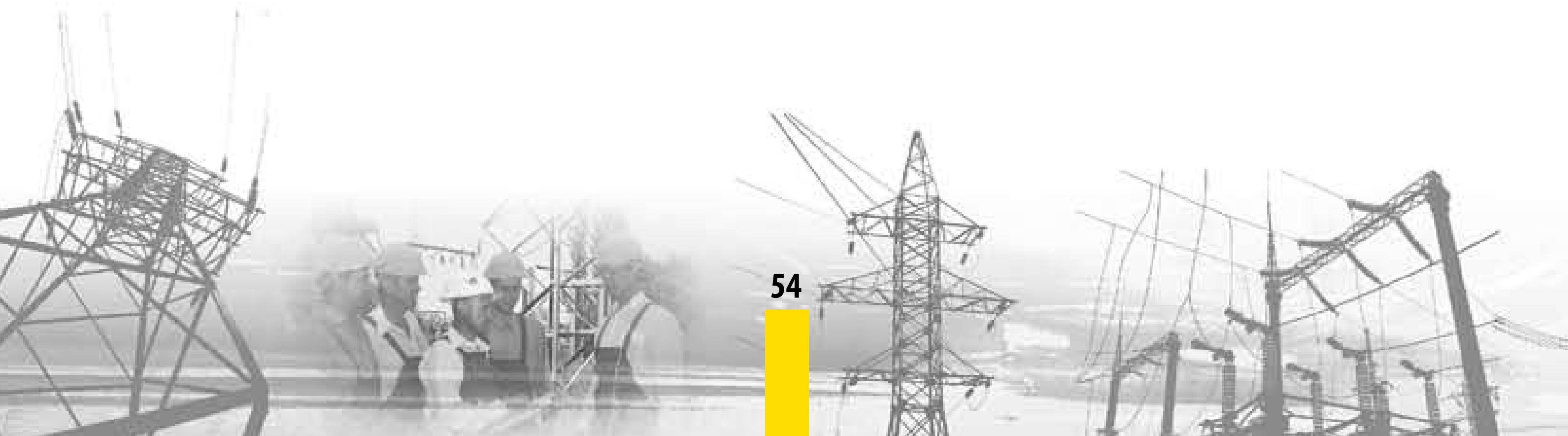
DTEK's main financial indicators

Indicator	2006	2005
Sales Revenue, $ thous.	999,760	738,447
Net Profit, $ thous.	97,603	52,368
Net Profit Margin, %	9.76	7.09
EBITDA, $ thous.	233,298	151,525
EBITDA, %	23.34	20.52
Investment, $ thous.	106,371	87,643
ROE, %	9.51	11.24
ROA %	5.62	6.72
Total Debt / EBITDA	0.73	0.19
Total Debt / Equity	0.17	0.06



Consolidated financial statements

Content



ERNST & YOUNG

Ernst & Young Audit Services LLC
Khreschatyk Street, 19A
Kyiv 01001, Ukraine
Tel.: 380 (44) 490-3000
Fax: 380 (44) 490-3030
www.ey.com/ukraine

ТОВ "Ернст енд Янг Аудиторські послуги"
Україна, 01001 Київ
вул. Хрещатик, 19А
Тел.: 380 (44) 490-3000
Факс: 380 (44) 490-3030

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of DTEK Holdings Limited

We have audited the accompanying consolidated financial statements of DTEK Holdings Limited and its subsidiaries (hereinafter referred to as the 'the Group'), which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

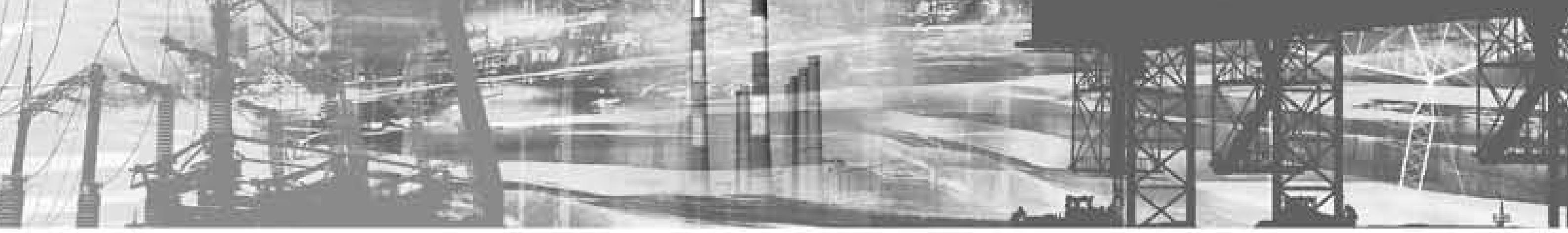
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Audit Services

25 June 2007



Independent Auditors' Report

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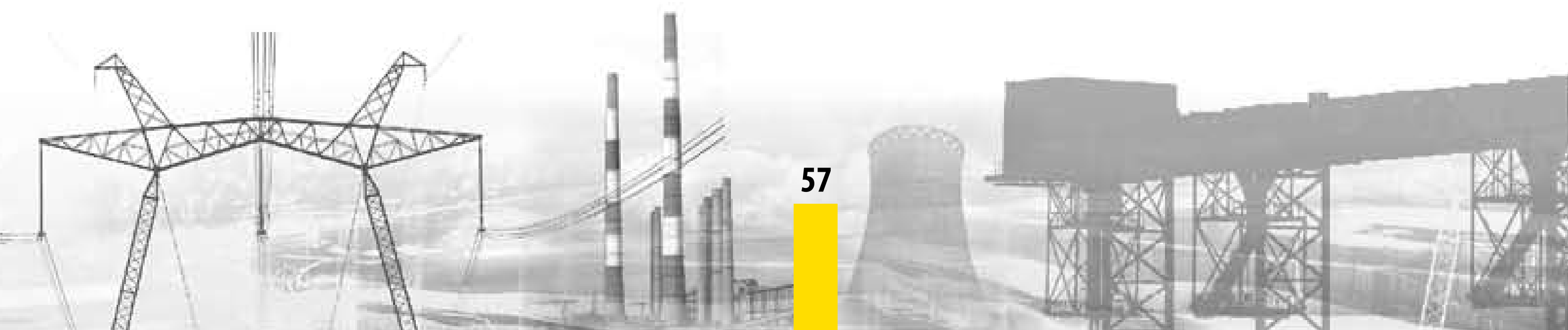
Emphasis of Matter

We draw attention to Note 3 to the consolidated financial statements. The presentation currency of the accompanying consolidated financial statements is the United States dollar. The accompanying consolidated financial statements were issued in addition to the consolidated financial statements presented in Ukrainian Hryvnia. We have audited and reported separately on those consolidated financial statements presented in Ukrainian Hryvnia and issued our audit report dated 25 June 2007.

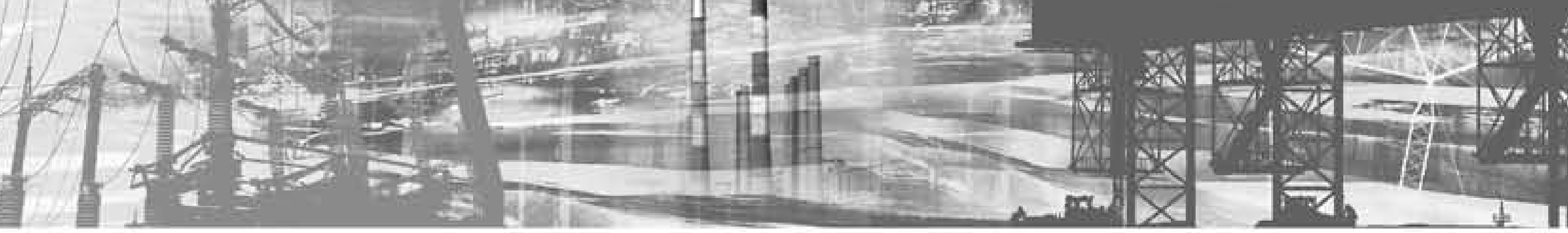
25 June 2007



CONSOLIDATED BALANCE SHEET
As at 31 December 2006

(in thousands of USD)

	Notes	2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	9, 22	1,215,763	488,579
Intangible assets, other than goodwill		975	200
Goodwill	10	117,800	109,380
Financial investments	13	92,693	-
Trade and other receivables	14	6,868	2,984
Deferred tax assets	15	44,671	62,779
		1,478,770	663,922
Current assets			
Inventories	16	70,171	54,536
Trade and other receivables	14, 36	115,395	50,524
Financial investments	13, 36	9,261	572
Prepaid income tax		10,555	-
Prepayments and other current assets	17	4,964	4,041
Cash and cash equivalents	18, 36	46,863	17,004
		257,209	126,677
TOTAL ASSETS		1,735,979	790,599
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	19	32	-
Additional paid-in capital	19	185,289	134,652
Retained earnings		155,338	95,479
Other reserves	19	468,916	9,601



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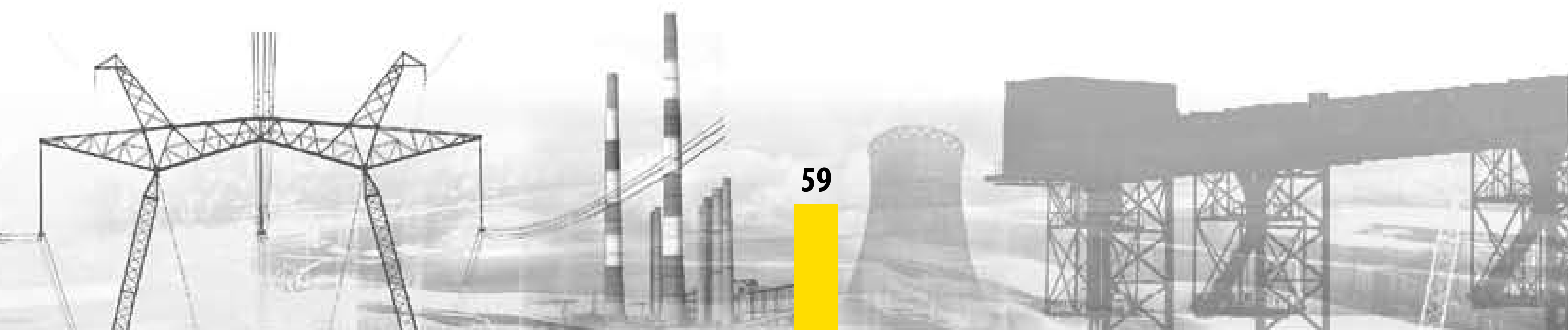
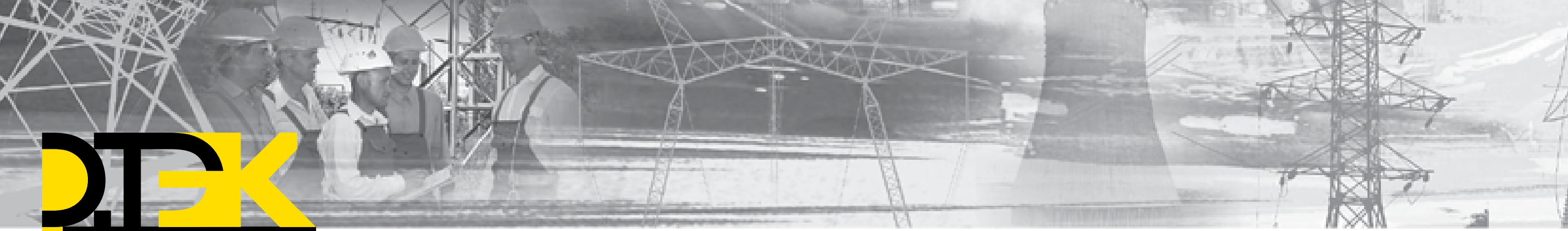
	Notes	2006	2005
		809,575	239,732
Minority interests	12	216,316	233,157
Total equity		1,025,891	472,889
Non-current liabilities			
Liability to minority participants	20	827	415
Interest bearing loans and borrowings	21, 23	30,000	373
Government grants	22	28,031	34,784
Trade and other payables	23, 26, 36	362	18,289
Provisions	24	27,025	1,534
Other financial liabilities	23, 25, 36	36,755	15,363
Defined employee benefit liability	27	118,834	99,520
Deferred tax liabilities	15	147,875	-
		389,709	170,278
Current liabilities			
Interest bearing loans and borrowings	21	139,879	28,690
Trade and other payables	26, 36	140,628	78,556
Advances received		7,313	2,222
Income tax payable		2,556	3,176
Taxes payable, other than income tax	23, 28	30,003	34,788
		320,379	147,432
Total liabilities		710,088	317,710
TOTAL EQUITY AND LIABILITIES		1,735,979	790,599

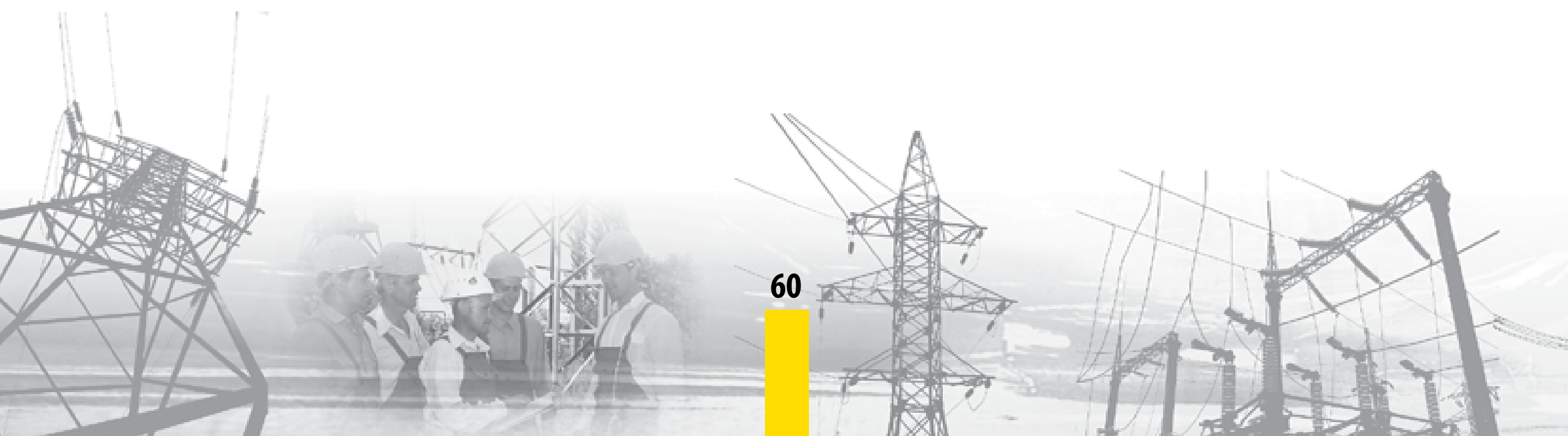




CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2006

(in thousands of USD)

	Notes	2006	2005
Revenue	8		
Sale of electricity to electricity pool		684,296	402,377
Sale of steaming and coking coal	36	201,500	334,409
Sale of electricity to final customers	36	106,564	–
Sale of heat		1,580	1,588
Other sales	36	5,820	73
		999,760	**738,447**
Cost of sales	29, 36	(696,189)	(631,253)
Gross profit		**303,571**	**107,194**
Other income	30	2,335	30,179
Selling and distribution costs	31	(9,625)	(9,628)
Administrative expenses	32	(56,319)	(34,799)
Other expenses	33	(59,174)	(56,319)
Excess of interest in fair value of entities' net assets acquired over the cost of investment	7, 12	2,796	14,519
Operating profit		**183,584**	**51,146**



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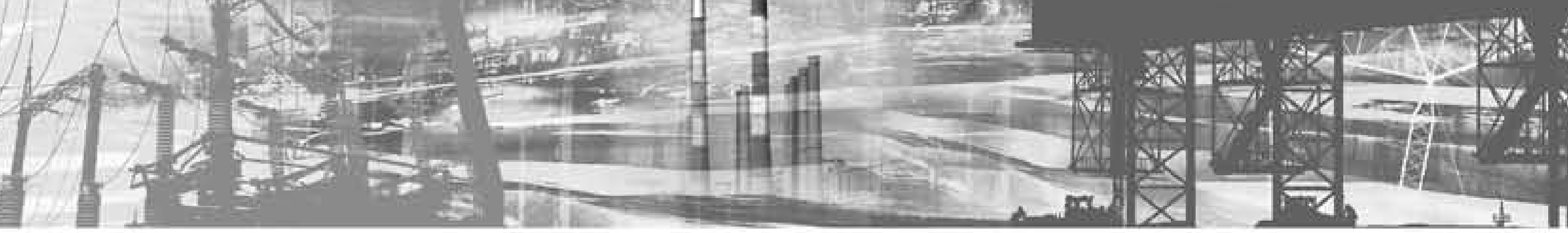
	Notes	2006	2005
Share in profits of associates	7	65	–
Foreign exchange loss		(1,371)	–
Finance income	34	9,230	59,959
Finance costs	35	(32,587)	(18,223)
Profit before income tax		**158,921**	**92,882**
Income tax	15	(61,318)	(40,496)
Profit for the year		97,603	52,386
Attributable to:			
Equity holders of the parent		141,365	51,013
Minority interests		(43,762)	1,373
		97,603	52,386

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2006

(in thousands of USD)

	Notes	2006	2005
OPERATING ACTIVITIES:			
Profit before income tax		158,921	92,882
Adjustments for:			
Depreciation of property, plant and equipment, net of amortization of government grants	29, 31 32, 33	57,396	54,053
Excess of interest in fair value of entities' net assets acquired over the cost of investment	7, 12	(2,796)	(14,519)
Revaluation decrease of property, plant and equipment	33	6,681	-
Impairment of property, plant and equipment	33	-	4,995
Finance costs (income), net	34, 35	23,357	(41,736)
Change in impairment of trade and other receivables and VAT recoverable	33	4,554	13,946
Net loss on disposal and write-off of property, plant and equipment	33	21,322	10,027
Share in profits of associates	7	(65)	-
Payables written-off	30	(578)	(23,554)
Movement in provisions and defined employee benefit liability	24, 27	33,139	18,660
Foreign exchange loss		712	-
Operating profit before working capital changes		302,643	114,754
Changes in:			
Inventories		(10,764)	15,137
Trade and other receivables		(59,574)	13,198
Prepayments and other current assets		(2,517)	(423)
Advances received		5,091	5,042
Trade and other payables		25,665	(31,040)
Taxes payable, other than income tax		(4,983)	8,982
Other financial liabilities		6,414	-
Cash generated from operating activities		261,975	125,650



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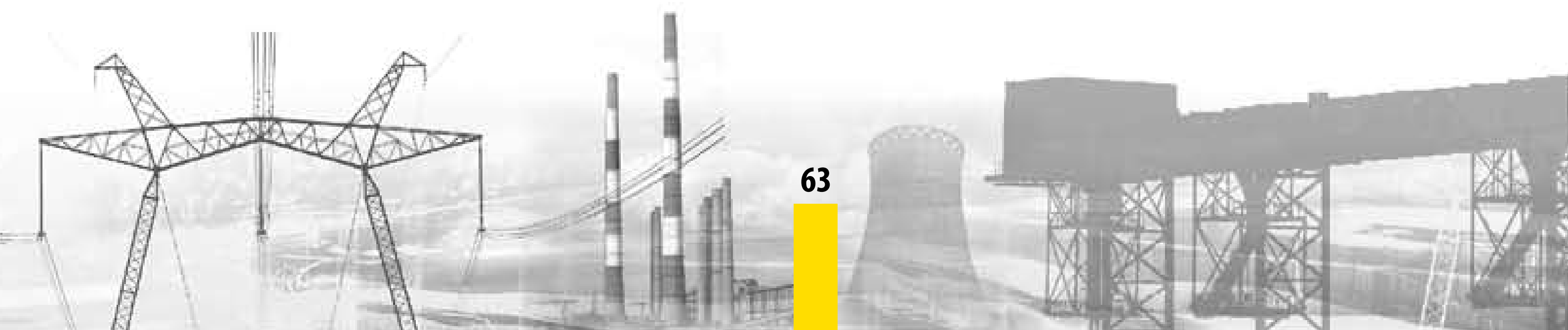
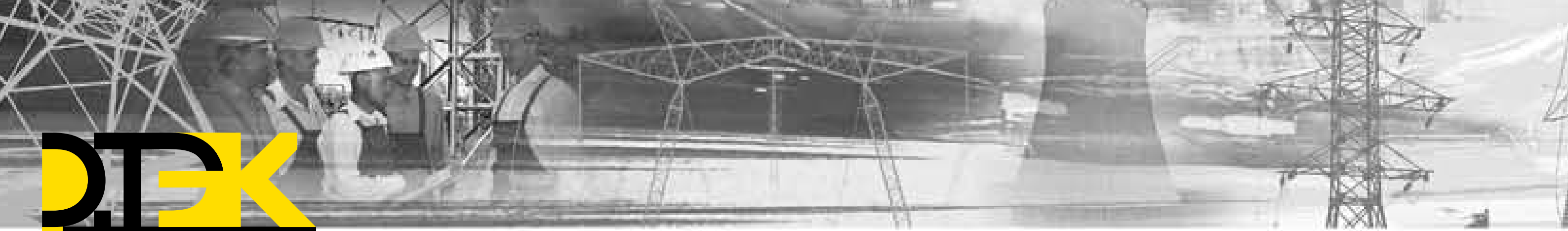
	Notes	2006	2005
Interest paid		(6,788)	(3,188)
Income tax paid		(77,229)	(34,434)
Defined employee benefits paid	27	(8,930)	(4,039)
Net cash flow from operating activities		169,029	83,989
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and intangible assets		(102,936)	(74,858)
Proceeds from disposal of property, plant and equipment		1,602	840
Acquisition of financial investments		(76,240)	-
Proceeds from sale of financial investments		572	-
Interest received		1,061	16
Cash acquired in business combination	7	87	-
Net cash used in investing activities		(175,854)	(74,002)
FINANCING ACTIVITIES:			
Dividends paid	19	(77,772)	-
Distributions to entities under common control	19	(1,656)	-
Proceeds from loans and borrowings		179,888	54,915
Repayment of loans and borrowings		(39,720)	(53,656)
Repayment of restructured obligations	23	(24,056)	-
Net cash provided by financing activities		36,684	1,259
Effect of exchange rate changes on cash and cash equivalents		-	435
Net increase in cash and cash equivalents		29,859	11,246
Cash and cash equivalents at 1 January	18	17,004	5,323
Cash and cash equivalents at 31 December	18	46,863	17,004
Net increase in cash and cash equivalents		29,859	11,246

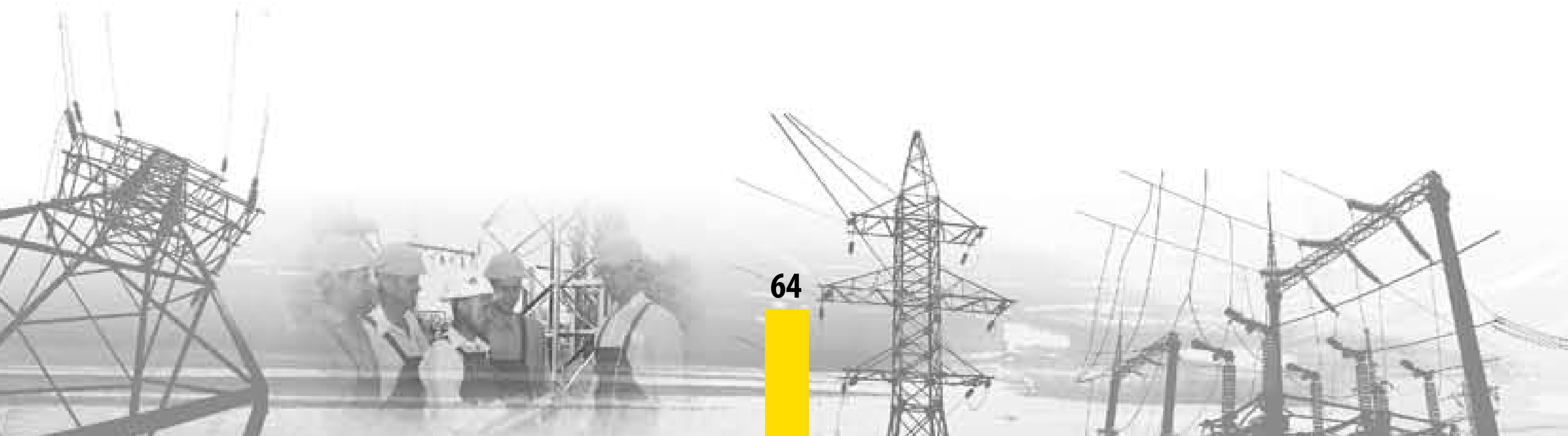




CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2006

(in thousands of USD)

	Attributable to equity holders of the parent						
	Issued capital (Note 19)	Additional paid-in capital	Retained earnings	Other reserves (Note 19)	Total	Minority interests	Total equity
Balance at 31 December 2004	–	126,868	31,379	510	158,757	223,162	381,919
Acquisition of minority interest (Note 12)	–	7,784	13,087	–	20,871	(2,645)	18,226
Foreign currency translation	–	–	–	9,091	9,091	11,267	20,358
Profit for the year	–	–	51,013	–	51,013	1,373	52,386
Balance at 31 December 2005	-	134,652	95,479	9,601	239,732	233,157	472,889
Revaluation of property, plant and equipment, net of tax	–	–	–	444,257	444,257	26,921	471,178
Net gain on available-for-sale investments, net of tax	–	–	–	15,058	15,058	–	15,058
Total income and expense for the year recognised directly in equity	–	–	–	459,315	459,315	26,921	486,236
Profit for the year	–	–	141,365	–	141,365	(43,762)	97,603
Total income and expense for the year	-	-	141,365	459,315	600,680	(16,841)	583,839



continued

	Attributable to equity holders of the parent						
	Issued capital (Note 20)	Additional paid-in capital	Retained earnings	Other reserves (Note 20)	Total	Minority interests	Total equity
Net capital contribution as a result of reorganization (Note 19)	32	50,637	–	–	50,669	–	50,669
Loss of acquired associate related to previously held ownership interest (Note 7)	–	–	(472)	–	(472)	–	(472)
Minority share in net deficit relating to acquisition of PES-Energougol OJSC (Note 7)	–	–	(3,262)	–	(3,262)	–	(3,262)
Dividends (Note 19)	–	–	(77,772)	–	(77,772)	–	(77,772)
Balance at 31 December 2006	32	185,289	155,338	468,916	809,575	216,316	1,025,891

Notes To The Consolidated Financial Statements

1. Corporate information

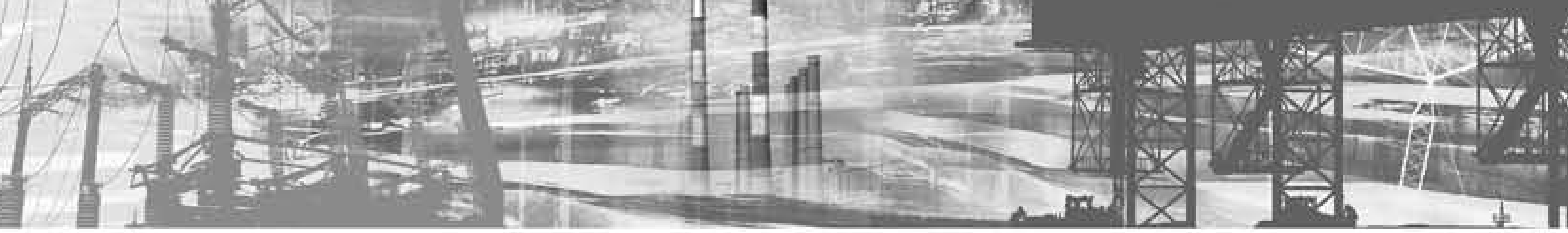
DTEK Holdings Limited (hereinafter referred to as the "Company") was incorporated in Cyprus on 10 April 2006 under the Cyprus Companies Law, Cap.113 as a private limited liability company. All the shares were owned by SCM (System Capital Management) Limited, a limited liability company registered in Cyprus. SCM Limited is 100% owned subsidiary of Joint Stock Company System Capital Management ("SCM"). SCM is registered in Donetsk, Ukraine. The Company and its subsidiaries are ultimately controlled by Mr. Rinat Akhmetov. He also has a number of other business interests outside of the Group. Related party transactions are detailed in Note 36. The list of the subsidiaries is disclosed in Note 39.

The principal activity of the Company and its consolidated subsidiaries (collectively referred to as the "Group" or "DTEK") is coal mining and further enrichment and power generation and distribution in Ukraine (Note 8). The Group's coal mines and electricity generation plants are located in Donetsk, Dnipropetrovsk and Lugansk regions of Ukraine. The Group sells all electricity produced by its electricity generation plants to the State company Energorynok, a state owned electricity metering and distribution pool, at prices determined by the National Electricity Regulatory Committee of Ukraine. In 2006 the Group acquired a subsidiary which acquires electricity from Energorynok and distributes it to end customers.

As further described in Note 7, the Group was formed in 2006 through a net capital contribution as a result of reorganization. As the Group has been formed through a reorganisation of entities under common control, these consolidated financial statements have been prepared using the pooling of interest method. As such, the financial statements, including corresponding amounts, have been presented as if the transfers of controlling interests in the subsidiaries had occurred at the beginning of the earliest period presented (i.e. 1 January 2005), or, if later, on the date of the acquisition of the subsidiary by the transferring entities under common control. The assets and liabilities of the transferred subsidiaries were recorded in these consolidated financial statements at the carrying amount in the transferring entities' financial statements. The difference between the carrying amount of net assets and the purchase consideration was accounted for in these consolidated financial statements as an adjustment to equity.

The Company's registered office is located at Themistokli Dervi 3, Julia House, P.C.1066, Nicosia, Cyprus and principal place of business of the Group is 11 Shevchenko blvd, 83055 Donetsk, Ukraine.

The consolidated financial statements of DTEK Holdings Limited for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the Board of Directors on 25 June 2007.



2. Operating environment, risks and economic conditions

General economic conditions

The Ukrainian economy, where most of the Group's activities are concentrated, while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the government's policies and actions with regards to supervisory, legal, and economic reforms. As a result, operations in Ukraine may involve risks that are not typical for developed markets.

The Group's operations and financial position will continue to be affected by Ukrainian political developments including the application of existing and future legislation and tax regulations. Such occurrences and their effect on the Group could have a significant impact on the Group's ability to continue operations.

Financial risk management objectives and policies

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The management reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group attracts substantial amount of USD denominated loans and is thus exposed to foreign exchange risk (Note 21).

The Group does not have formal arrangements to mitigate foreign exchange risks. However, management believes that the Group' total exposure is insignificant to the Group's operations as the exchange rate of Ukrainian hryvnia ("UAH") to USD did not fluctuate significantly during the last year. As at 31 December 2006, the exchange rate of UAH as established by the National Bank of Ukraine was 5.05 to the US dollar. The rate at the date of issue of these consolidated financial statements was 5.05 to the US dollar.

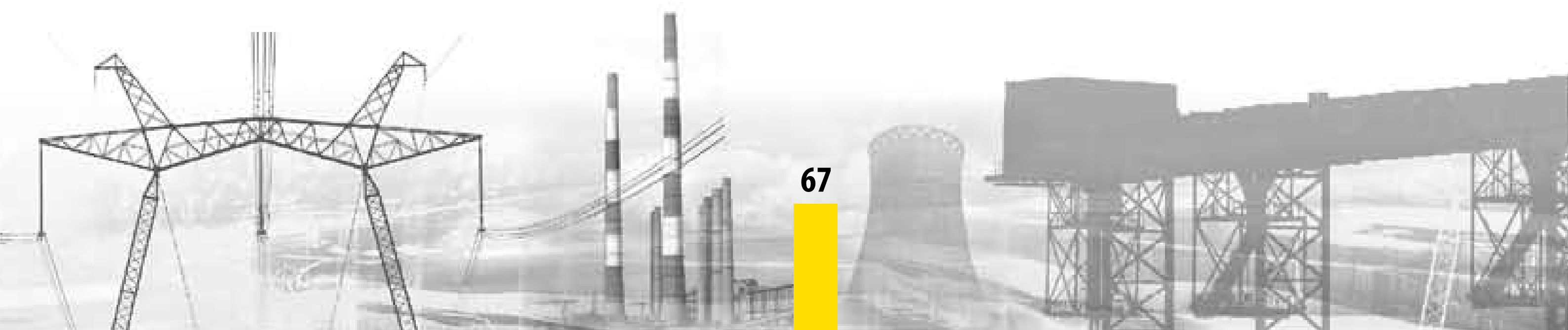
Liquidity risk

The Group's liquidity objective is to maintain continuity and flexibility of funding through the use of credit terms provided by suppliers and bank loans and borrowings.

The Group analyzes the aging of its assets and the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments. In the case of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among Group entities to achieve optimal financing of the business needs of each entity.

Credit risk

The Group is mainly exposed to credit risk through its financial instruments and prepayments made. Financial instruments, which potentially subject the Group to significant concentrations of credit risk, consist principally of cash in bank, trade and other receivables and prepayments



made. Group's maximum credit risk exposure at 31 December 2006 comprised USD 169,417 thousand (2005: USD 74,231 thousand).

Accounts receivable are presented net of allowances for impairment. The Group does not require collateral in respect of financial assets.

The Group sells all electricity produced by its electricity generation plants to a single customer – the State company Energorynok – a state owned electricity distribution pool. As at 31 December 2006 accounts receivable from Energorynok represented 33% (2005: 13%) of the total trade accounts receivable of the Group (Note 14).

In relation to the Group's energy distribution and mining segments, management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed of all customers requiring credit over a certain amount. Management believes that the Group's exposure to the credit risk is not material to the overall business of the Group.

The Group's cash is primarily held with major reputable banks located in Ukraine.

The Group's credit risk exposure is monitored and analyzed on a case-by-case basis, and the Group's management believes that credit risk is appropriately reflected in impairment allowances recognized against assets.

Financial instruments are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Interest rate risk

The Group attracts predominantly short-term loans at fixed rates between 8 and 14.9%. The interest rates are disclosed in more details in Notes 21 and 25. The Group has not entered into transactions designed to hedge against the interest rate risk.

3. Basis of preparation

The financial statements are prepared on the historical cost basis, except that available-for-sale investments are stated at fair value; property, plant and equipment which are measured at revalued amount and post-employment benefits measured at fair value. The consolidated financial statements are presented in USD thousands and all values are rounded off to the nearest thousand except where otherwise indicated.

Statement of compliance

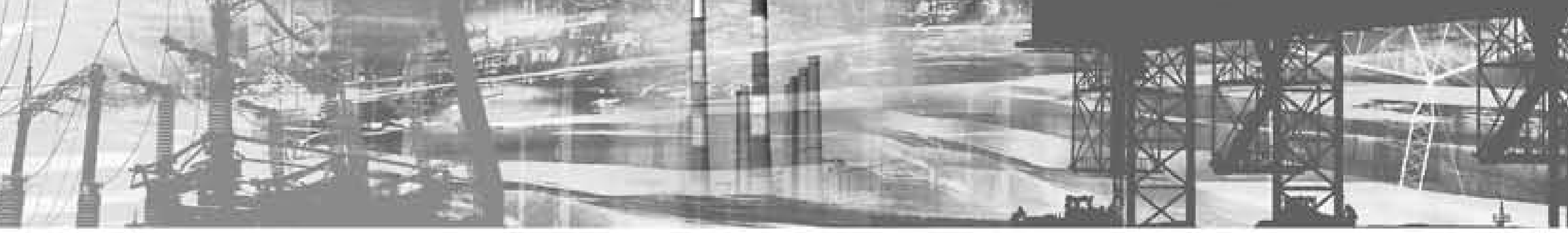
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Functional and presentation currencies

The Company's functional currency is the United States dollar ("US dollar"). Ukrainian hryvnia is the functional currency of the subsidiaries domiciled in Ukraine. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

These consolidated financial statements are presented in US dollars and issued in addition to the consolidated financial statements presented in Ukrainian hryvnia. Such presentation is considered to be more convenient for certain users of the consolidated financial statements.

Assets and liabilities of subsidiaries domiciled in Ukraine are translated into the presentation currency at the closing rate existing at the date of each balance sheet presented; income and



expenses are translated at the annual average exchange rates for the respective years. Cash flow statements are translated at annual average rates for the respective years, with the exception of cash and cash equivalents at the beginning and at the end of reporting periods, which are translated at the exchange rate ruling at the respective dates. Equity items other than those resulting from income and expense recognised in the period are translated at closing rates. The exchange differences arising on the translation are taken directly to a separate component of equity.
The Ukrainian hryvnia is not a convertible currency outside the territory of Ukraine. Within Ukraine, official exchange rates are determined daily by the National Bank of Ukraine (the "NBU"). Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the NBU. As of 31 December 2006 and 2005 the official rate of exchange for 2006 and 2005 was 5.05 and 5.12 hryvnia to USD 1 and the average exchange rate for 2006 and 2005 was 5.05 hryvnia to USD 1.
Any translation of hryvnia amounts to US dollar should not be construed as a representation that such hryvnia amounts have been or will be converted into US dollars as the exchange rates shown.

Foreign currency translation

Transactions denominated in currencies other than the relevant functional currency (foreign currencies) are initially recorded in the functional currency at the rate in effect at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional-currency rate of exchange in effect at the balance sheet date. Non-monetary items that were measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values were determined. The resulting gains and losses are recognised in the income statement.

4. Changes in accounting policies

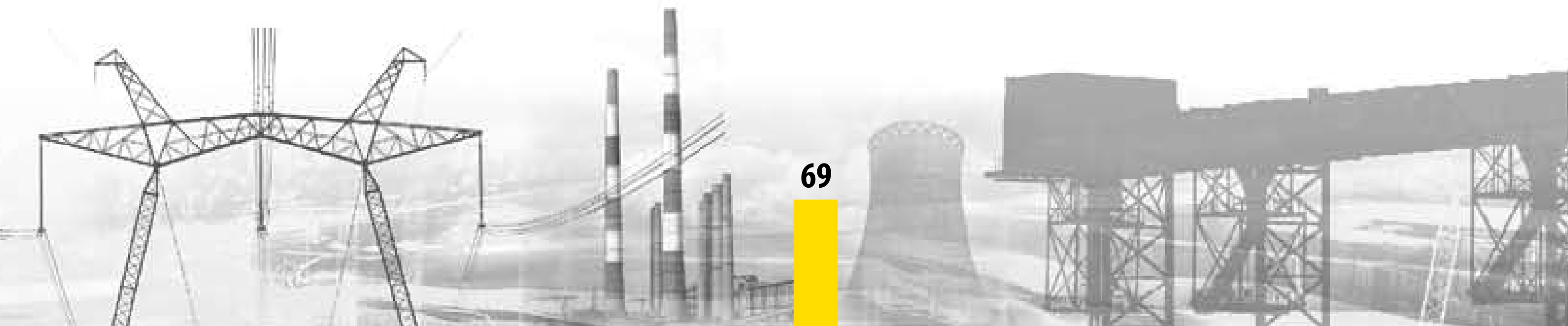
The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards and interpretations mandatory for financial years beginning on or after 1 January 2006 and the initial application of a policy to revalue property, plant and equipment in accordance with IAS 16 "Property, Plant and Equipment".
The changes in accounting policies result from adoption of the following new or amended standards and interpretations:

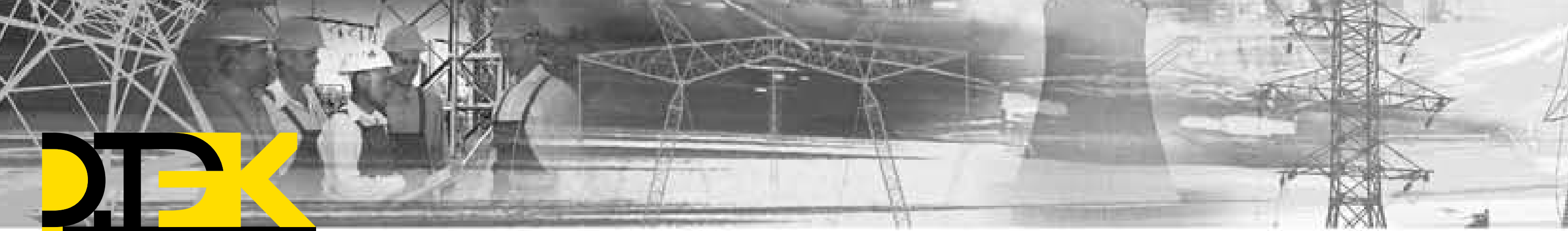
- *IFRS 6 "Exploration for and Evaluation of Mineral Resources";*
- *IAS 19 (amended 2005) "Employee Benefits";*
- *IAS 21 (amended 2005) "The Effects of Changes in Foreign Exchange Rates";*
- *IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";*
- *IFRIC 4 "Determining whether an Arrangement contains a Lease";*
- *IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".*

The principal effects of these changes in policies are discussed below.

IFRS 6 "Exploration for and Evaluation of Mineral Resources"

The IASB issued IFRS 6 "Exploration for and Evaluation of Mineral Resources" in 2004 and amended the Standard in June 2005. IFRS 6 permits, but does not require, an entity to develop an accounting policy for exploration and evaluation of assets without specifically considering the requirements of paragraphs 11 and 12 of IAS 8. Thus, an entity adopting IFRS 6 may continue to use the accounting policies applied immediately before adopting the standard. This includes continuing to use





recognition and measurement practices that are part of those accounting policies. IFRS 6 requires entities recognizing exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying value of the assets may exceed their recoverable amount. IFRS 6 varies the recognition of impairment from that in IAS 36 but measures the impairment in accordance with that Standard once the impairment is identified.

IAS 19 (amended 2005) "Employee benefits"

As of 1 January 2006, the Group adopted the amendments to IAS 19. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included for the years ending 31 December 2006 and 2005 but has not had a recognition or measurement impact, as the Group chose not to apply the new option offered to recognize actuarial gains and losses outside of the income statement.

IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement"

The amendments to IAS 39 in 2005:

- required to include financial guarantee contracts issued;
- permitted the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the financial statements;
- restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss.

These amendments did not have an effect on the Group's financial statements.

IFRIC 4 "Determining whether an Arrangement Contains a Lease"

IFRIC 4 provides guidance for determining whether arrangements are, or contain, leases that should be accounted for in accordance with IAS 17, if the arrangements comprise a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments. The adoption of this IFRIC Interpretation as of 1 January 2006 has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

Amended IAS 21 and IFRIC 5 did not have impact on the financial statements.

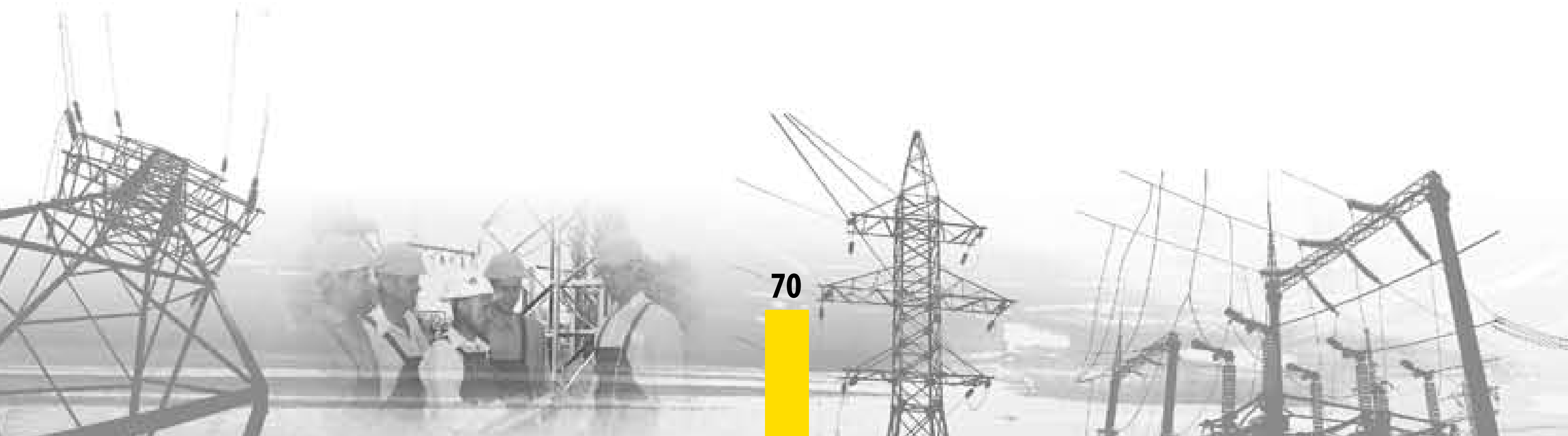
IFRSs and IFRIC Interpretations not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- *IFRS 7 "Financial Instruments: Disclosures";*
- *IFRS 8 "Operating Segments";*
- *IAS 1 (amended 2005) "Presentation of Financial Statements – Capital Disclosures";*
- *IAS 23 "Amendment - Borrowing costs";*
- *IFRIC 8 "Scope of IFRS 2";*
- *IFRIC 9 "Reassessment of Embedded Derivatives";*
- *IFRIC 10 "Interim Financial Reporting and Impairment";*
- *IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions";*
- *IFRIC 12 "Service Concessions Arrangements".*

IFRS 7 *"Financial Instruments: Disclosures"* replaces the disclosure requirements of IAS 32 and must be applied for annual reporting periods that commence on or after 1 January 2007.

IFRS 8 *"Operating Segments"* sets out



requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. This standard must be applied for annual reporting periods that commence on or after 1 January 2009.

The amendment of IAS 1 *"Presentation of Financial Statements – Capital Disclosures"* requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after 1 January 2007.

The amendment of IAS 23 Borrowing costs removes the option to immediately recognise as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale, and accordingly the Group will have to capitalise all borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

IFRIC 9 clarifies that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity shall apply this interpretation for annual periods beginning on or after 1 June 2006.

Applying IFRIC 10, an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. An entity shall apply this interpretation for annual periods beginning on or after 1 November 2006.

IFRIC 11 addresses the issues whether the certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after 1 March 2007.

IFRIC 12 addresses the accounting issues relating to the service concession arrangements. An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2008.

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's result of operations and financial position in the period of initial application. The adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the financial statements.

5. Significant accounting judgments, estimates and assumptions

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on information available as at the date of authorising the financial statements for issue. Actual results, therefore, could differ from those estimates.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. This requires an estimation of the value in use of the cash-generating units to which the item is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable pre-tax discount rate in order to calculate the present value of those cash flows. No impairment losses were recognised or reversed in the years ended 31 December 2006 and 2005.

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable pre-tax discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the recoverable amount and ultimately the amount of any property, plant and equipment impairment.

Useful lives of items of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in the income statement. In 2006 the useful lives of certain underground workings were reassessed downwards in a result of the anticipated effect of mines modernisation program. The overall range of 20 – 100 years of useful lives remained unchanged. Consequently, in the years ended 31 December the change in estimates of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately USD 8,952 thousand (2005: nil).

Coal reserves and recoverability of property, plant and equipment

Reserves are estimates of the coal that can be economically and legally extracted by the Group's entities. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices.

Coal reserves are extracted based on the mineral extraction licenses that are valid up to 20 years. The licenses may be renewed at the option of the management.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to

period. Changes in reported reserves may affect the DTEK Group's financial results and financial position in a number of ways, including the following:

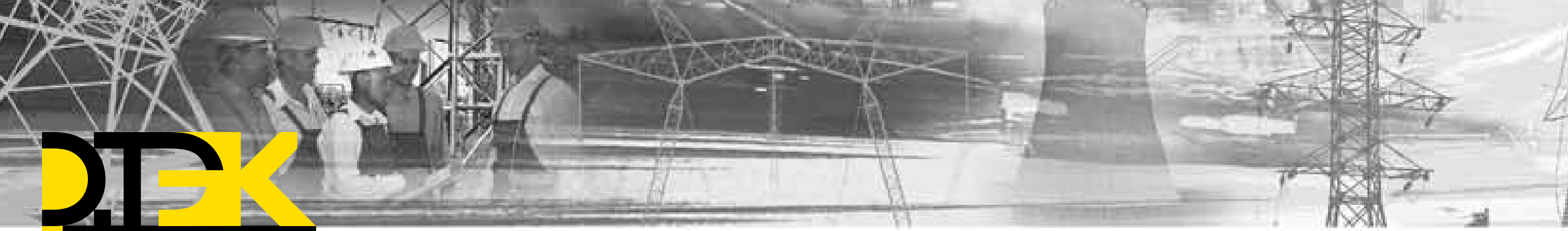
- Asset carrying values may be affected due to changes in estimated future cash flows.
- Depreciation, depletion and amortisation charged in the income statement may change where the useful economic lives of assets change.
- Site restoration provisions and assets retirement obligation may change where changes in estimated reserves affect expectations about the timing or cost of these activities.
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

Fair values of assets and liabilities acquired in business combinations accounted for using the purchase method

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

Site restoration provisions and assets retirement obligation

According to the Code on Mineral Resources, Land Code of Ukraine, Mining Law, Law on Protection of Land and other legislative documents, certain entities are responsible for site restoration and soil rehabilitation upon the abandonment of mines. The Group review site restoration provisions at each balance sheet date, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognized



as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. As of 31 December 2006 and 2005, site restoration provisions that are included in other non-current liabilities were USD 9,344 thousand and USD 1,534 thousand, respectively. More details are provided in Note 24.

Post-employment benefits

Post-employment benefits are generally satisfied by plans which are classified and accounted for as defined benefit plans. The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with an actuarial valuation, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a limited extent, expected return on plan assets. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. More details are provided in Note 27.

Impairment of trade and other receivables

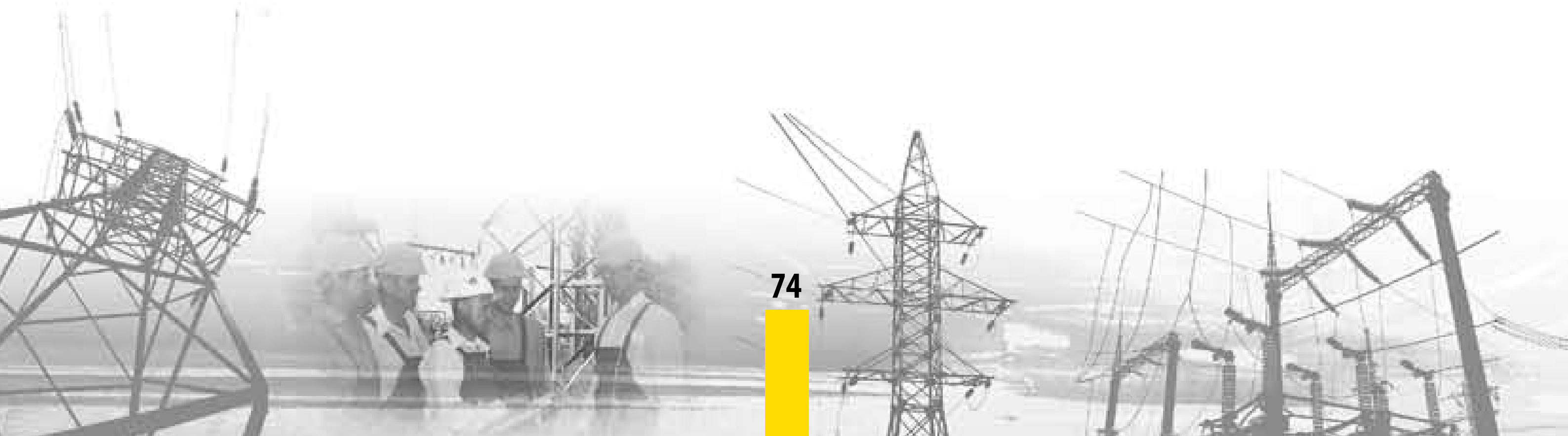
Management estimates the likelihood of the collection of trade and other account receivables based on an analysis of individual accounts. Factors taken into consideration include ageing analysis of trade and other accounts receivable in comparison with the credit terms allowed to customers, and the financial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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use 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.

Deferred income tax assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in the income statement.



Environmental obligations

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. No provision for environmental obligations has been recognised in these consolidated financial statements.

Restructured obligations, interest free and low interest bonds and promissory notes

The Group has a number of interest free and low interest bonds and promissory notes issued to related parties (Note 36). In addition, certain obligations of the Group to third parties were restructured as a result of the amicable agreement signed with creditors in 2005 (Note 23). These financial instruments are accounted for at fair value at initial recognition and are subsequently measured at amortised cost using the effective interest rate method. The management uses its judgement to estimate the effective interest rate and fair value of these financial instruments at initial recognition by reference to other instruments with similar terms.

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 40).

Litigations

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

6. Summary of significant accounting policies

Property, plant and equipment

Owned assets

Prior to 2006 property, plant and equipment was stated at cost or deemed cost determined at the date of adopting IFRS by the Group's subsidiaries. In 2006 the Group adopted a policy to measure property, plant and equipment at revalued amount, being its fair value at the date of the revaluation, and therefore as of 31 December 2006 property, plant and equipment are stated at revalued amounts less accumulated depreciation and accumulated impairment losses.

Fair value of property, plant and equipment is determined by reference to depreciated replacement cost or market-based evidence in accordance with International Valuation Standards. The majority of the plant and machinery is specialised in nature and is rarely sold on the open market 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 for using a market-based approach for determining fair value. Consequently the fair value of 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 economical 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 were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment.

Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

The Group's property, plant and equipment include underground workings, which consist of mine development and construction costs. Mine development and construction costs represent expenditures incurred in developing access to mineral reserves and preparations for commercial production, including sinking shafts and underground drifts, roads, infrastructure, buildings, machinery and equipment.

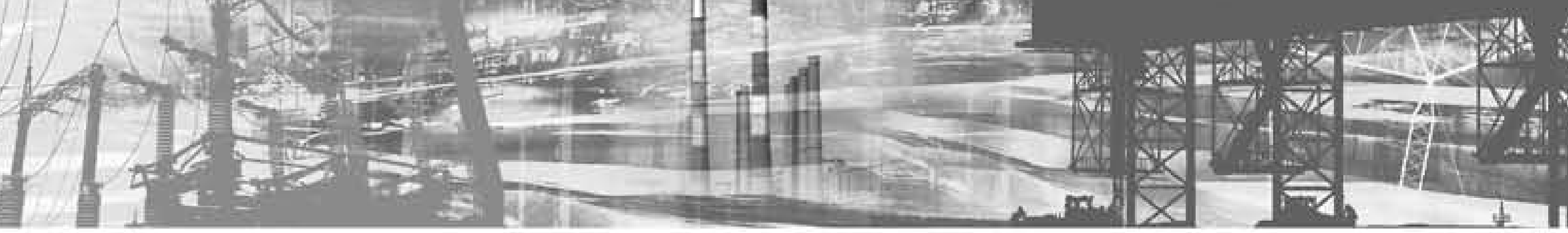
Costs of acquiring mineral properties are capitalised within property, plant and equipment in the year in which they are incurred. Costs associated with a start-up period for significant developments are capitalised during the commissioning period (development expenditure) where the asset is incapable of operating at normal levels without a commissioning period.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Major spare parts and stand-by equipment qualify as property, plant and equipment when they are expected to be used during more than one period.

The Group has the title to certain non-production and social assets, primarily buildings and social infrastructure facilities. Same items of social infrastructure facilities do not meet the definition of an asset according to IFRS and are not recorded in these consolidated financial statements.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.



Subsequent expenditure

Repair and maintenance expenditures are expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred.

When each major inspection is performed, its cost is recognised as a component in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

Revaluation

A revaluation increase on an item of property, plant and equipment is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease on an item of property, plant and equipment is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Construction in progress

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated.

Land

The Group has the right to permanent use of the land on which it is located, and pays land tax as assessed annually by the state based on the total area and use for which the land is zoned. In Ukraine, land is state property and, therefore, is not included in the Group's balance sheet.
Impairment

Impairment

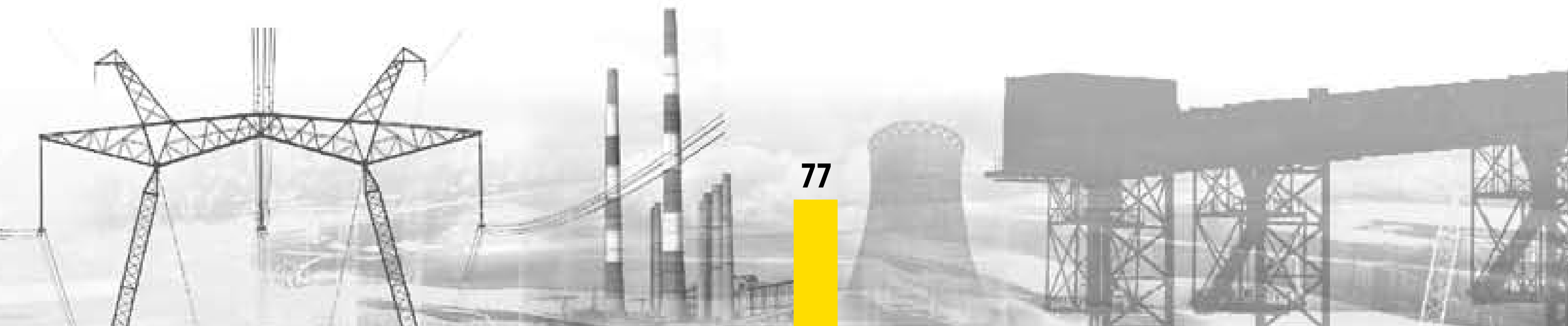
At each balance sheet date management makes an assessment to determine whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is the higher of an asset's fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in previous years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Depreciation

The cost of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of the individual asset or on a unit of production basis depending on the type of asset. Changes in estimates are accounted for prospectively. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

Underground workings	20–100 years
Buildings and constructions	10–50 years
Plant and machinery	2–30 years
Fixtures, fittings and other equipment	2–15 years



Borrowing costs
Borrowing costs are recognised as an expense when incurred.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries are prepared as at the same reporting date as the Company's, using consistent accounting policies. Adjustments are made to harmonise any dissimilar accounting policies that may exist.

Subsidiaries
Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The existence and effect of potential voting rights, such as a proxy to vote and call options that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The proportion allocated to the Group and minority interest is determined solely on the basis of present ownership interest. Acquisitions of subsidiaries from third parties are accounted for using the purchase method of accounting.

Acquisition of subsidiaries from parties under common control
Acquisition of subsidiaries from parties under common control is accounted for using the pooling of interest method.
The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts in the financial statements of the transferring entities under common control of SCM at the date of the transfer. Goodwill related to the acquisition of the subsidiaries by the transferring entities is also recorded in these financial statements. Any difference between the total book value of net assets in the financial statements of the transferring entities, including the goodwill, and the consideration paid is accounted for as an adjustment to the equity.
The subsidiary is subsequently treated as if it had been acquired by the Group on the date it was originally acquired by the transferring entity under common control of SCM.

Net assets of limited liability companies
Pursuant to Ukrainian legislation currently in force and in compliance with the subsidiaries' charter documents, participants of the Group's subsidiaries; Sotsis LLC, Service Enterprise LLC, Ekoenergoresurs LLC, CCM Kurahovskaya LLC and CCM Pavlogradskaya LLC (2005: Tehrempostavka LLC, DTEK LLC and Vostokenergo LLC) have the unconditional right to redeem their interests in the entity at any time for cash equal to their proportionate share of the asset value of the entity (Note 39). Therefore, the minority interest in these LLCs is classified as a liability in the Group's consolidated financial statements and the income attributed to the minority interests is shown as a finance charge in the consolidated income statement.

Minority interest
Minority interest, in other than limited liability companies, represents the portion of net assets not held by the Group and is presented within equity in the consolidated balance sheet, separately from equity attributable to equity holders of the parent.
The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able

to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

Acquisitions of minority interests

Any excess of the consideration paid to acquire a minority interest over the carrying amount of that minority interest at the date of acquisition is recognised as goodwill. Any excess of the carrying value of minority interest at the date of acquisition over the considerations paid is recognised immediately in the income statement.

Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the income statement, and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate. In a piecemeal acquisition of an associate a "catch up" equity method adjustment is recognised relating to the interests previously held.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated unless costs can not be recovered.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition.

The entities being acquired by the Group from the third parties are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences, unamortised goodwill and minority interest is recognised in the income statement.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets including mineral licences are amortised over the useful economic lives of 3 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, held-to maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group has not designated any financial instruments at fair value through profit and loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as either loans and receivables, or held to maturity investment or financial assets at fair value through profit and loss. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised directly in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investment are recognised in the income statement.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – cost on a first-in, first-out basis;
- Finished goods and work in progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Trade and other receivables

Trade receivables, which generally have a short term, are carried at original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is objective evidence that the Group will not be able to collect the debts.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Issued capital

The Company's issued capital is recognised at the value of the consideration received.

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 financial statements are authorised for issue.

Trade payables and other financial liabilities

Trade payables and other financial liabilities are recognised and initially measured at fair values less directly attributable transaction costs. Subsequently, instruments with a fixed maturity are carried 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. Financial liabilities which do not have a fixed maturity are subsequently carried at fair value.

Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in net profit or loss when the liabilities are derecognised.

Derecognition of financial assets and liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

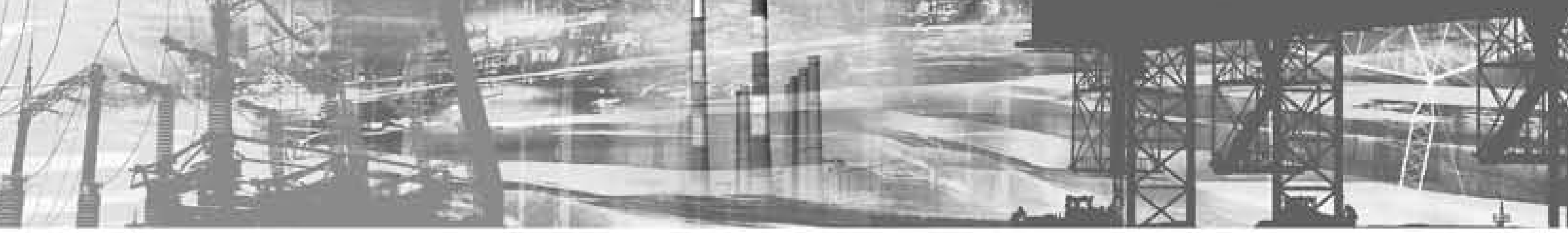
- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.
Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.
Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of financial assets
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Available-for-sale financial assets
If an available-for-sale asset is impaired, an amount comprising the difference between



its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of 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. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Environmental liabilities

Environmental expenditures that relate to current or future revenues are expensed or capitalised as appropriate. Immediate provision is made for expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings in order to recognise the liability in the year when they are identified. Measurement of liabilities is based on current legal requirements and obligations and estimated based upon existing technical standards.

Site restoration costs

Site restoration provisions are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (determined by an independent expert) in the accounting period when the related environmental disturbance occurs. The provision is discounted where material and the accretion/ unwinding of the discount is included in finance costs. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future benefit and depreciated over future production from the mine to which it relates.

The provision is reviewed on an annual basis for changes in cost estimates, discount rates or life of operations.

Contingent assets and liabilities

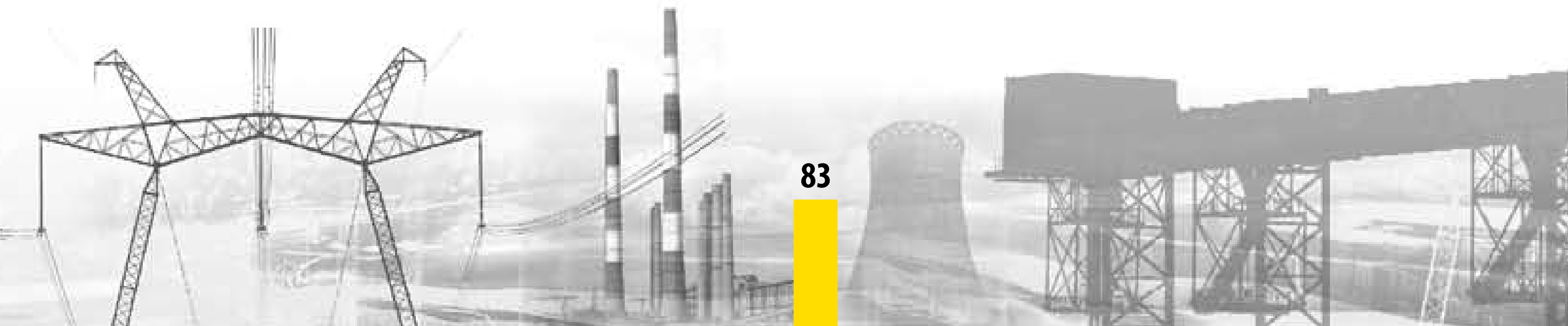
A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

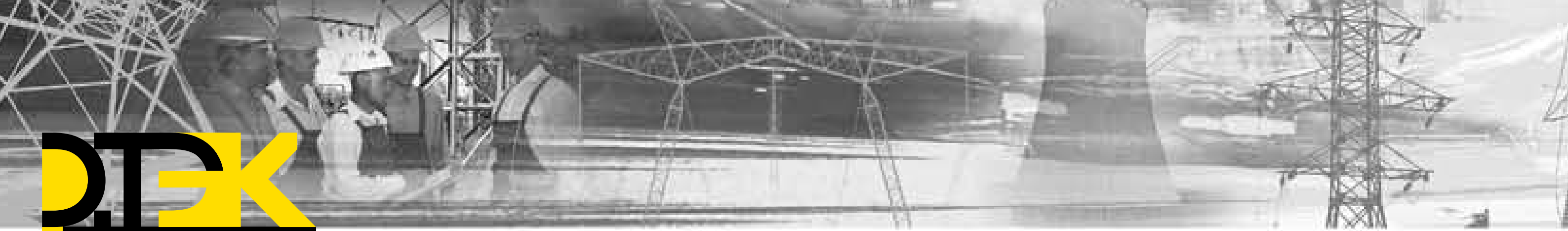
Contingent liabilities are not recognised in the consolidated financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic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

Pension obligations and other employee benefits

The Group makes defined contributions to the Ukrainian state pension schemes at the relevant statutory rates in force during the year, based on gross salary payments; such an expense is charged in the period when the related salaries are earned.

In addition, the Group has a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the current and former employees of the Group and has





a legal obligation to its employees (in the form of a collective agreement) to make one-off payments upon retirement to employees with a long term of service. These obligations being unfunded are substantially similar to those typically existing under an unfunded defined benefit plan. Costs relating to this plan are accrued in these financial statements using the projected unit credit method in respect of those employees entitled to such payments. Management uses actuarial techniques in calculating the liability related to this retirement obligation at each balance sheet date. Actual results could vary from estimates made to date.

Gains and losses resulting from the use of internal actuarial valuation methodologies are recognised when the cumulative unrecognised actuarial gains or losses for the scheme exceed 10% of defined benefit obligation. These gains or losses are recognised as income or expense over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognised reduced by past service cost not yet recognised.

Other costs

The Group incurs employee costs related to the provision of benefits such as health services and kindergartens services. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to cost of sales.

Government grants

Government grants in the form of subsidies received or receivable are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

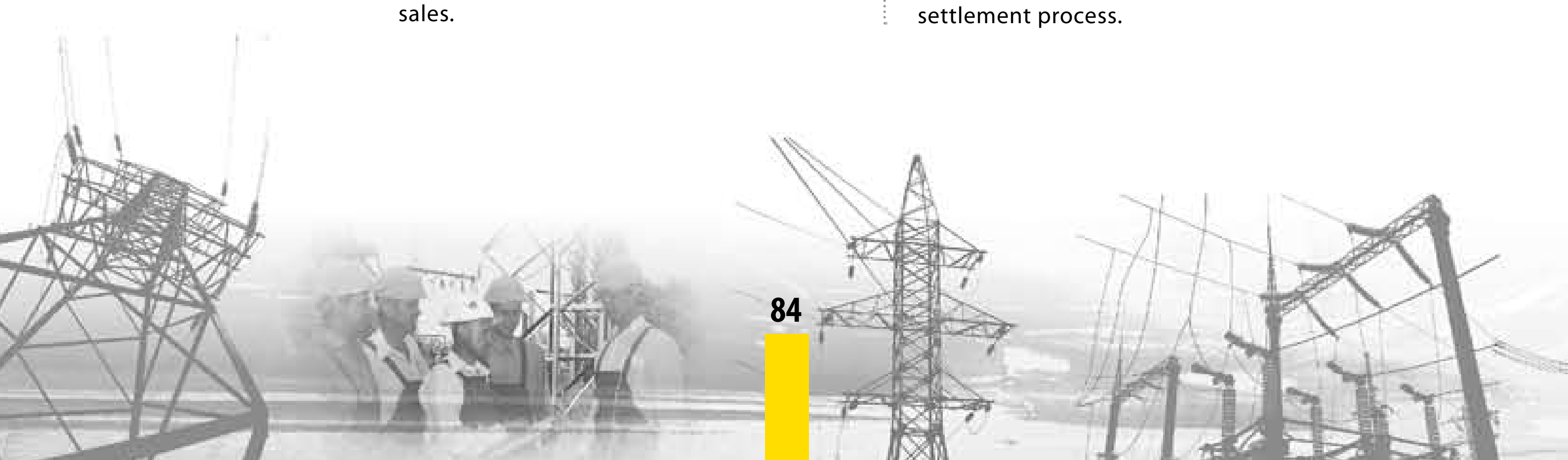
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

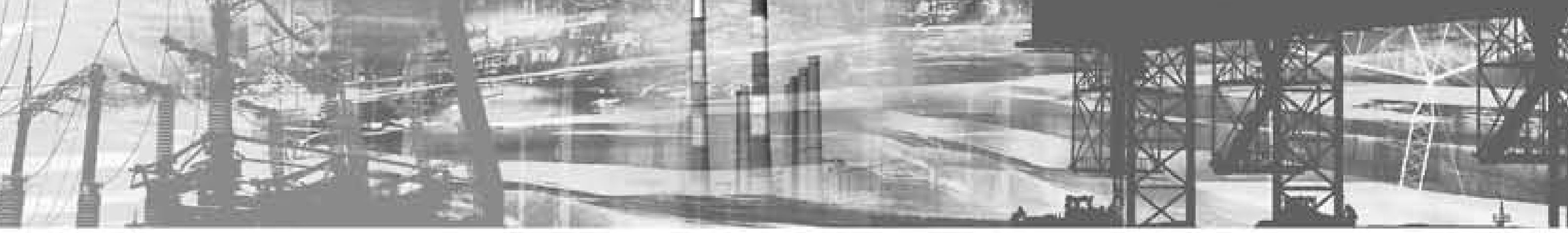
Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Sale of electricity to electricity pool

The Group sells all electricity produced by its electricity generation plants to the State company Energorynok, a state owned electricity distribution pool, at prices determined by the National Electricity Regulatory Committee of Ukraine. 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, based on external data supplied by the electricity settlement process.





Sale of heat and electricity to final customers

The Group sells heat and electricity to its customers at prices determined by National Electricity Regulatory Committee of Ukraine. Revenues are recognised when the risks and rewards of ownership are transferred to immediate customers of the Group. Revenues are measured at fair value of the consideration received or receivable, net of VAT applicable.

Rendering of services

Revenue from the rendering of services is recognised when services are rendered.

Interest income

Revenue is recognised as interest accrues.

Taxes

Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities an associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

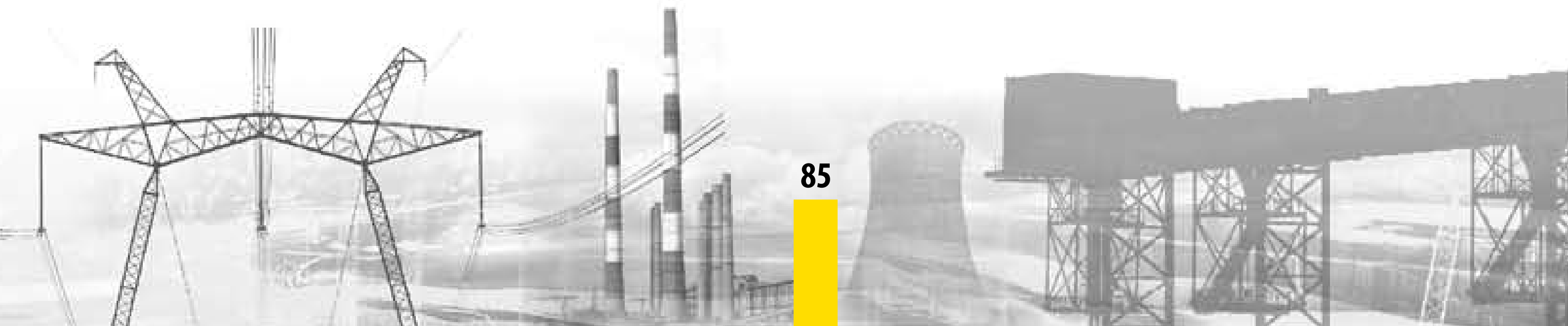
- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax liabilities relating to a taxable temporary difference on the revaluation of property, plant and equipment were initially recognised in equity. As depreciation of property, plant and equipment is included in the income statement the relating effect of deferred tax on these temporary differences



is also recognised in the income statement. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added tax

Revenues, expenses and assets are recognised net of the amount of Value-added tax ("VAT") except:

- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable; and
- Receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is disclosed in the face of the consolidated balance sheet.

Events after the balance sheet date

Events after the balance sheet date that provide additional information on the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes when material.

7. Business combinations and acquisitions of minority interests

Acquisition of Servis-Invest LLC

The Group obtained control over Servis-Invest LLC in September 2006. SCM acquired a 25% ownership interest in Servis-Invest LLC in November 2005 for cash consideration of USD 57,000 thousand and contributed this investment to DTEK LLC in March 2006. The Group purchased the remaining 75% ownership interest in Servis-Invest LLC in September 2006 for cash considerations of USD 2,780 thousand. These two transactions are linked and are accounted for as a single business acquisition in these consolidated financial statements. The fair value of the contribution by SCM to DTEK LLC was measured at USD 55,439 thousand (Note 19).

The fair values of the identifiable assets and liabilities and the historical carrying amounts of Servis-Invest LLC as at the date of acquisition (i.e. 30 September 2006) were:

	Fair values recognised on acquisition	Historical carrying value*
Property, plant and equipment	80,724	80,724
Inventories	837	837
Trade and other receivables	2,618	2,618
Other assets	211	211
Cash and cash equivalents	2,864	2,864
	87,254	87,254
Deferred tax liability	(13,136)	(13,136)
Trade and other payables	(9,096)	(9,096)
Provisions	(4,007)	(4,007)
	(26,239)	(26,239)
Net assets	61,015	61,015
Fair value of 100% of net assets	61,015	
Excess of share in net assets over considerations paid	(2,796)	
Considerations given:		
Consideration satisfied in cash	2,780	
Consideration satisfied by SCM then contributed to the Group	55,439	
	58,219	
Cash inflow on acquisition:		
Net cash acquired with the subsidiary	2,864	
Cash paid by the Group	(2,780)	
Net cash inflow to the Group	84	

**Historical carrying amounts for property, plant and equipment are fair value under the acquiree's accounting policy.*

From the date of acquisition, Servis-Invest LLC has contributed USD 1,379 thousand to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would have been USD 2,208 thousand lower and revenue from operations would have been USD 210,675 thousand higher.
The purchase price was determined and agreed between parties in October 2005. The deal was exercised in September 2006 when fair value of net assets of Servis-Invest LLC increased which resulted in negative goodwill of USD 2,796 thousand.

Acquisition of PES-Energougol OJSC

In January – August 2006 the Group acquired 70.65% of the voting shares in PES-Energougol OJSC, an electricity distribution company based in Donetsk region, Ukraine. PES-Energougol OJSC is a private entity that is not listed on any public exchange. PES-Energougol OJSC sells and distributes electricity to various customers.
This acquisition was achieved in the following stages:

	Stage 1	Stage 2	Stage 3*
Date	January 2006	March 2006	August 2006
Net deficit	(4,468)	(11,409)	(11,116)
Share acquired, %	6.80%	15.32%	48.53%
Share acquired	(304)	(1,748)	(5,394)
Consideration satisfied in cash	746	-	161
Consideration satisfied by SCM then contributed to the Group	-	67	-
Goodwill arising on acquisition	1,050	1,815	5,555
Share acquired			70.65%
Total goodwill (Note 10)			8,420

The fair values of the identifiable assets and liabilities and the historical carrying amounts of PES-Energougol OJSC as at 31 August 2006 were:

	Fair values recognised on acquisition	Historical carrying value
Property, plant and equipment	10,555	10,555
Inventories	710	710
Trade and other receivables	4,783	4,783

continued

	Fair values recognised on acquisition	Historical carrying value
Deferred tax asset	820	820
Cash and cash equivalents	164	164
	17,032	17,032
Trade and other payables	(19,481)	(19,481)
Provisions	(8,417)	(8,417)
Taxes payable	(250)	(250)
	(28,148)	(28,148)
Net deficit	(11,116)	(11,116)
48.53% of net deficit	(5,394)	
Goodwill arising on acquisition	5,555	
Consideration satisfied in cash	161	
Cash inflow on acquisition:		
Net cash acquired with the subsidiary	164	
Cash paid	(161)	
Net cash inflow	3	

** Historical carrying amounts for property, plant and equipment are fair value under the acquiree's accounting policy.*

The Group made an adjustment in the amount of USD 472 thousand to equity for the loss of PES-Energougol OJSC from the date the Group acquired the initial 6.81% interest until the Company acquired the additional 15.31%. Subsequent to the acquisition of the additional 15.31% PES-Energougol OJSC was accounted for under the equity method. The Group's share in profits of PES-Energougol OJSC for the period when it was accounted as an associate equalled USD 65 thousand.

The share in net deficit of PES-Energougol OJSC of USD 3,262 thousand attributable to minority interest at the date of business combination was allocated to the Group and recognised in equity attributable to equity holders of the parent.

From the date of acquisition, PES-Energougol OJSC has incurred USD 198 thousand losses which were recognised in the Group's consolidated financial statements. If the combination had taken place at the beginning of the year, the profit for the Group would have been USD 6,868 thousand lower and revenue from operations would have been USD 46,171 thousand higher.

Goodwill related to the acquisition of PES-Energougol OJSC represents the payment made by the Group in anticipation of future economic benefits from access to the PES-Energougol OJSC distribution networks and customers base.

8. Segment information

Segment information is presented in respect of the Group's business segments. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment offering different products and serving different markets. The primary format, business segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is not 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 in consolidation.

The Group comprises the following main business segments:

Mining. The mining segment is engaged in coal extraction and processing and is represented by the following companies: Komsomolets Donbassa Mine OJSC, Pavlogradugol OJSC, CCM Kurahovskaya LLC, CCM Pavlogradskaya LLC and Pershotravensky RMZ LLC.

Energy production. The energy production segment produces electrical energy. The Group sells all electricity produced by its electricity generation plants to the State company Energorynok, a state owned electricity distribution pool, at prices determined by the National Electricity Regulatory Committee of Ukraine. Production of electricity creates a by-product which is sold as thermal energy. This segment includes the following companies: Vostokenergo LLC and Tehrempostavka.

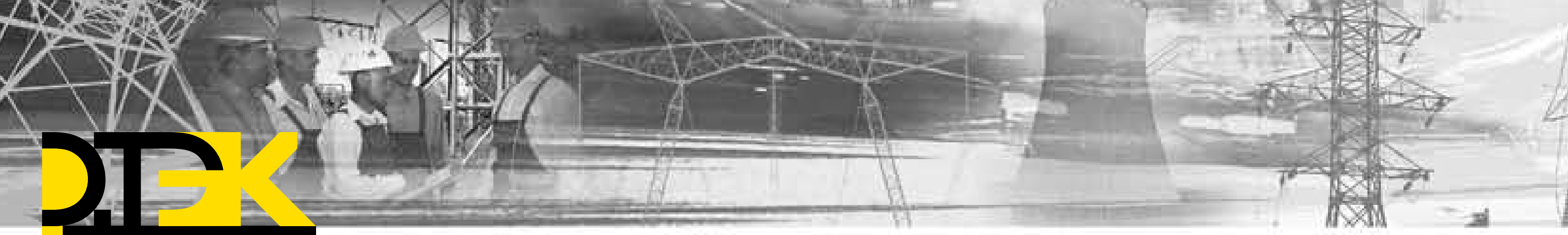
Energy distribution. The energy distribution segment distributes electrical energy to ultimate customers in Ukraine. This segment includes the two companies: PES-Energougol OJSC and Service Enterprise LLC; both companies were acquired in 2006. These companies purchase electricity from Energorynok and re-sell it to ultimate customers and provide energy distribution services. The purchase and selling prices are determined by the National Electricity Regulatory Committee.

Other includes the other companies of the Group that provide transportation, security and other services primarily to the Group companies.

The Group's customers and production assets are located in Ukraine.

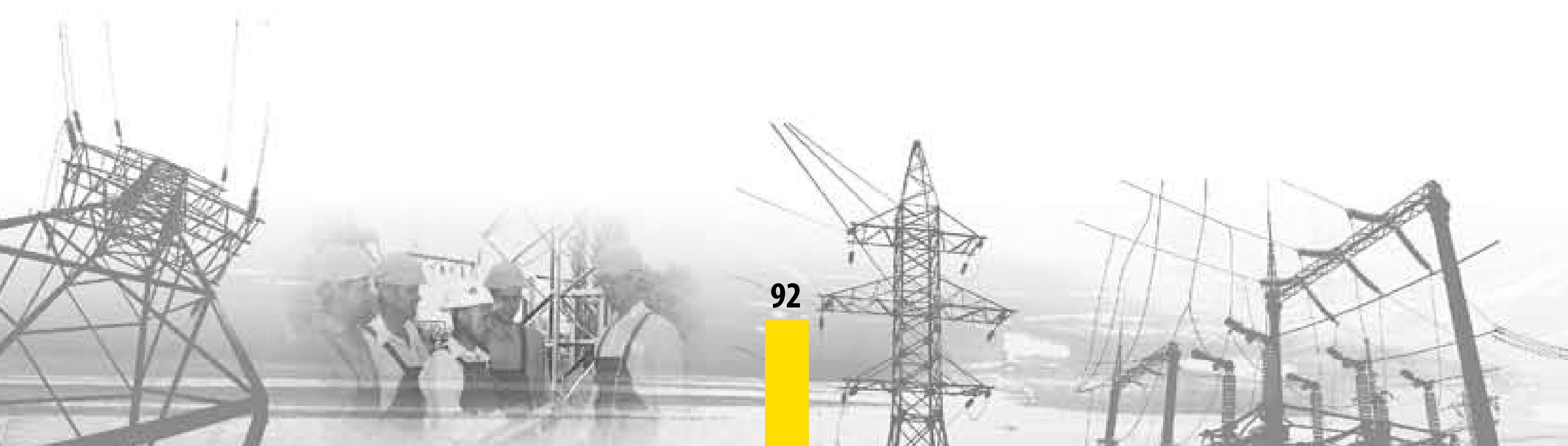
The Group's business segments for the year ended 31 December 2006:

Year ended 31 December 2006	Mining	Energy production	Energy distribution	Other	Eliminations	Total
Revenue						
Sales to external customers	201,500	685,876	106,564	5,820	–	999,760
Inter-segment sales	348,781	–	3,547	–	(352,328)	-
Total revenue	550,281	685,876	110,111	5,820	(352,328)	999,760
Results						
Segment results	(32,727)	224,030	912	4,242	(3,545)	192,912
Unallocated expenses	–	–		–	–	(9,328)
Share in profits of an associate	–	–	65	–	–	65
Profit before tax, finance costs and income, net foreign exchange loss						183,649
Net finance costs						(23,357)
Foreign exchange loss						(1,371)
Profit before income tax						158,921
Income tax						(61,318)
Profit for the year						97,603
As at 31 December 2006						
Segment assets	783,833	709,742	101,306	9,164	–	1,604,045
Unallocated assets						131,924
Total assets						1,735,979
Segment liabilities	261,743	192,138	44,388	9,069	–	507,338
Unallocated liabilities						202,750
Total liabilities						710,088
Other segment information:						
Capital expenditures: property, plant and equipment	(81,320)	(21,345)	(93,460)	(2,398)	–	(198,523)
Depreciation	(62,073)	(4,023)	(3,026)	(75)	–	(69,197)
Employee benefits expenses	(26,752)	(1,492)	–	–	–	(28,244)
Provisions	(5,100)	(390)	–	–	–	(5,490)



The Group's business segments for the year ended 31 December 2005:

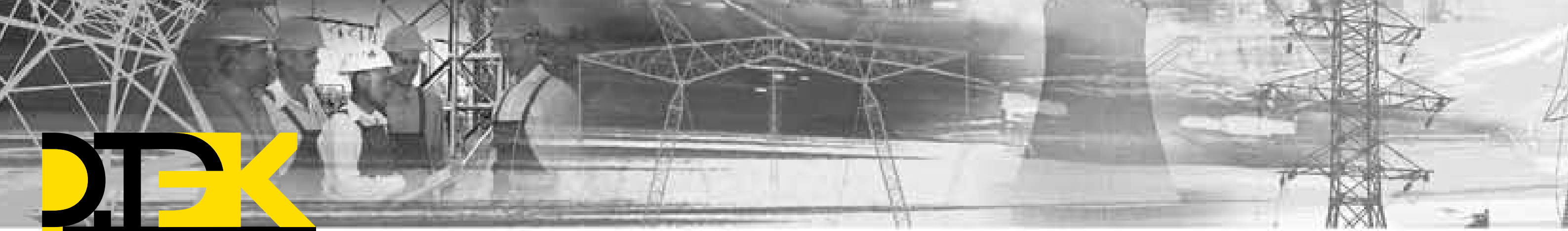
Year ended 31 December 2005	Mining	Energy production	Energy distribution	Eliminations	Total
Revenue					
Sales to external customers	334,409	403,965	73	–	738,447
Inter-segment sales	59,861	–	–	(59,861)	–
Total revenue	394,270	403,965	73	(59,861)	738,447
Results					
Segment results	(36,114)	91,219	–	(2,272)	52,833
Unallocated expenses					(1,687)
Profit before tax, finance costs and income					51,146
Net finance income					41,736
Profit before income tax					92,882
Income tax					(40,496)
Profit for the year					52,386
As at 31 December 2005					
Segment assets	630,092	122,855	–	–	752,947
Unallocated assets	–	–	–	–	37,652
Total assets					790,599
Segment liabilities	282,726	28,093	–	–	310,819
Unallocated liabilities					6,891
Total liabilities					317,710
Other segment information:					
Capital expenditures: property, plant and equipment	(81,807)	(5,729)	(107)	–	(87,643)
Depreciation	(63,243)	(3,820)	–	–	(67,063)
Employee benefits expenses	(17,956)	(861)	–	–	(18,817)
Provisions	(260)	–	–	–	(260)



9. Property, plant and equipment

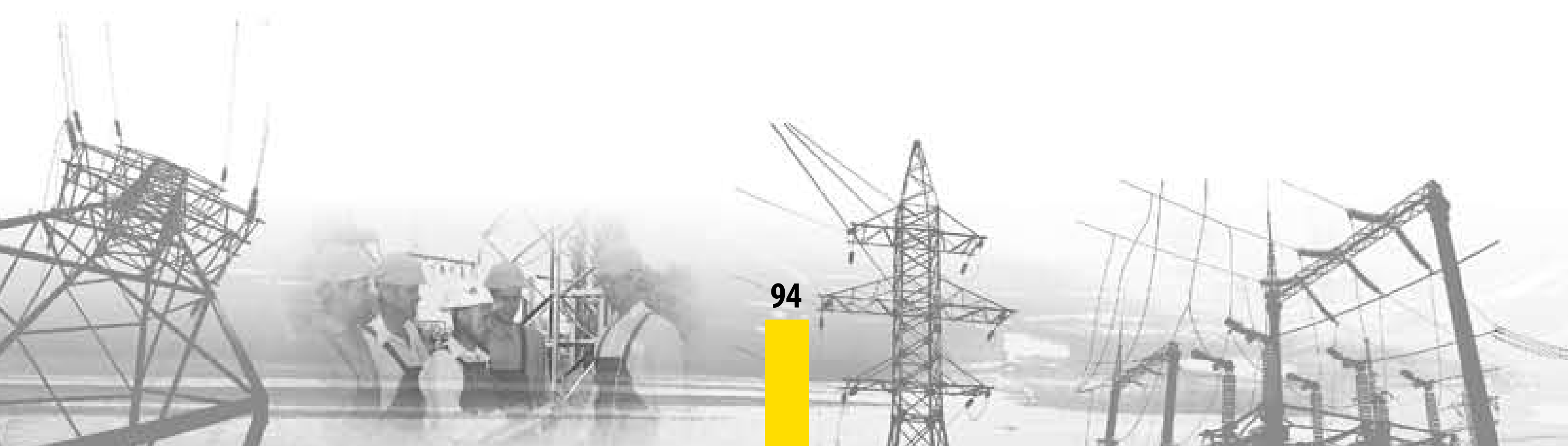
Movement of property, plant and equipment for the year ended 31 December 2006 is as follows:

Year 2006	Underground workings	Buildings and constructions	Plant and machinery	Fixture, fittings and other equipment	Construction in progress and uninstalled equipment	Total
Cost/ deemed cost/ revalued amounts						
At 31 December 2005	177,913	98,433	272,968	23,661	103,245	676,220
Acquisitions of subsidiaries	–	55,793	29,209	3,407	2,870	91,279
Additions	7,819	792	211	370	97,179	106,371
Disposals and write-offs	(4,839)	(9,300)	(10,576)	(1,843)	(7,788)	(34,346)
Revaluation	140,971	461,245	402,708	18,411	355	1,023,690
Transfer	41,457	15,181	56,462	7,478	(120,578)	-
At 31 December 2006	363,321	622,144	750,982	51,484	75,283	1,863,214
Accumulated depreciation						
At 31 December 2005	(30,299)	(36,716)	(103,534)	(17,092)	–	(187,641)
Depreciation	(15,510)	(6,090)	(44,090)	(3,408)	–	(69,098)
Disposals and write-offs	884	2,647	6,660	1,231	–	11,422
Revaluation	(67,611)	(104,336)	(222,485)	(7,702)	–	(402,134)
At 31 December 2006	(112,536)	(144,495)	(363,449)	(26,971)	–	(647,451)
Net book value						
At 31 December 2005	147,614	61,717	169,434	6,569	103,245	488,579
At 31 December 2006	250,785	477,649	387,533	24,513	75,283	1,215,763
Net book value had no revaluations taken place:						
At 31 December 2006	177,425	120,740	207,310	13,804	74,928	594,207



Movement of property, plant and equipment for the year ended 31 December 2005 is as follows:

Year 2005	Underground workings	Buildings and constructions	Plant and machinery	Fixture, fittings and other equipment	Construction in progress and uninstalled equipment	Total
Cost/deemed cost						
At 31 December 2004	148,551	83,537	222,595	20,360	101,451	576,494
Additions	466	3,639	9,080	1,234	73,224	87,643
Disposals and write-offs	(8,122)	(152)	(8,043)	(1,243)	(542)	(18,102)
Transfer	29,187	7,028	37,508	2,247	(75,970)	–
Translation differences	7,831	4,381	11,828	1,063	5,082	30,185
At 31 December 2005	177,913	98,433	272,968	23,661	103,245	676,220
Accumulated depreciation						
At 31 December 2004	(20,804)	(30,653)	(55,709)	(8,827)	–	(115,993)
Depreciation	(3,977)	(4,013)	(50,688)	(8,385)	–	(67,063)
Impairment	(4,534)	(461)	–	–	–	(4,995)
Disposals and write-offs	191	27	6,336	681	–	7,235
Translation differences	(1,175)	(1,616)	(3,473)	(561)	–	(6,825)
At 31 December 2005	(30,299)	(36,716)	(103,534)	(17,092)	–	(187,641)
Net book value						
At 31 December 2004	127,747	52,884	166,886	11,533	101,451	460,501
At 31 December 2005	147,614	61,717	169,434	6,569	103,245	488,579



At 1 January 2005 property, plant and equipment of the Group are stated at cost or deemed cost as of the date of transition to IFRS being different for different companies of the Group. Deemed cost has been determined based on valuations performed at those dates by independent appraisers in accordance with International Valuation Standards.

Property, plant and equipment as at 31 December 2006 are stated at revalued amounts basing on fair values determined by independent appraisals. For description of uncertainty relating to valuation techniques, refer to Note 5.

The following key assumptions were used in performing the valuation:

Cash flows were projected based on actual operating results and the five-year business plan.

The anticipated annual production growth included in the cash flow projections was 4% for the years 2007 to 2011.

Cash flows for a further ten years were extrapolated assuming no further growth in production, and revenue and expenses increasing in line with expected long-term inflation of 5%.

A discount rate of 13.28% was applied in determining the recoverable amount of the plants.

A terminal value was derived at the end of a 15-year interim period.

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

Reconciliation between the amount of property, plant and equipment revaluation net of deferred tax effect and statement of changes in equity is presented below:

	2006
Revaluation of cost	1,023,690
Revaluation of accumulated depreciation	(402,134)
Revaluation decrease of property, plant and equipment charged to income statement (Note 33)	6,681
Total revaluation of property, plant and equipment (Note 19)	628,237
Tax effect on revaluation of property, plant and equipment (Note 15, 19)	(157,059)
Revaluation reserve in equity	471,178
Attributable to:	
Equity holders of the parent	444,257
Minority interests	26,921
	471,178

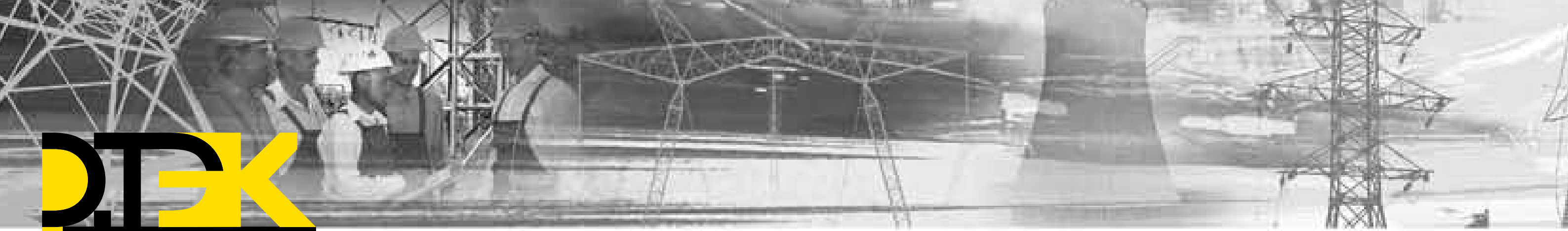
Pledged assets

As at 31 December 2006, property, plant and equipment with a carrying value of USD 395,131 thousand (2005: USD 37,643 thousand) are pledged as security for the Group's bank loans (see Note 21).

10. Goodwill

The movement in goodwill is as follows:

	2006	2005
As at 1 January	109,380	106,990
Arising on the acquisition of minority interest in Komsomolets Donbassa Mine OJSC	–	2,390
Arising on the acquisition of PES-Energougol OJSC (Note 7)	8,420	–
As at 31 December	117,800	109,380



11. Impairment testing of goodwill

Goodwill recognised on acquisition was tested for impairment as at the balance sheet date. The Group divided the business into three cash generating units (CGU): i) mining, ii) energy production and iii) energy distribution.

	2006	2005
Allocated to CGUs		
Mining	109,380	109,380
Energy distribution	8,420	–
Total goodwill	117,800	109,380

The recoverable amount has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering a five-year period. Third party prices were used to determine projected sales. The following summarises key assumptions on which management has based its cash flow projections to undertake the impairment testing of goodwill:

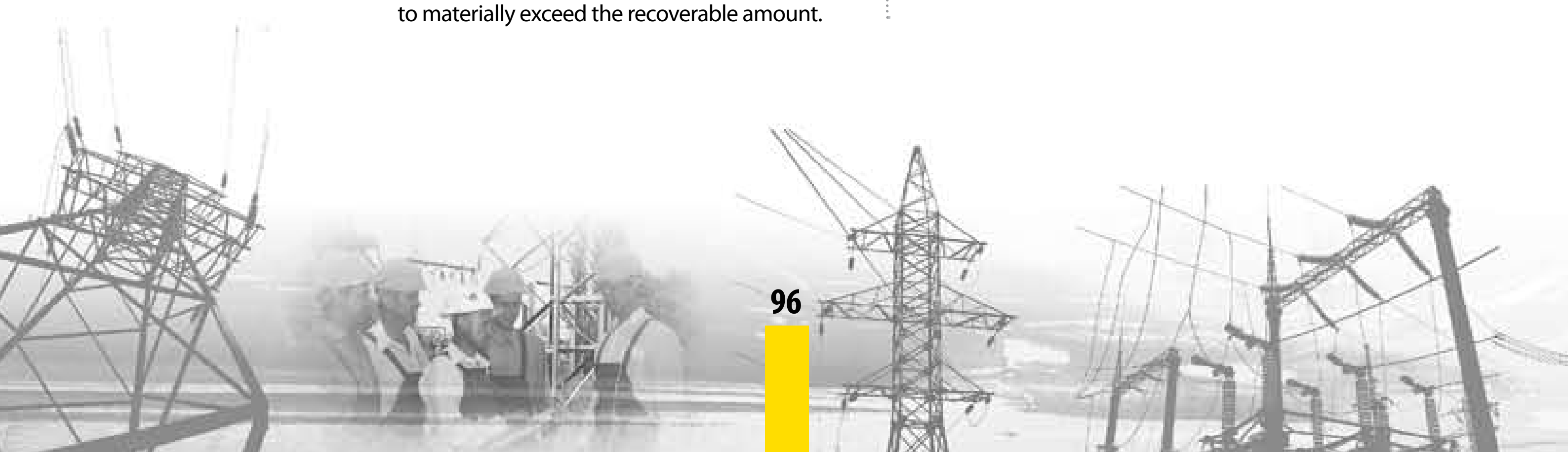
	Mining		Energy distribution	
	2006	2005	2006	2005
Discount rate	13%	16%	13%	16%
Industrial products price increase	9–7%	9–10%	9–7%	9–10%
Budgeted sales growth	10%	12%	9%	12%

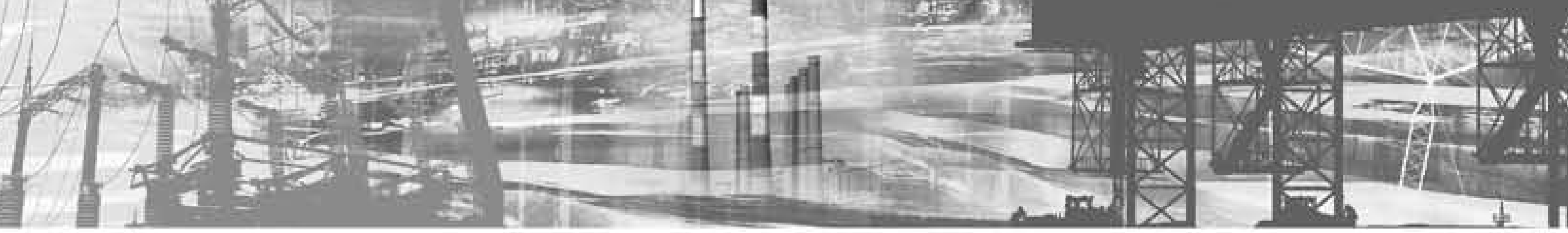
The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources (historical data).

With regard to assessment of value in use of the Group's goodwill, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value to materially exceed the recoverable amount.

12. Acquisition of minority interests

During 2005 the transferring entities under common control of SCM acquired minority interests in the Group's subsidiaries from third parties. The amounts of the cash considerations paid by the transferring entities under common control were credited to equity in these consolidated financial statements. The difference between the considerations paid and the share in net assets acquired was recorded as an additional goodwill, if positive, or charged to the income statement, if negative.





	Ownership as at 31 December 2004	Ownership as at 31 December 2005	Share acquired in 2005, %	Cash considerations paid	Share in net assets acquired	Goodwill	Negative goodwill	Minority interest in equity acquired	Participant share in net assets acquired (Note 20)
Komsomolets Donbassa Mine OJSC	61.25%	94.64%	33.39%	5,000	2,645	2,355	–	(2,645)	–
Vostokenergo LLC	75.00%	100.00%	25.00%	5,026	18,453		(13,427)	–	(18,453)
Tehrempostavka LLC	75.00%	100.00%	25.00%	10,845	11,937		(1,092)	–	(11,937)
				20,871	33,035	2,355	(14,519)	(2,645)	(30,390)

In September 2006, the Group acquired an additional 20.47% share in PES-Energougol OJSC, taking its ownership to 91.12%. The additional share was acquired in a business combination transaction: the Group acquired control in Servis-Invest LLC, which owned a 20.47% share in PES-Energougol OJSC. Since PES-Energougol OJSC has net deficit which was recognised in equity at the date of acquisition, no goodwill arose on the date of acquisition of minority.

13. Financial investments

Non-current financial investments as at 31 December 2006 consist of quoted available-for-sale equity investments with the carrying amount of USD 92,693 thousand (2005: nil).
Current financial investments as at 31 December are as follows:

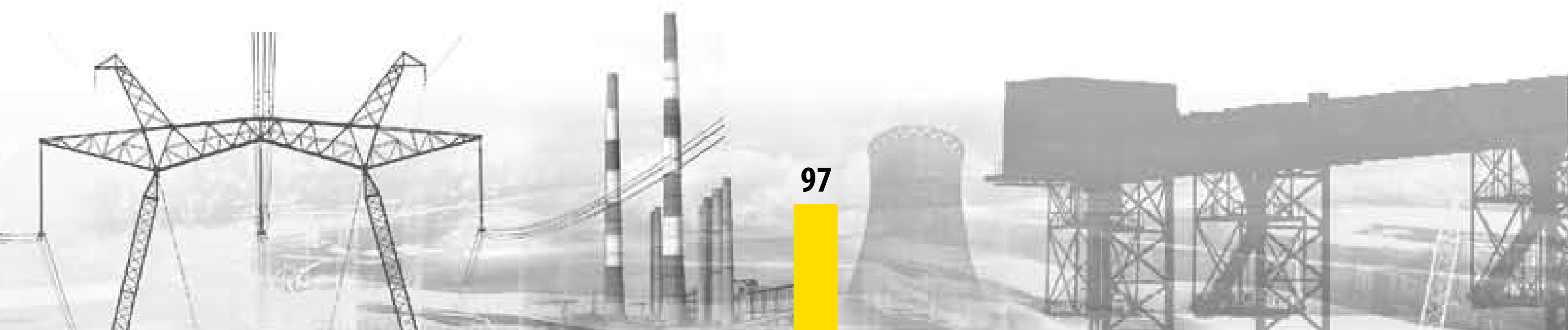
	2006	2005
Deposits placed with a maturity more than three months	8,119	–
Financial aid provided (Note 36)	1,142	572
	9,261	572

In 2006 DTEK Corporation provided short-term interest-free repayable financial aid to related parties. In 2005 DTEK Corporation provided short-term interest-free repayable financial aid to PES-Energougol OJSC.

14. Trade and other receivables

Non-current trade and other receivables as at 31 December are as follows:

	2006	2005
Trade receivables	4,073	1,600
Promissory notes receivable	2,725	1,305
Other receivables	70	79
	6,868	2,984



Current trade and other receivables as at 31 December are as follows:

	2006	2005
Trade receivables (net of provision for impairment of USD 66,119 thousand and USD 62,602 thousand as at 31 December 2006 and 2005, respectively)	49,638	31,842
Receivable for sale of financial instruments	46,791	7,441
Other receivables (net of provision for impairment of USD 13,482 thousand and USD 16,076 thousand as at 31 December 2006 and 2005, respectively)	16,967	10,464
Promissory notes receivable	1,999	777
	115,395	50,524

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

	2006	2005
At 1 January	78,678	64,687
Charge for the year	9,435	13,802
Bad debt write-off	(578)	(3,238)
Release of impairment of trade and other receivables	(7,934)	–
Translation differences	–	3,427
At 31 December	79,601	78,678

All trade receivables are denominated in UAH.

As of 31 December 2006 trade receivables and future proceeds from sales agreements of USD 200,000 thousand (2005: USD 211,111 thousand) were pledged as collateral for bank loans received by the Group (Note 21).
As at 31 December 2006 current trade receivables included USD 35,934 thousand of receivables from the state owned company Energorynok net of provision for impairment of USD 63,083 thousand) (2005: USD 6,775 thousand net of provision for impairment of USD 71,018 thousand). As at 31 December 2006 non-current trade receivables included USD 4,018 thousand of receivables from Energorynok (2005: nil) accounted at fair value estimated using discounted cash flow method.

15. Income tax

The major components of income tax expense for the years ended 31 December 2006 and 2005 are:

	2006	2005
Current income tax charge	65,693	35,054
Adjustments in respect of current income tax of previous years	361	–
Related to origination and reversal of temporary differences	(4,737)	5,442
Income tax expense	61,317	40,496

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

	2006	2005
Net gain on revaluation of fixed assets (Note 9, 19)	157,059	–
Unrealised gain on available for sale financial assets (Note 19)	1,344	–
Income tax reported in equity	158,403	–

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine; the holding company is registered in Cyprus). In 2006, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2005: 25%). In 2006 tax rate for Cyprus operations was 10% (2005: 10%) on worldwide income.

Reconciliation between tax expense and the product of accounting profit multiplied by the tax rates of each respective tax jurisdiction for the years ended 31 December 2006 and 2005 are as follows:

	2006	2005
Profit before income tax	158,921	92,882
Income tax at statutory rates of 25% (Ukrainian operations)	39,765	23,220
Profit taxed at different rates 10% (Cyprus operations)	(67)	–
Weighted average tax rate of 24.98% (for year 2005 of 25.0%)	*39,698*	*23,220*
Adjustments in respect of current income tax of previous years	360	–
Non-tax deductible expenses	21,788	17,874
Non-taxable income	–	(163)
Minority interest	103	3,195
Excess of fair value of assets less liabilities acquired over cost of the investment (negative goodwill)	(699)	(3,630)
Non-recognized deferred tax asset for Cyprus operations	67	–
Income tax expense at effective tax rate of 39.74% (2005: 43.75%)	61,317	40,496

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 balance sheets as 31 December as follows:

	2006	2005
Deferred tax liability	(147,875)	–
Deferred tax asset	44,671	62,779
Net deferred tax	(103,204)	62,779

Deferred tax asset and liability relate to the following items in 2006:

	31 December 2006	Credited /Charged to Income Statement	Recognised in equity	Related to acquisition of Servis-Invest and PES-Energougol	31 December 2005
Deferred tax liability:					
Property, plant and equipment (i)	(108,672)	(4,322)	(157,059)	(15,200)	67,909
Restructured obligations (ii)	(7,866)	2,801	–	–	(10,667)
Other financial liabilities (iii)	(4,555)	1,970	–	–	(6,525)
Prepayments and other current assets (viii)	(1,393)	(736)	–	(35)	(622)
Financial investments (iii)	(1,344)	–	(1,344)	–	–
	(123,830)	(287)	(158,403)	(15,235)	50,095
Deferred tax asset:					
Trade and other payables (iv)	3,650	(664)	–	2,193	2,121
Trade and other receivables (v)	7,683	1,625	–	121	5,937
Provisions (vi)	3,466	3,199	–	–	267
Defined employee benefit liability (vi)	2,320	(288)	–	–	2,608
Advances received (viii)	1,829	793	–	346	690
Inventories (vii)	1,678	358	–	259	1,061
	20,626	5,023	–	2,919	12,684
Net deferred tax asset / (liability)	(103,204)	4,736	(158,403)	(12,316)	62,779

Deferred tax asset and liability relate to the following items in 2005:

	31 December 2005	Translation Differences	Credited /Charged to Income Statement	01 January 2005
Deferred tax liability:				
Restructured obligations (ii)	(10,667)	(155)	(10,512)	–
Other financial liabilities (iii)	(6,525)	(162)	(4,453)	(1,910)
Prepayments and other current assets (viii)	(622)	(56)	742	(1,308)
	(17,814)	(337)	(14,223)	(3,218)
Deferred tax asset:				
Property, plant and equipment (i)	67,909	2,652	18,124	47,133
Trade and other payables (iv)	2,121	295	(5,648)	7,474
Trade and other receivables (v)	5,937	195	2,660	3,082
Defined employee benefit liability (vi)	2,608	304	(5,216)	7,520
Inventories (vii)	1,061	40	322	699
Advances received (viii)	690	79	(1,318)	1,929
Provisions (vi)	267	18	(143)	392
	80,593	3,583	8,781	68,229
Net deferred tax asset	62,779	3,210	(5,442)	65,011

The nature of the temporary differences is as follows:

I. Property, plant and equipment – book vs. tax differences in depreciation resulting from differences in estimates of the remaining useful lives, capitalisation principles and measurement basis (deemed cost and fair value at acquisitions vs. historical cost).

II. Restructured obligations – differences in measurement basis (cost vs. fair values at initial recognition);

III. Financial investments and financial liabilities – differences in measurement basis (cost vs. fair values or amortised cost);

IV. Trade and other payables – differences in the period of recognition and measurement basis;

V. Trade and other receivables – differences in valuation, including provisions for impairment, differences in the period of recognition.

VI. Provisions and Defined employee benefit liability – differences in period of recognition and measurement basis;

VII. Inventories – differences in inventories measurement basis and the periods of recognition;

VIII. Prepayments and other current assets, advances received – differences in recognition and measurement principles.

As of 31 December 2006, the Group has not recognised a deferred tax liability in respect of USD 29,899 thousand temporary differences associated with investments in subsidiaries and associates 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.

16. Inventories

Inventories consisted of the following as at 31 December:

	2006	2005
Coal	39,099	27,954
Raw materials	14,358	13,386
Spare parts	6,484	9,186
Goods for resale	5,698	467
Finished goods	2,390	807
Work in process	2,142	2,736
	70,171	54,536

As at 31 December 2006 no finished goods and raw materials were pledged as a collateral for interest-bearing borrowings (2005: USD 3,544 thousand) (Note 21).

The amount of write-down of inventories recognised as an expense is USD 467 thousand (2005: USD 1,494 thousand) which is recognised in cost of sales.

17. Prepayments and other current assets

Prepayments consisted of the following as at 31 December:

	2006	2005
Prepayments to suppliers (net of provision for impairment of USD 2,985 thousand and USD 1180 thousand as at 31 December 2006 and 2005, respectively)	4,412	3,654
Other	552	387
	4,964	4,041

18. Cash and cash equivalents

Cash and cash equivalents consisted of the following as at 31 December:

	2006	2005
Cash at bank and on hand	43,090	–
Short-term deposit	3,773	17,004
	46,863	17,004

19. Issued capital and other reserves

As described in Note 1 the Group was formed in 2006 as a continuation of SCM's existing power generation business through a series of transactions with entities under common control:

- The controlling ownership interests in Group's subsidiaries were transferred to the Company by the entities under common control of SCM. The assets and liabilities of the transferred subsidiaries were recorded in these consolidated financial statements at the carrying amounts in the transferring entities' financial statements, including goodwill. Retained earnings of the Group represent the earnings of the Group companies from the date they have been established or acquired by the entities under common control of SCM.
- In addition, as a part of the reorganization, SCM contributed to the Group its investment in Servis-Invest LLC at the fair value of USD 55,439 thousands (Note 7, 38) and other assets in the amount of USD 7,858 thousands. The fair value of these contributions net of the cash consideration paid as described below

was credited to additional paid-in capital at the date of contribution.

- In exchange for the transfer of ownership interests in subsidiaries and contribution of other assets the Company issued shares to SCM and paid cash consideration of USD 12,660 thousand to entities under common control. The cash consideration paid in relation to the reorganization represents a distribution to the entities under common control and, as a result, was debited to additional paid-in capital. USD 11,004 thousand of this consideration remained unpaid as at 31December 2006 (Note 38).
- As at 31 December 2006 the authorised capital comprised USD 32 thousand: 32,272 ordinary shares at US$ 1 each (equivalent of UAH 5.05); 10,000 shares were fully paid, 22,272 shares were unpaid as at 31 December 2006. Subsequently, in May 2007, the shares were paid by cash considerations of USD 22 thousand.

In 2006 the 100% owned subsidiary of the Group, Vostokenergo LLC, declared and distributed dividends from the profits earned in 2002 – 2005 years to its former parent company, SCM LLC, in the amount of USD 77,772 thousand.

During 2006 the movements in other reserves comprised:

	Revaluation of property, plant and equipment	Net gain on available-for-sale investments	Foreign currency translation	Total
As at 1 January 2006	–	–	9,601	9,601
Revaluation of property, plant and equipment (Note 9)	628,237	–	–	628,237
Tax effect on revaluation of property, plant and equipment (Note 9, 15)	(157,059)	–	–	(157,059)
Net unrealised gain on available-for-sale investments	–	16,402	–	16,402
Tax effect on net unrealised gain on available-for-sale investments (Note 15)	–	(1,344)	–	(1,344)
	471,178	15,058	9,601	495,837

20. Liability to minority participants

As it is discussed in Note 6, the minority interest in the limited liability companies registered in Ukraine is classified as a liability in the Group's consolidated financial statements and the income attributed to the minority participants is shown as a finance charge in the consolidated income statement.
The movements in the liability to minority participants were as follows:

	2006	2005
Balance at 1 January	415	17,405
Minority share in profits recognised in finance cost (Note 35)	412	12,780
Acquisition of minority interest by parent (Note 12)	–	(30,390)
Translation differences	–	620
Balance at 31 December 2006	**827**	**415**

21. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings consisted of the following as at 31 December:

Current	2006	2005
Interest-bearing borrowings (payable in April – November 2007)	139,570	28,690
Interest accrued	309	–
	139,879	28,690
Non-current	–	–
Interest-bearing borrowings (payable in June 2009)	30,000	–
Restructured bank loan	–	373
	30,000	373
Total interest-bearing loans and borrowings	169,879	29,063

As at 31 December effective interest rate and currency split for interest-bearing loans and borrowings were as follows:

	Effective interest rate	2006	2005
UAH			
Fixed rate	14.90% - 16.00%	–	3,063
		–	**3,063**
USD			
Fixed rate	8.5% - 9.25%	160,000	–
Fixed rate	12%	–	26,000
		160,000	**26,000**
EUR			
Fixed rate	8%	9,570	–
		9,570	–
Accrued interest		309	–
		169,879	29,063

As at 31 December 2006 interest-bearing loans and borrowings as well as un-drawn committed borrowing facilities in the amount of USD 50,000 thousand (2005: USD 90 thousand) were secured as follows:

Type of assets pledged as a security	2006	2005
Trade receivable and future proceeds from sales agreements (Note 14)	200,000	211,111
Property, plant and equipment (Note 9)	395,131	37,643
Inventories (Note 16)	–	3,544

22. Government grants

In accordance with the law of Ukraine on the state budget for 2004 No. 1801-IV dated 17 June 2004 the Government approved a budget for grants for the acquisition of qualifying assets for entities which extract coal, lignite and peat. The budget allows for grants to be given to companies that meet pre-defined characteristics.

The grant had to be used in accordance with the project plan which includes qualifying expenditures on coal extraction and mines construction and re-equipment. The grants are provided in cash.

Movements in grants are summarised as follows:

Показатели	2006	2005
Balance at 1 January	34,784	39,998
Expensed during the year	–	(279)
Amortisation	(6,753)	(6,853)
Translation differences	–	1,918
Balance at 31 December	28,031	34,784

The grants are amortised over the useful life of related assets acquired and credited to the income statement against depreciation charge (Note 29).

As at 31 December 2006 and 2005, there are no unfulfilled commitments relating to government grants.

23. Restructured obligations

In 2005 the creditors of Pavlogradugol OJSC initiated the bankruptcy procedures against the company asking for the repayment of the amounts due by Pavlogradugol OJSC. As a result of these procedures, Pavlogradugol OJSC concluded the amicable agreement with its creditors. Under the agreement the company shall repay the total amount of USD 76,436 thousand during 2007 - 2019, which represent a substantial modification of the terms of the liability and is accounted for as an extinguishment of the original liability and the recognition as a new liability. As 31 December 2005 the Group recorded a new liability to its creditors at its fair value using an effective interest rate of 16%, resulting in a net gain as a result of restructuring of USD 40,047 thousand (Note 34).

Summary of the restructured obligations is presented below:

	Maturity	2006 Nominal value	2006 Amortised cost	2005 Nominal value	2005 Amortised cost
Promissory notes issued (Note 25, 36)	October 2013	48,437	17,524	–	–
Bonds issued (Note 25, 36)		–	–	9,901	1,237
Taxes payable, other than income tax (Note 28)	January 2008	3,522	3,030	6,763	4,165
Trade accounts payables (Note 26, 36)	January 2008	421	362	52,159	17,206
Advances received (Note 25)	January 2008	–	–	4,631	2,966
Bank loans (Note 21)	January 2020	–	–	2,982	373
		52,380	20,916	76,436	25,947
Current			3,030		3,082
Non-current			17,886		22,865
			20,916		25,947

Restructured bonds comprise bonds with a par value of USD 9,901 thousand bearing an annual interest of 0.001% and maturing in 2020. In 2006 the Group repurchased them from related parties (Note 36). Other restructured obligations are interest free. All restructured obligations are accounted for at amortised cost using the effective interest rate of 16%.
Current portion of restructured obligations comprises indebtedness to the state with nominal amount of USD 3,522 thousand less amortised discount of USD 492 thousand (2005: USD 3,322 thousand and USD 240 thousand, respectively).

24. Provisions

Provisions consisted of the following as at 31 December:

	Assets retirement provision	Provision for legal claims	Other provisions	Total
At 1 January 2005	1,612	–	–	1,612
Unwinding of discount	260	–	–	260
Utilised	(417)	–	–	(417)
Translation differences	79			79
At 31 December 2005	1,534	–	–	1,534
Acquisitions of a subsidiary (Note 7)	-	12,424	–	12,424
Change in estimates	10,645	–	–	10,645
Arising during the year	-	690	1,380	2,070
Unwinding of discount	595	–	–	595
Utilised	(243)	–	–	(243)
At 31 December 2006	12,531	13,114	1,380	27,025

Assets retirement provision. Assets retirement provision is attributable to the mining and energy generating activities of the Group resulting in the obligation to dismantle and remove the mines, remediate soils disturbed by the underground works and ash dumb.

Timing of asset retirement provision depends on the expected time of retirement of the respective assets. Per management estimates, this provision will not be realised during the next year.

In accordance with the Mining Law of Ukraine No. 1127 – XIV dated 6 October 1999, and the Law On environmental protection No. 1264 – XII dated 26 June 1991 with subsequent changes, Pavlogradugol OJSC and Komsomolets Donbassa Mine OJSC have the mandatory obligation to dismantle and remove the mines and restore the site to its original condition. As at 31 December 2006 the Group has estimated the present value of the mines retirement obligation at USD 9,344 thousand (31 December 2005: USD 1,534 thousand). The mines are planned to be closed at the end of estimated useful lives.

Mining entities of the Group are also obliged to remediate soils disturbed by the underground works. As at 31 December 2006 management estimates the provision for disturbed soils remediation in the amount of USD 3,187 thousand (2005: nil). Energy entities of the Group are obliged to remediate soils disturbed by the ash dump. As at 31 December 2006 the amount of provision for remediation of soils disturbed by ash dump is USD 390 thousand (2005: nil).

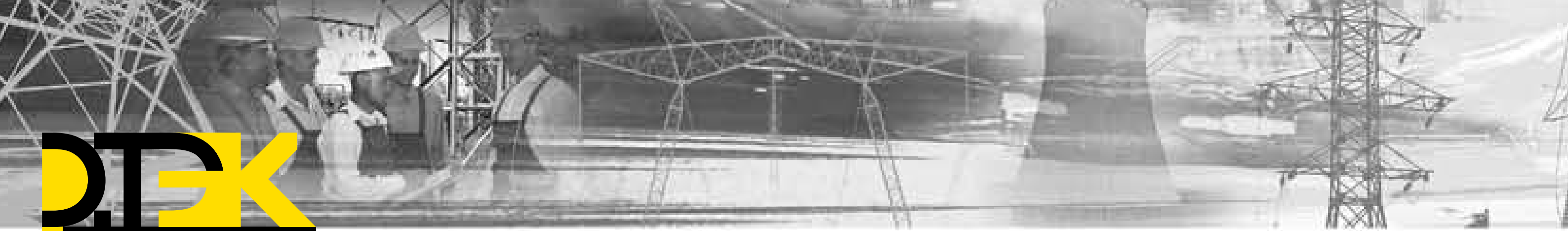
Change is estimates of USD 10,644 thousand recorded in 2006 is attributable to the revised useful lives of mines as assets retirement provisions are directly dependent on the mines operation terms.

Provision for legal claims. Group subsidiaries PES-Energougol OJSC and Servis-Invest LLC that were acquired during 2006 are involved in legal disputes. As at 31 December 2006 the management estimated the litigation risk as probable and recorded provision for legal claims of USD 8,417 and 4,007 thousand, respectively. The provision in the amount of USD 690 thousand arisen during 2006 is attributable to legal claims to Pavlogradugol OJSC with probable litigation risk.

PES-Energougol OJSC is involved in a legal claim with State owned company Energorynok that is the energy pool authorised to purchase electricity from generating companies and sell it to the market. PES-Energougol OJSC has approximately USD 15,842 thousand of overdue accounts payable to Energorynok. The subject of this litigation is fines and penalties, which arise due to the overdue amounts in accordance with the agreement with Energorynok.

Servis-Invest LLC is involved in a legal claim with one of its largest customers – MMK Illicha. The respective claim was brought to the court on 1 August 2006. The subject of the claim is sales billed by Servis-Invest LLC and disputed by MMK Illicha.

Estimation of expected timing of provisions for legal claims is not practicable considering the uncertainty generally associated with litigations. The management's expectation is that cases will not be resolved within one year.



25. Other financial liabilities

As at 31 December financial liabilities of the Group consisted of the following:

	2006	2005
Bonds issued (Note 36)	12,817	12,397
Promissory notes payable (Note 36)	23,938	–
Advances received	–	2,966
	36,755	15,363

Included in the above are financial liabilities issued under restructuring agreement (Note 23):

	2006	2005
Bonds issued (Note 36)	–	1,237
Promissory notes payable (Note 36)	17,524	–
Advances received	–	2,966
	17,524	4,203

Bonds other then restructured comprise long-term corporate bonds with a par value of USD 26,673 thousand bearing an annual interest of 0.001% and maturing from 2010 through 2012 issued by Pavlogradugol OJSC in December 2005 to the related parties (Note 36). In 2005, at origination, the bonds were recognised at fair value using an effective interest rate of 16% resulting in a gain on initial recognition of USD 14,896 thousand (Note 34). During 2006 the Group recognised interest expense on amortisation of USD 1,656 thousand (2005: nil).
Promissory notes payable mature in 2008 – 2013 and bear interest of 0.01%. They were initially recognised at fair value using an effective interest rate of 13.28%.
Terms of financial liabilities issued under restructuring agreement are described in Note 23.

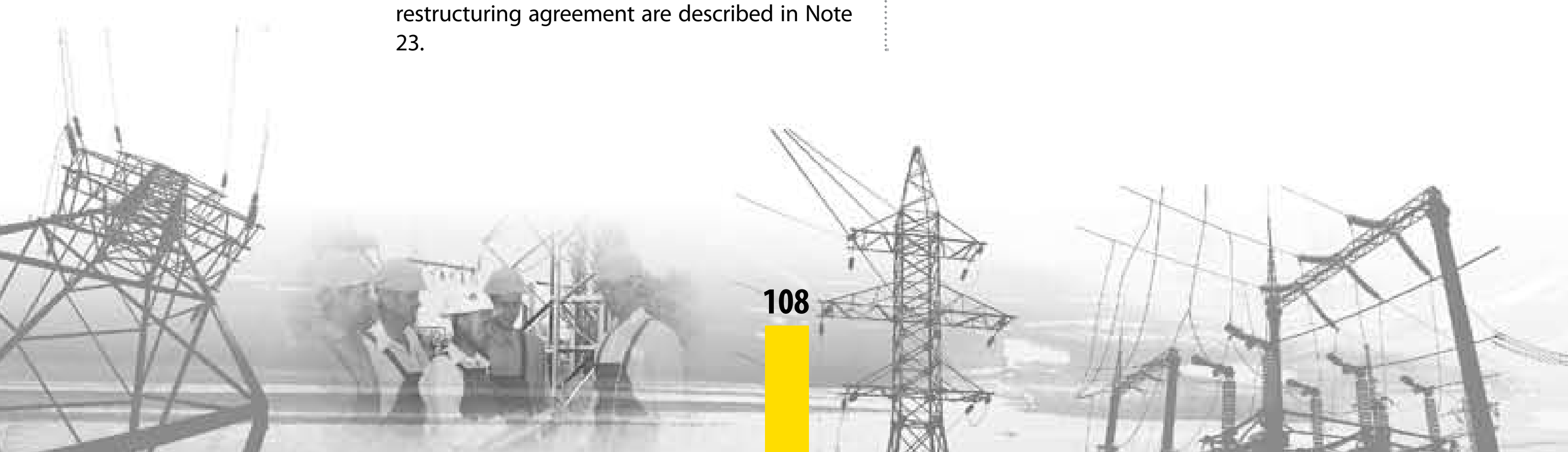
26. Trade and other payables

As at 31 December trade and other payables consisted of the following (Note 23):

	2006	2005
Trade accounts payable under restructuring agreement	362	17,206
Taxes payable under restructuring agreement	–	1,083
	362	18,289

As at 31 December current trade and other payables consisted of the following:

	2006	2005
Payables for materials, goods and services	69,530	32,695
Salaries due to employees	36,117	29,422
Payables for shares/equity instruments	13,239	–
Promissory notes payable	5,949	392
Payables for purchase of promissory notes	4,299	1,204
Payables for property, plant and equipment	4,072	9,306
Other	7,422	5,537
	140,628	78,556



27. Defined employee benefit liability

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 upon retirement and post-retirement benefits programs.

In 2006 the defined benefit plan covers 46,733 people, including 5,215 ex-employees (2005: approximately 50,600 and 6,700 respectively).

Defined employee benefit liability as at 31 December originated as follows:

	2006	2005
Post-employment defined benefit liability – Pavlogradugol OJSC	87,725	72,251
Post-employment defined benefit liability – Komsomolets Donbassa Mine OJSC	27,257	24,881
Post-employment defined benefit liability – Vostokenergo LLC	3,852	2,388
	118,834	99,520

None of employee benefits plans stated below are funded.

Changes in the net present value of the defined benefit obligation as at 31 December were as follows:

	2006	2005
At 1 January	174,237	80,935
Interest cost	15,280	8,305
Current service cost	7,507	10,512
Benefits paid	(8,930)	(4,039)
Actuarial loss/(gain) for the year	(23,434)	73,131
Translation differences	–	5,393
	164,660	174,237
Unrecognized actuarial losses	(45,826)	(73,628)
Translation differences	–	(1,089)
At 31 December	118,834	99,520

Net employee benefit expense

	2006	2005
Current service cost	7,507	10,512
Interest cost	15,280	8,305
Actuarial loss recognised in the year	5,457	–
	28,244	18,817

Benefit liability as at 31 December

	2006	2005
Balance at 1 January	99,520	80,455
Benefits expense	28,244	18,817
Benefits paid	(8,930)	(4,039)
Translation differences	(0)	4,287
Balance at 31 December	118,834	99,520

The principal assumptions used in determining pension obligation are shown below:

	2006	2005
Discount rate	9%	9%
Salary increase rate	9%	9%

Experience adjustment in 2006 resulted in decrease of obligation by 8% (2005: none).

Since the pension plans are regulated by the governmental authority – the Pension Fund of Ukraine, the management believes that it is not possible to estimate accurately the amount of contributions to be paid to the plans during the next financial period.

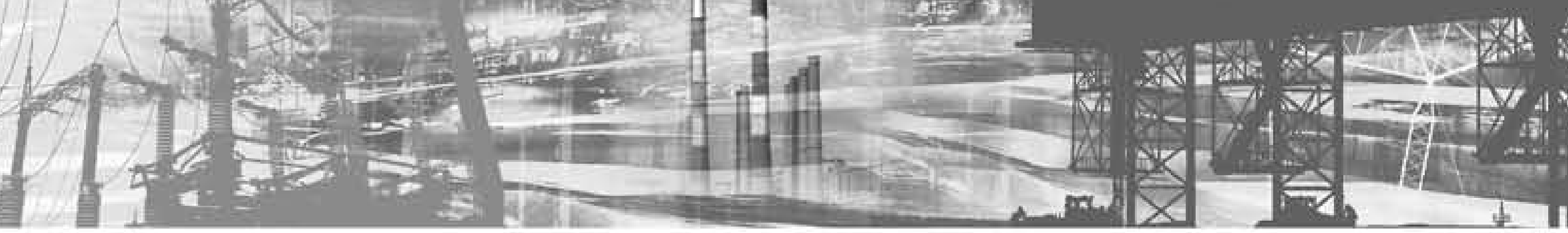
28. Taxes payable, other than income tax

As at 31 December taxes payable, other than income tax comprised the following:

	2006	2005
VAT payable	11,801	15,434
Payroll taxes including social insurance	7,796	7,183
Pollution tax	3,487	3,265
Personal income tax	2,096	1,615
Taxes payable under restructuring agreement (Note 23)	3,030	3, 082
Other	1,793	4,209
	30,003	34,788

29. Cost of sales

	2006	2005
Staff cost, including payroll taxes	285,605	235,441
Raw materials	153,120	261,155
Cost of electricity purchased for further re-sale	100,036	–
Depreciation of property, plant and equipment net of amortization of government grants (Note 22)	56,090	52,702
Production overheads	38,457	26,796
Transportation services and utilities	17,219	13,993
Taxes, other than income tax	16,186	4,885
Change in finished goods and work in progress	(987)	(781)
Equipment maintenance and repair	14,944	26,420
Other	15,519	10,642
	696,189	631,253



30. Other income

	2006	2005
Net gain on sale of inventory	1,535	2,140
Income from writing off accounts payable	578	23,554
Other	222	4,485
	2,335	30,179

In 2005 the Group's subsidiary Pavlogradugol OJSC wrote-off accounts payable in the amount of USD 21,123 thousand under bankruptcy procedures (Note 23) as a result of the difference between its records and the confirmed creditors list. The Group wrote-off overdue accounts payable for USD 578 thousand (2005: USD 2,431 thousand).

31. Selling and distribution expenses

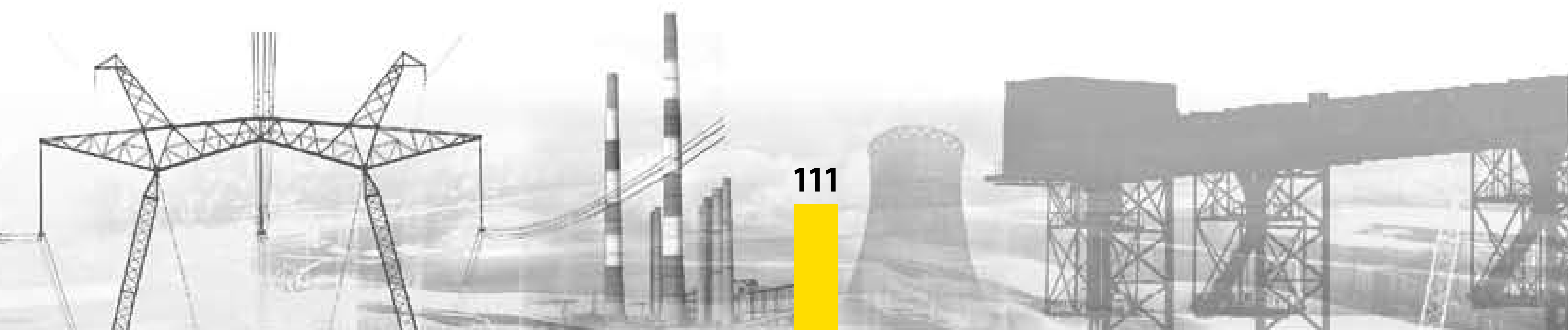
	2006	2005
Travel and transportation	5,685	5,436
Staff cost, including payroll taxes	3,005	2,485
Depreciation	207	12
Other	728	1,695
	9,625	9,628

32. Administrative expenses

	2006	2005
Staff cost, including payroll taxes	35,584	21,578
Professional fees	3,798	1,248
Taxes, other than income tax	2,955	897
Transportation	2,169	1,530
Communication	1,846	687
Office costs	1,844	1,713
Bank charges	1,713	1,642
Operating lease expenses	1,377	115
Depreciation	880	800
Security and insurance	1,033	2,219
Other	3,120	2,370
	56,319	34,799

33. Other expenses

	2006	2005
Net loss on disposal and write-off of property, plant and equipment	21,322	10,027
Maintenance of social infrastructure	20,067	19,883
Revaluation decrease of property, plant and equipment (Note 9)	6,681	–
Impairment of property, plant and equipment (Note 9)	–	4,995
Charity	4,077	2,345
Change in impairment of trade and other receivables and prepayments made	3,306	13,946
Impairment of VAT recoverable	1,248	–
Fines and penalties	1,117	90
Depreciation	219	539
Other	1,137	4,494
	59,174	56,319



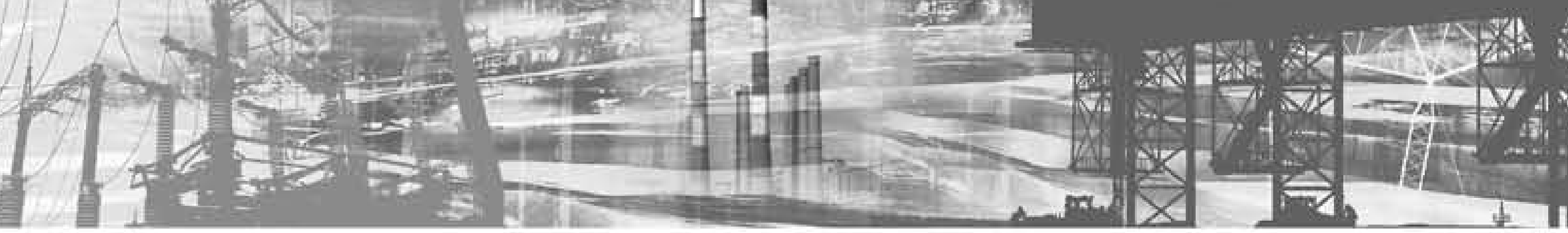
34. Finance income

	2006	2005
Gain from sale of promissory notes receivable (Note 36)	2,480	–
Gain on early repayment of promissory notes receivable (Note 36)	2,324	2,384
Interest income on long-term promissory notes receivable (Note 36)	1,352	616
Gain on initial recognition of long-term accounts payable (Note 36)	1,167	–
Bank interest on deposit	980	16
Gain on initial recognition of bonds issued (Note 36)	–	14,896
Gain on restructuring of obligations (Note 23)	–	42,047
Other	927	–
	9,230	59,959

35. Finance costs

	2006	2005
Loss on early repayment of bonds issued (Note 36)	9,081	–
Interest expense on bank loans and borrowings	7,097	2,980
Interest expense on long-term payables (Note 36)	5,038	–
Loss on initial recognition of long-term receivables	4,036	–
Interest expense on promissory notes payable (Note 36)	3,190	678
Interest expense on bonds issued (Note 36)	1,656	931
Loss on initial recognition of long-term promissory notes (Note 36)	556	–
Loss on early repayment of long-term promissory notes (Note 36)	540	–
Loss on early repayment of related party financial aid notes (Note 36)	–	594
Minority interest of participants (Note 20)	412	12,780
Other	981	260
	32,587	18,223

In 2006 the Group recognised loss on initial recognition of accounts receivable in the amount of USD 4,036 thousand relating to restructuring of long-term receivables of Estenergo LLC.



36. Related-party disclosure

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties and has disclosed all the relationships identified and which it deemed to be significant.

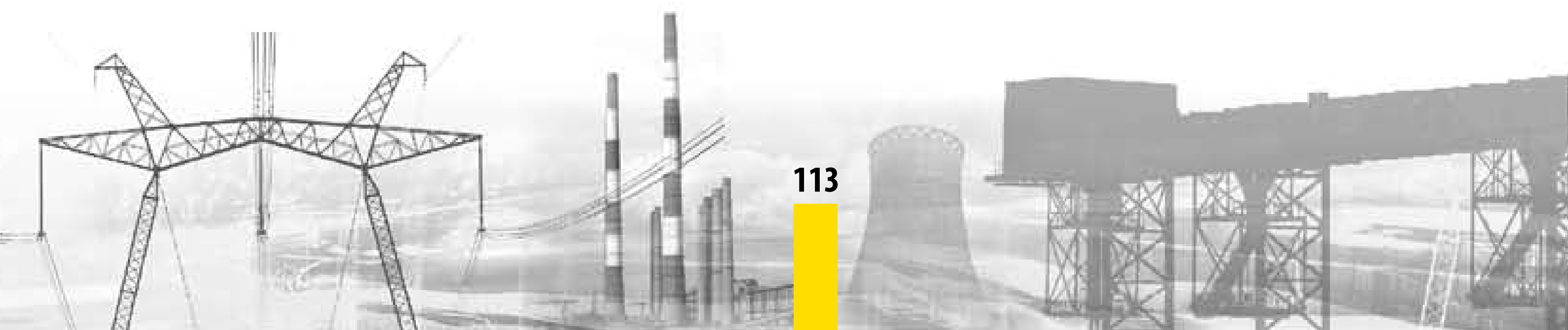
Group's transactions with its related parties for the years ended 31 December were as follows:

Entities under common control:	2006	2005
Sale of coking coal	103,470	275,794
Sale of electricity to final customers	36,308	–
Sale of inventories and services	2,133	351
	141,911	276,145

Entities under common control	2006	2005
Purchases of coal	–	179,284
Purchases of goods for re-sale	–	260
Purchases of equipment and inventories	13,766	116,455
Purchases of services	11,058	359
	24,824	296,358

The outstanding balances due to/from related parties as of 31 December were as follows:

Entities under common control and SCM	2006	2005
Trade and other receivables	46,091	10,472
Promissory notes receivable	4,498	1,305
Financial aid provided (Note 13)	1,142	572
Cash and cash equivalents held with the banks under common control	529	45
	52,260	12,394
Entities under common control and SCM		
Interest-bearing loans and borrowings (entities under common control)	–	2,594
Bonds issued to SCM (Note 25)	12,817	11,160
Other financial liabilities (Note 25)	5,951	–
Non-current bonds issued arising from restructuring of obligations (Note 23)	–	1,237
Promissory notes issued arising from restructuring of obligations (Note 23)	16,230	–
Trade and other payables arising from restructuring of obligations (Note 23)	–	13,781
Trade and other payables with entities under common control	36,329	33,843
	71,327	62,615



Revenue, trade and other receivable

Trade receivables balance as at 31 December 2006 due from related party is non-interest bearing. The balances outstanding from related parties as at 31 December 2006 and 2005 are unsecured and settlements are made either in cash, in the form of a 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 of 31 December 2006 and 31 December 2005.

The Group sells all its coking coal to entities under common control, that comprises 63% of total revenue from sales of steaming and coking coal (2005: 83%). Quantity of coking coal being sold represents 22% of the total coal being sold in 2006.

Sale of electricity to final customers is made to companies under common control (34% of the total sale) at prices that are determined by National Electricity Regulatory Committee of Ukraine. In 2005 there were no electricity distributing companies in the Group.

Purchases, trade and other payables

Purchases and outstanding trade and other payables as at 31 December 2006 and 2005 comprised 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.

Promissory notes transactions and balances

In 2005 the Group's proceeds from settlement of promissory notes issued by related parties equalled USD 18,152 thousand. As of 31 December 2006 and 2005 promissory notes receivable comprised notes received from entities under common control. Promissory notes were acquired as unqualified obligation for sales of coal. Promissory notes were subsequently paid.

Bonds issued to related parties

In December 2005 Pavlogradugol OJSC issued long-term corporate bonds with a par value of USD 26,673 thousand to related parties (Note 25). In 2005, at origination, the bonds were recognised at fair value using an effective interest rate of 16% resulting in a gain on initial recognition of USD 14,896 thousand (Note 34). During 2006 the Group recognised interest expense on amortisation of USD 1,656 thousand (2005: USD 931 thousand). In 2006 due to early redemption of bonds issued in 2005 the Group recognised net loss in the amount of USD 9,081 thousand (Note 35).

Other transactions with related parties

In 2006 the Group recognised finance income relating to transactions with related parties (Note 34): gain of USD 2,480 thousand relating to sale of promissory notes; gain of USD 2,324 thousand relating to early settlement of promissory notes receivable (2005: USD 2.384 thousand); interest income on long-term promissory notes receivable in the amount of USD 1,352 thousand (2005: USD 616 thousand) and gain on initial recognition of long-term accounts payable in the amount of USD 1,167 thousand.

In 2006 the Group recognised finance loss relating to transactions with related parties (Note 34): interest expenses on long-term payables in the amount of USD 5,038 thousand; interest expenses on promissory notes payable in the amount of USD 3,190 thousand and loss on early repayment of promissory notes in the amount of USD 540 thousand. In 2005 the Group also recognised loss in the amount of USD 594 thousand (Note 35) relating to early repayment of related party financial aid.

Compensation to management personnel

Key management personnel consist of six top executives of Corporation DTEK and three members of Board of Directors in DTEK Holdings Limited. In 2006 total compensation to key management personnel included in administrative expenses amounted to USD 1,673 thousand (2005: USD 636 thousand). Compensation to the key management personnel consists of contractual salary and bonus.

37. Fair value of financial instruments

As at 31 December 2006 and 2005 the carrying value of the Group's financial instruments approximates their fair values.
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. Quoted market prices or dealer quotes for the specific or similar instruments or the discounted value of future cash flows are used for long-term debt. To determine the fair value of the remaining long-term financial instruments, the discounted values of future cash flows are used.
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.

38. Supplementary cash flows information

Supplementary cash flows information on non cash transactions is as follows:

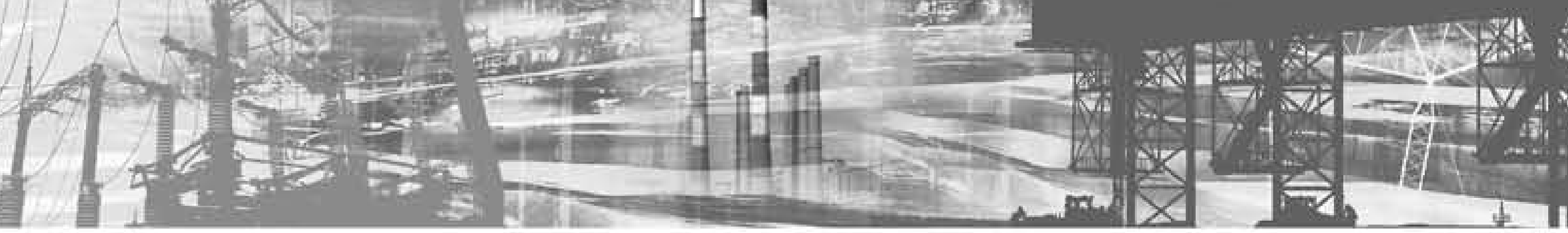
	Notes	2006	2005
Provisions	24	7,820	–
Distributions to entities under common control – unpaid portion	19	11,004	–
Contribution to share capital of DTEK LLC	7	55,439	
Payables for financial instruments		2,235	–
Depreciation capitalized in PP&E		1,723	3,593
Depreciation included to inventories		3,323	5,562
Restructuring of accounts payables	23	–	69,378

39. Subsidiaries

The list of consolidated subsidiaries and the Group's ownership interest at 31 December is disclosed below. All subsidiaries are registered in Ukraine.

Company	Location	Principal activities	Ownership interes 2006	Ownership interest 2005
DTEK LLC*	Donetsk	Holding company	100%	–
Corporation DTEK	Donetsk	Managing company	73.66%	73.66%
Komsomolets Donbassa Mine OJSC	Donetsk region	Mining and enrichment of coal	94.64%	94.64%
Pavlogradugol OJSC**	Dnipropetrovsk region	Coal mining	–	–
Pershotravensky RMZ LLC**	Dnipropetrovsk region	Repair workshop	–	–
CCM Kurahovskaya LLC*	Donetsk region	Coal enrichment	99%	–
CCM Pavlogradskaya LLC*	Dnipropetrovsk region	Coal enrichment	99%	–
Vostokenergo LLC	Donetsk region	Electricity and thermal power production	100%	100%
Tehrempostavka LLC	Donetsk region	Leasing of production assets to Vostokenergo LLC	100%	100%
PES-Energougol OJSC	Donetsk	Electricity distribution	91.12.%	–
Service Enterprise LLC*	Donetsk	Transportations and security services	99%	–
Servis-Invest LLC	Donetsk	Electricity distribution	100%	–
Sotsis LLC	Donetsk	Social infrastructure maintenance	99%	–
Ekoenergoresurs LLC*	Dnipropetrovsk region	Processing of colliery waste and tailing storages	99%	–

** founded during the year 2006.*
*** Pavlogradugol OJSC*



Pavlogradugol OJSC is legally owned by Avdeyevsky Coke Plant OJSC, a company under common control of SCM. In 2006, SCM transferred to the Group the power to govern the financial and operational policies of Pavlogradugol OJSC without transferring ownership of the shares. Pavlogradugol OJSC is a coal mining entity that is fully integrated with the Group's operations such that 89% of coal produced is used by the Group to facilitate generation of electricity. The Group exercises operating control over Pavlogradugol OJSC activities and controls its governing body that has the power to appoint and remove top managers of Pavlogradugol OJSC. As such, Group is obtaining the majority of the benefits of Pavlogradugol OJSC activities.

Pavlogradugol OJSC meets the definition of a subsidiary company for the Group and has been consolidated in these consolidated financial statements by applying the pooling of interest method. The goodwill of USD 106,990 thousand that was recognized in the financial statements of the transferring entity has also been recognised. As at 31 December 2006 and 2005 the Group did not actually own the equity interest in Pavlogradugol OJSC and as such a 100% minority interest (USD 212,835 thousand) was recognised in these consolidated financial statements.

Pershotravensky RMZ LLC

Pershotravensky RMZ LLC is a 100% owned subsidiary of Pavlogradugol OJSC.

40. Contingencies and commitments

Tax matters related to Ukrainian operations

Ukrainian legislations and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable.

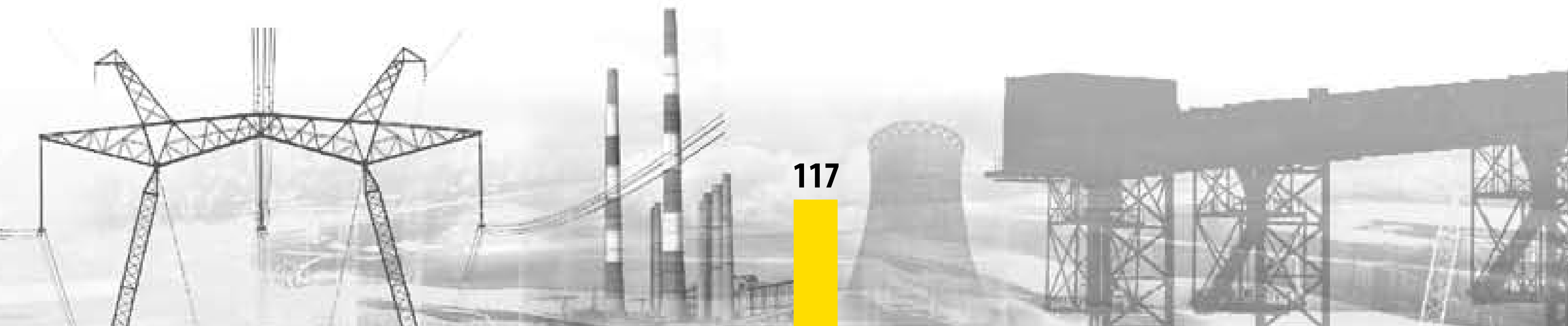
At the same time there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome.

Legal matters

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued.

Environmental Protection

The Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available



related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement.
Management believes that any pending environmental claims or proceedings will not have a material adverse effect on its financial position and results of operations.

Insurance

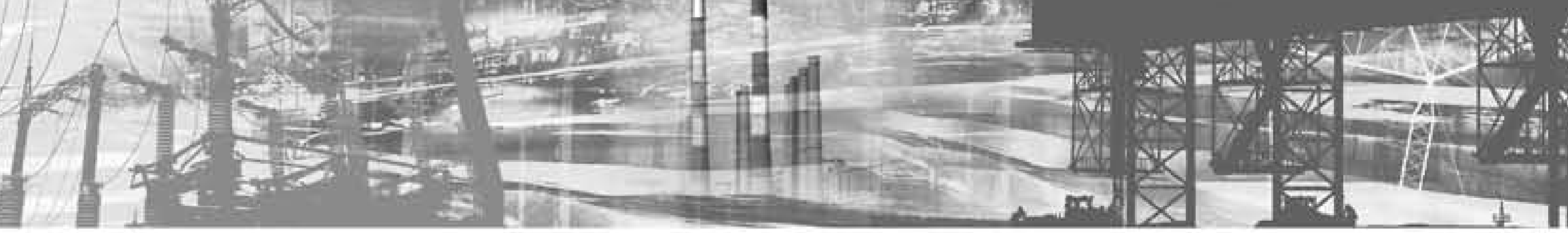
The insurance industry in Ukraine is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property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

Other capital commitments and guarantees

As at 31 December 2006 the Group has outstanding commitments in respect of purchasing services and machinery and equipment in amount of USD 10,410 thousand (2005: USD 1,424 thousand).

41. Events after the balance sheet date

In February 2007 the Group acquired a 7.82% ownership of the voting rights in Pavlogradugol OJSC from State Property Fund of Ukraine for cash considerations of USD 21,414 thousand.
In March 2007 the Group acquired a 99% ownership interest in Mospino CPE LLC for cash considerations of USD 2,0 thousand. The fair value of net deficit of Mospino CPE LLC as at the date of acquisition is USD 473 thousand. The amount of goodwill arising on acquisition is USD 475 thousand.
The Group subsidiaries Pavlogradugol OJSC and Komsomolets Donbassa Mine OJSC are the creditors of state majority owned Dniproenergo OJSC, one of the largest energy producing companies in Ukraine, which is under bankruptcy procedure. According to the reorganization plan approved on 18 June 2007 Pavlogradugol OJSC and Komsomolets Donbassa Mine OJSC declared commitments to contribute USD 208,303 thousand into Investment Association LLC which shall be merged with Dniproenergo OJSC in 2007; and USD 200,000 thousand during 2008 – 2012 pursuant to an investment agreement to be concluded with Dniproenergo OJSC.



Reference

11 Shevchenko Blvd,
Donetsk, 83055, Ukraine
tel.: +38 062 389 43 23
fax: +38 062 389 41 70
E-mail: info@dtek.com.ua
www. dtek.com.ua

Corporate communications department
Tel./fax: +38 062 389 42 35
E-mail: pr@dtek.com.ua

Pavlogradugol OJSC
76 Lenin St., Pavlograd,
Dnepropetrovsk Region, 51400, Ukraine
tel.: + 38 05632 6 48 68
fax: + 38 05632 6 49 01

Komsomolets Donbassa Mine OJSC
Kirovskoe, Shakhtyorsky District,
Donetsk Region, 86300, Ukraine
tel.: +38 06250 63 113
fax: +38 06250 6 29 30

Pavlogradskaya Coal Enrichment Plant Ltd.
8 Shakhtyorskaya St., the village of Verbki,
Pavlogradsky District,
Dnepropetrovsk Region, 51453, Ukraine
tel. / fax: + 38 05632 6 87 87

Mospinskoye Coal Enrichment Plant Ltd.
1A Grishina St., Mospino,
Donetsk Region, 83497, Ukraine
tel.: +38 062 221 71 38
fax: +38 062 221 71 33

Kurakhovskaya Coal Enrichment Plant Ltd.
1A Ordzhonikidze St., the village of Kurakhovka,
Donetsk Region, 85490, Ukraine
tel.: +38 062 349 12 54
fax: +38 06237 2 38 92

Vostokenergo LLC
11 Shevchenko Blvd, Donetsk,
83055, Ukraine
tel: +38 062 389 45 45
fax: +38 062 381 05 53

Service-Invest Ltd
11 Shevchenko Blvd, Donetsk,
83055, Ukraine
tel. / fax: +38 062 385 71 79

PES-Energougol OJSC
151 Chelyuskintsev St.,
Donetsk, 83055, Ukraine
tel. / fax: + 38 062 343 89 26