GROWTH ERA

Annual report 2011

Contents

Message from Oleg Popov, DTEK Supervisory Board Chairman

Dear colleagues and partners,

I am pleased to present you DTEK's Annual Report for 2011, which was undoubtedly a landmark year for the Company. We can confidently call it **a year of growth**, achieved through organic development and acquisitions.

DTEK bid in large privatization tenders in 2011: we secured the first 49-year concession agreements in Ukraine for two anthracite mining and preparation plants, Rovenkianthracite and Sverdlovanthracite, leased the Dobropolyeugol coal mining group and won an open privatization auction to buy a stake in Kyivenergo. As a result, DTEK more than doubled its assets to USD 7.03 billion in 2011. We believe these new businesses will form an integral part of the vertical integration of DTEK, and plan to integrate them efficiently into our production chain, which will provide significant synergies.

We made these important acquisitions not only with our own funds, but also with **loans**. DTEK raised a record-breaking USD 1.4 billion from leading banks in 2011 (Sberbank of Russia, VTB, Erste Group Bank AG, ING Bank Ukraine, banks of UniCredit Group, etc.). We are grateful to our partners and are proud of the fact that they have shown confidence in DTEK's future during this time of global distrust.

As new businesses join our family, DTEK must bear additional responsibility and obligations. We are planning to boost investments in our assets to at least USD 1.12 billion in 2011 (compared to USD 0.53 billion in 2011). These funds will be directed at our major strategic goals — improving DTEK's operational efficiency, and largescale upgrading of equipment ensuring safe working conditions for every DTEK employee. Our first priority is not just to win the championship in terms of cost efficiency and salaries, but to reach a level of zero serious injuries. I want to speak more about the latter point. For us, the safety of our staff is not an empty promise. We do not need any records at the cost of human life. DTEK is fully investing necessary funds to maintain and modernize the safety of its facilities. The Company invested USD 41.06 million in 2011 for this purpose, 88% more than in 2010. We focused on occupational medicine, pay attention to training. These initiatives are already bearing fruit. The number of serious and fatal injuries across DTEK went down by 53% last year. These initiatives are part of DTEK's Development Concept, which guides the further development of the company. We are confident that our knowledge, expertise and resources are sufficient to overcome the challenges we face. This is evidenced by the consistent growth in DTEK's production every year. Coal output rose almost 20% to 36.8 million tons and electricity output grew to 62.8 billion kWh. Production increases drove our financial performance. Over the reporting period, DTEK's consolidated revenues increased by 63.0% to USD 4.96 million, gross profit by 79.5% to USD 1.2 billion and net profit by 23.3% to USD 442 million.

We plan to raise electricity exports to Europe significantly. The results of our work in this sphere were already very impressive in 2011: DTEK exported 5.1 billion kWh of electricity to Eastern Europe, 319% more than in 2010. And we are sure we have a further growth potential. We signed framework agreements with EDF Trading (France) and CEZ Goup (Czech Republic) in December 2011 to supply electricity to Europe in 2012. So I have no doubt that we will have positive performance in 2012 as well.

The philosophy of our energy business is much broader than a focus on profits. We care not only about operational results, but also how our growth helps our employees, local communities and the whole country to grow. As a responsible business, we invested heavily into social initiatives in 2011 — in employees, the environment and corporate citizenship projects to develop regions where we operate. DTEK invested USD 3.73 million into corporate citizenship in the reporting period, with a focus on health care and energy efficiency. We are not planning to stop in 2012 and have set aside around USD 7.5 million in investments for the development of the regions where we operate.

DTEK is a very young company with a long way to go. We feel confident about our future as **DTEK has a team** capable of overcoming complex challenges. I wish to thank each employee for their excellent work. Each of them — from the miners and power plant workers to the chief executive — has helped to develop DTEK, and at the same time their towns and our country. Thank you for your strong commitment, loyalty and professionalism. I believe we have many new peaks ahead, which we will definitely conquer.

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Message from Maxim Timchenko, DTEK CEO

Dear Colleagues,

The year 2011 was one of possibilities and unlocking DTEK's potential. Once again, we proved the efficiency and durability of our business model, the capacity to integrate new enterprises, to compete in markets and to raise financing in order to implement our development strategy.

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The company actively expanded in 2011 and the first half of 2012 and we expect to continue our growth in the future. DTEK was awarded, through an open tender process, the concessionary use of Ukraine's largest anthracite coal producers, Sverdlovanthracite and Rovenkyanthracite, for the next forty-nine years. Additionally, after a prior tender in 2010, last year DTEK signed an agreement with the State Property Fund of Ukraine for the lease rights to Dobropolyeugol. A further tender allowed DTEK to increase its stake in Kyivenergo, a heating and electricity producer, into a controlling one.

DTEK also won state tenders for stakes in the electricity generation companies Dniproenergo and Zakhidenergo (the latter is Ukraine's key link for exporting electricity to Europe) as well as in electricity distribution companies Donetskoblenergo, Dniprooblenergo and Krymenergo, all of which are key players in the electricity market of Ukraine. We secured sufficient financial resources for DTEK to implement our business expansion projects. DTEK raised over USD 1.4 billion in loans which demonstrates trust of our financial partners whose support of the Company's strategic development plans we highly value.

Furthermore, we have not only expanded the geographical reach of our assets, but also ensured growth in production.

In 2011, the coal output of our mines amounted to 36.8 million tons, total electricity output was 50.1 TWh and electricity distribution and sales was 62.8 TWh.

We achieved significant results in terms of electricity export supplies; the volume grew threefold to 5.1 TWh. Electricity exports to Belarus started in February 2011, to Moldova in April and to Poland in October. Last year, DTEK's export supplies of coal products increased by 73% YoY to 3.4 million tons and the dependence of our generation companies on imported coal decreased by 57% YoY to 0.6 million tons. We expanded exports of coal into Western Europe, South East Asia, and strengthened our positions in our core markets. Through a large-scale equipment upgrade program, the implementation of operational improvements and acquisition of new assets, we have achieved an increase in production.

Amongst our major investments in 2011 was over USD 55 million to purchase of four modern longwall sets from both a domestic producer (Mining Machines Co.) and products from international manufacturers (Ostroj and T. Machinery), USD 0.16 billion to reconstruct and maintain power units and USD 9.75 million to construct a 110 kV substation to supply electricity to the new airport terminal in Donetsk in preparation for Euro-2012.

As a result of all these efforts, we became the largest energy company in Ukraine and a fully-fledged member of various prestigious European industry associations such as EURACOAL, EURELECTRIC and the European Federation of Energy Traders.

SOCIAL RESPONSIBILITY AND PUBLIC TRUST

DTEK's companies now operate throughout most of Ukraine. We employ more than 145 thousand people and more than seven million citizens live in regions where we operate. Thus, it is imperative that we build harmonious and mutually beneficial relationships with all the stakeholders involved. Our future growth is inseparably connected with the development of our great nation; therefore, sustainable development programs are integral to our business strategy.

In May 2011, DTEK presented a trend analysis of the global and Ukrainian power industry, as well as own Development concept up to 2030. In it, we determined six strategic vectors for the next twenty years, two of which are Society and People.

We wholeheartedly believe that our successes represent all the Ukrainian business and we will continue to support the complex development of our nation and the regions in which we operate by promoting the very best environmental and safety standards.

Focusing on infrastructure programs and development projects helps DTEK move from case-by-case charity to strategic social investments. We engage international expertise and persuade Ukrainian and international donor organizations to become our partners. In 2011, we invited USAID and UN experts to participate in joint projects, and persuaded our partners to invest more than USD 0.87 million as a co-funding.

Also last year, we were the first Ukrainian industrial company to join the Responsible Business Partnership Declaration Initiative, which was launched by the Centre for the Development of Corporate Social Responsibility and supported by the Norwegian Embassy in Ukraine. We also topped the Ukrainian Companies' Transparency Index rated with methodology from the firm Beyond Business in September 2011.

DTEK has a responsibility to society to introduce modern environmental and safety systems and we have set a very high standard for ourselves. We strive to implement a common environmental approach at all of our enterprises based on the environmental management system ISO 14001:2004, which is also an important element of non-financial risk management.

DTEK's management is personally involved with compliance to occupational safety standards and we have been actively improving our safety management system to meet the environmental standard OHSAS 18001:2007. To this end, our investments in safety amounted to over UAH 320 million in 2011, which, coupled with continual efforts from all our teams, helped to reduce occupational injuries by 14%.

Responsibility is one of DTEK's core values that is shared, I hope, by each and every employee. The Company in its turn is treating all the numerous DTEK employees in a responsible manner. We believe that our people are the key driver of our business development and a source of competitive advantage, and that is why DTEK continues to invest heavily in the development of our personnel and into an innovative culture in operations and management.

DTEK can be very proud of its corporate university, DTEK Academy, which, over the last two years alone, has trained more than twenty thousand employees. We can also be proud that it has become a member of respected international associations such as the Central and East European Management Development Association (CEEMAN) and the European Foundation for Management Development (EFMD).

As recognition, two of DTEK's personnel development programs achieved the highest possible ratings from industry experts at the first national award – HR-Brand Ukraine 2011. Our corporate academy won the category 'Ukraine', and our project on cooperation with specialized universities, Generation DTEK, was awarded silver in the category 'Regions'.

EFFICIENCY

We are well aware that in order to compete with the biggest European energy companies, operate in the present economic downturn in Europe, and develop in an age of declining demand for coal products, DTEK has to significantly enhance efficiency in every part of its business chain. The regulatory framework we operate within needs improvements; our mines produce coal in extremely difficult geological and extraction conditions; our power generation companies require large-scale equipment overhauls. Furthermore, in acquiring new assets, we make immense commitments to the government and to many thousands of people employed by DTEK's operating companies. For this reason, the search for internal reserves and the adoption of efficiency initiatives in all our endeavors will become a priority in the years ahead.

To achieve this challenging goal, DTEK is making progress in several areas:

Firstly, the intensive growth that marked 2011 prompted us to consider reviewing our governance model. We have engaged international consultants to streamline interaction between the management company and our numerous operating companies. The goal is to reduce the number of intermediate management links on planning and decision-making, which should ensure a more flexible and effective response to the new challenges that lay ahead.

Secondly, it is impossible to reduce production costs and increase productivity without introducing innovative solutions, energy efficiency programs and new equipment. DTEK's coal business is one of our top priorities, thus, in 2011, we continued to equip these enterprises with new domestic and foreign machinery, which have no analogues in Ukraine. Among the purchases were 34 roadheaders (SANY) from China. Last year, DTEK mines started using suspended monorail underground transport systems, which reduced the time required for assembly and disassembly, facilitated better transportation of people and cargo, and improved working conditions and safety within the mines.

The Blagodatnaya mine introduced the first and most powerful heating pump plant in the former Soviet Union, which uses mine water to supply heating and hot water to mining facilities. The total project investment was near USD 0.48 million and this very successful practice will be rolled out to other DTEK businesses.

We are actively cooperating with research institutions: in 2011 alone we spent over USD 7.5 million on a range of joint projects. DTEK was also awarded a state prize in Science and Technology, which is a very important achievement and result. The award-winning paper, which was titled Advanced Technologies for the Complex Development of Coal Deposits of Ukraine in Geological Conditions of Thin and Ultra Thin Seams was written by DTEK employees and scientists from the National Mining University in Dnipropetrovsk.

DTEK's goal is to compete with leading European energy companies, however, we understand that we are just at the beginning of our journey and will not achieve our goal without employing a systematic approach to addressing the challenges we face.

However, the main work has already been done: we have created a team of professionals and like-minded persons who are ready to work hard in order to achieve results. We are proud to present this report on DTEK's activities in 2011 as a statement of our continuous progress towards our goals.

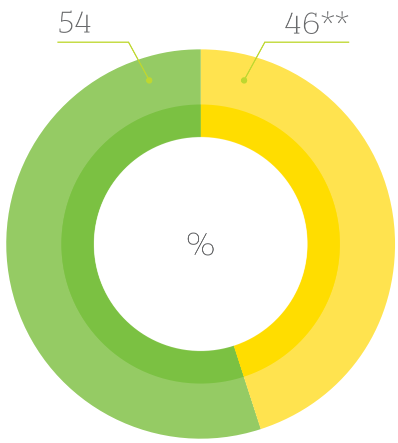
01
About the Company

DTEK is the largest privately-owned energy company in Ukraine. DTEK's companies make up a vertically integrated production chain from coal extraction and processing to electricity and heating generation and sales. DTEK is part of System Capital Management (SCM), a leading Ukrainian financial and industrial group.

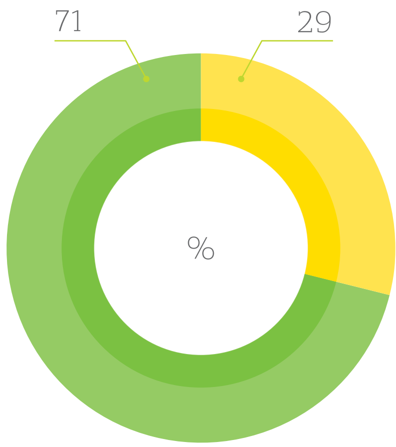
Synergies between our coal and energy companies, the adoption of best international practices in our businesses, the continuous upgrading of our production facilities, the deployment of innovative technologies, our highly skilled and experienced management team and our commitment to sustainable development principles secure DTEK's leadership in the fuel and energy market in Ukraine.

Actual market share*

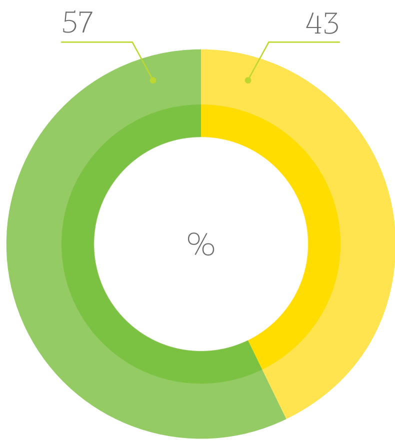
Coal mining



Electricity generation



Electricity distribution & sales



DTEK's market share   Other

* including the following companies: DTEK Dobropolyeugol, DTEK Sverdlovanthracite, DTEK Rovenkyanthracite, DTEK Zakhidenergo, DTEK Dniproenergo, Kyivenergo, DTEK Donetskoblenergo, DTEK Dniprooblenergo and DTEK Krymenergo

** 32% – internal consumption
10% – supplies to the Ukrainian market
4% – exports

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Production indicators*

36.8 million tons
of coal output

27.2 million tons
of run-of-mine coal processing

17.2 million tons
of coal concentrate output

50.1 TWh
of electricity supply

62.8 TWh
of electricity purchased from the WEM**

Financial indicators*

Revenues
USD 4,969 million

EBITDA
USD 1,290 million

Net profit
USD 442 million

CAPEX
USD 470 million

Total assets
USD 7,052 million

Key achievements

- Acquired controlling stakes in DTEK Zakhidenergo, DTEK Dniproenergo, Kyivenergo, DTEK Donetskoblenergo, DTEK Dniprooblenergo, and DTEK Krymenergo
- Signed concession agreements for the use of coal producers Rovenkyanthracite and Sverdlovanthracite for 49 years
- Approved a new management model for DTEK and launched the "Vertical" project
- Approved a new corporate personnel competencies model and a personnel appraisal system
- Raised over USD 1.4 billion in unsecured long-term financing
- Won the first national HR-Brand Ukraine 2011 competition. Our corporate university, DTEK Academy, took the first place in the "Ukraine" category. Received the highest score on the Ukrainian Business Transparency and Accountability Index (based on methodology the firm from Beyond Business). DTEK's compliance was recognised as the best among production companies in the CIS by ICA and Dow Jones

* 2011 results, taking into account associated companies in the reporting period: DTEK Sverdlovanthracite and DTEK Rovenkyanthracite (consolidated in December 2011), DTEK Zakhidenergo (25.8%), DTEK Dniproenergo (47.9%), Kyivenergo (46.8% until December 7, 2011 when increased to controlling stake following privatization) and DTEK Donetskoblenergo (31.3%). Production indicators also include DTEK Dniprooblenergo (1.5%) and DTEK Krymenergo (12.5%). Their financial results were not consolidated in DTEK's accounts.

** Wholesale Electricity Market

01>01
Mission, vision and values

Mission

We are working in the name of progress and social prosperity. Our energy brings people light and warmth.

Vision

We are a dynamically developing Ukrainian company which pursues leadership in the European energy markets. Our success is based on people, efficiency and advanced technologies.

Values

Professionalism

Our employees possess extensive professional knowledge, carry out their duties responsibly and diligently, and accomplish their tasks in a timely and high-quality manner. We strive to achieve the best results while making the best possible use of human, natural and financial resources.

Responsibility

We are building our business on the understanding that all of our efforts should serve the interests of society. We bear responsibility for the quality of our work and the observance of corporate standards, for meeting our obligations, for using resources prudently, and for protecting the environment. We are also responsible for the people who make the success of our Company possible – our employees.

Pursuit of excellence

We create the right conditions to develop the talents and abilities of our employees, are introducing the latest technology, and are improving production and management processes. As we expand our business, we strive to instil confidence in our employees and contribute to the successful development of Ukraine.

Unity

We value team spirit, unity and solidarity. We can only achieve strong results as a team. We enjoy both working and socialising together. Our potential comes from the diverse experience and knowledge of each employee. Our unity comes from the common pursuit of the same idea and goal while understanding and supporting each other.

Openness

We are open and keep our employees, partners, shareholders and other external parties informed about important issues regarding our development, creating a foundation for working together in a spirit of trust. We conduct our business on the basis of principles that are clearly set out for employees and partners.

01>02
Development Concept 2030

DTEK will be developing in Ukraine with entering the markets of neighboring countries as a diversified and fuels efficient energy company.

DTEK will focus on the sale of electricity to all categories of consumers with maintaining high standards of service and building a strong retail brand.

DTEK will rely on the key success factors: the talent and potential of employees and efficiency of production, investments and management.

DTEK will participate in the reforming and modernization of Ukraine's economy, social development of regions of its presence and promotion of the best standards in the industrial and environmental safety.

Energy

The main product of the Company is electricity. The energy business of DTEK will be based on the conventional power and heat generation with own fuel supply. The Company will strive to diversify its portfolio of generation, including renewable energy sources.

Society

DTEK will strive to become "the face" of the Ukrainian business sector. The Company will be supporting holistic social and economic development of Ukraine and regions of its presence. DTEK will promote the highest standards in the labor safety and environment protection.

People

People are the key driving force for DTEK's progress and the source of our competitive advantage. DTEK will continue to actively invest in the development of its personnel and encourage advancement of the innovation culture.

Efficiency

The core of DTEK's efficiency will be the efficiency of operations, efficiency of investments and efficiency of management.

Ukraine 'Plus'

Ukraine will remain the key market for DTEK whereas the list of priority regions for future growth will include Central and Eastern Europe and the CIS. The entering will be made through trading operations, and M&A may follow.

Consumers

Electric power retail and auxiliary services to all categories of consumers will become an important part of DTEK's business. The Company will actively develop its retail brand, DTEK.

01>03
DTEK Management

Chief Executive Officer
Maxim Timchenko

Mr. Timchenko has been the Chief Executive Officer of DTEK since July 2005. He is the Chairman of the Management Board.

He worked as a senior manager at System Capital Management, responsible for SCM's energy business, from 2002 to 2005 until it was spun off into DTEK. Mr. Timchenko began his career as a consultant at PricewaterhouseCoopers (1998-2002) where he advanced to senior auditor.

He graduated with honors from the Donetsk State Academy of Management with a degree in Production Management in 1997. He continued his education at Manchester University and received a BA in Economics and Social Sciences with honors.

Mr. Timchenko is a member of the Association of Certified Chartered Accountants (ACCA).

Chief Operating Officer
Yuriy Ryzhenkov

Mr. Ryzhenkov has been the Chief Operating Officer of DTEK since March 2010. He is a member of the Management Board.

He joined DTEK in September 2007 as CFO. He was the deputy chief financial officer and then the chief financial officer of ISTIL Group (Donetsk-London) from 2002-2007. He was appointed a manager of the Economic Analysis and Information Technology Department at ISTIL Mini Steel Mill (Ukraine) in 2000. He started his career as an assistant to the CFO of Donetsk Iron and Steel Works in 1996.

Mr. Ryzhenkov graduated from King's College London (UK) with a BSc degree in Business Management with honors in 2000. The same year he graduated from Donetsk State Technical University (Ukraine) with a degree in International Economics. He was awarded an MBA from London Business School (UK) in 2006.

Chief Financial Officer
Vsevolod Starukhin

Mr. Starukhin has been the Chief Financial Officer of DTEK since March 2010. He is a member of the Management Board.

Mr. Starukhin joined DTEK in December 2009 as deputy chief financial officer. Before that, he had been the chief financial officer of the aluminium division of Rusal (Moscow) since 2008. He worked at Schlumberger in 2006-2008 as a financial manager at their headquarters in France and later as chief financial officer in Russia. He headed the financial departments of Mars in Russia, Hungary, the Netherlands and Brazil in 1996-2006. He began his career in 1995-1996 at Kraft Jacobs Suchard, where he worked as the credit control and financial transactions manager.

He graduated from the Warsaw School of Economics with a degree in International Economics in 1995. He received a PhD in Economic Sciences from the Moscow Academy of Labor and Social Relations in 2003.

Commercial Director
Andrey Favorov

Mr. Favorov has been the Head of the Commercial Division of DTEK since January 2012. He is a member of the Management Board.

Mr. Favorov joined DTEK in November 2010 as director of DTEK Power Trade. Before that, he worked for ContourGlobal, where he was in charge of business development in Europe and the CIS. Mr. Favorov served as business development director of AES, an international energy corporation, in Kazakhstan, Russia, United Kingdom, Turkey and Africa in 2005-2009. He worked in Atlanta, Georgia in 1998-2004, focusing on project management (IBM Global Services, Ford and Harrison LLP, Eclipsys Corporation).

He obtained a BSc degree from the State University of Georgia (USA) in 1999.

Coal Production Director
Andrey Smirnov

Mr. Smirnov has been the Head of the Coal Production Division of DTEK since June 2011. He is a member of the Management Board.

He joined DTEK in June 2011 as coal production director. Before that, he was general director of En+ Coal (Russia), a large player in the global coal market. He was in charge of the reconstruction and construction of mines and thermal power plants in Rostov and Tula regions of Russia in 2007-2008 and an advisor on the fuel and energy sectors to the Tula region governor. He held the position of the general director at Southern Coal-Mining Company (Rostov Region, Russia) from 2004 to 2007. He started his career in 1989 at the Vorgashorskaya Mine (Vorkutaugol) where he advanced from a surveyor to general director.

Mr. Smirnov graduated with honors from Donetsk Polytechnic Institute majoring in Mine Surveying in 1989. He obtained a degree in Finance from Syktyvkar State University in 1998. He holds a Ph.D. in Political Sciences and is a full-fledged member of the Academy of Mining Science of the Russian Federation. He has been awarded the "Miner of Russia" Golden Medal for his personal contribution to the development of mining; he is a Full Cavalier of the "Miners Glory" Order.

Electricity Generation Director
Roman Serdyukov

Mr. Serdyukov has been the Head of the Electricity Generation Division of DTEK since January 2012. He is a member of the Management Board.

Mr. Serdyukov joined DTEK in January 2012 as electricity generation director. In 2010-2011, he held the positions of general director of Zuivska TPP, Skhidenero (DTEK) and later general director of DTEK Dniproenergo. He was deputy general director of commercial activities at Donbasenergo in 2006-2009. Mr. Serdyukov worked as plant manager of Mironivska TPP of DTEK Donetskoblenergo in 2003-2006. He started his career in 1992 as an electrician at Zuivska TPP, where he rose to deputy director and head of the fuel supply unit.

He graduated from Donetsk Polytechnic Institute majoring in Power Plants in 1992. Mr. Serdyukov got a diploma in Economics from Donetsk State Technical University in 2000.

Electricity Distribution and Sales Director
Igor Maslov

Mr. Maslov has been the Head of the Electricity Distribution and Sales Division of DTEK since January 2012. He is a member of the Management Board.

Mr. Maslov joined DTEK in October 2005, first as head of the electricity distribution department, then as deputy director of electricity distribution and sales. Prior to that, he worked as an engineer at Donbasenergo, head of the production laboratory at the Donetsk Regional Dispatch Center of the Electricity Industry of Ukraine and as head of relay protection and automation service at Service-Invest, an electricity distribution company. He started his career in 1983 as a worker at Zuivska TPP-2.

He has a diploma from Donetsk Polytechnic Institute specializing in Power Plants. He later graduated from Donetsk National University with a degree in Business Management.

Large Projects Director
Evgeny Bogomolsky

Mr. Bogomolsky has been the Head of the Large Projects Division of DTEK since January 2012. He is a member of the Management Board.

Mr. Bogomolsky joined DTEK in January 2012 as large projects director. Before that, he was general contract director at Group E4 (Russia). He joined Mirax Group in 2007, where he managed construction projects in the Central Administrative District of Moscow, before that he was in charge of strategic development at Hewlett-Packard Russia. He was the head of Varsi-Line in 2000-2004, a company carrying out hi-tech infrastructure projects for state bodies in the Russian Federation. He was responsible for the development and implementation of IT projects at Prime Group in 1999-2000. He started his career as commercial director at Stins Coman IT company.

He finished Sverdlovsk Suvorov Military School in 1991 and graduated from Popov Naval Institute of Radio Electronics in St Petersburg in 1996. He completed an MBA at Californian State University of San Francisco (East Bay) in 2006. He finished a Bachelor's at the Academy of National Economy under the Government of the Russian Federation in Strategic Governance in 2008.

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Director for External Affairs
Alexander Tolkach

Mr. Tolkach has been the Head of the External Affairs Division of DTEK since September 2010. He is a member of the Management Board.

Mr. Tolkach joined DTEK in September 2010 as director of external affairs. He worked at Mechel OAO (NYSE:MTL) prior to that, since 2004, where he advanced from PR manager to director of the external affairs department. In 1999-2004, he worked in the NATO, EAPC and WEU unit of the Russian Ministry of Foreign Affairs and later as an attache in Russia's Permanent Mission to OSCE (Vienna, Austria).

He graduated from the Moscow State Institute of International Relations in 1999, a university under the Ministry of Foreign Affairs, with a degree in International Relations.

Human Resources Director
Alexander Kucherenko

Mr. Kucherenko has been the Head of the HR Division of DTEK since May 2011. He is a member of the Management Board.

Mr. Kucherenko, before being appointed HR director permanently, had been acting as HR and corporate communications director of DTEK since July 2010. He joined DTEK in 2009 as the deputy director of HR and was in charge of establishing a knowledge management centre at the company, DTEK Academy, as well as programs for personnel appraisal and development.

Before coming to DTEK, he worked for Unilever and InBev; at the latter he advanced to training and development director for the Eastern European region. He also held the position of head of training and development at Raiffeisen Bank Aval.

Mr. Kucherenko graduated from Cherkasy State Teachers' Training Institute, majoring in Russian Language and Literature. He obtained his Master's Degree in Public Administration from the Institute of Public Administration and Self-Governance at the Cabinet of Ministers of Ukraine in 1995. He graduated from Manchester University (UK) majoring in Economics and Sociology in 1996. He later took a PG course at the Public Administration Academy at the Administration of the President of Ukraine and in 2001 he defended his thesis on 'Public Administration'.

Legal Support Director
Dmitry Sakharuk

Mr. Sakharuk has been the Head of the Legal Support Division of DTEK since May 2011. He is a member of the Management Board.

Mr. Sakharuk joined the company in March 2010 as deputy head of the legal support department, and was later appointed acting legal support director of DTEK.

Before joining DTEK, he worked for Squire, Sanders & Dempsey L.L.P.

Mr. Sakharuk graduated from the National University of Internal Affairs (Ukraine) as a Specialist of Law with honors in 2000. He received a Master's degree with honors in 2001. He obtained an L.L.M in International and Comparative Law from Chicago Kent College of Law in 2002.

Security Director
Sergey Polyansky

Mr. Polyansky has been the Head of the Security Division since April 2007.

Mr. Polyansky joined DTEK in 2005 as deputy head of DTEK's security service for economic security. He was later made head of the department for economic security.

He held executive positions in the criminal investigation department of the Ministry of Internal Affairs prior to that, since 1994. During his service there, he undertook special training courses on anti-terrorism operations and explosives and firearms offences as part of an international training system in the US, UK and Turkey.

Mr. Polyansky had worked for law enforcement agencies since 1986, where he specialized in operations. He advanced from an investigator to the head of the anti-drug trafficking division of the Ministry of Internal Affairs in Donetsk Region. He held a degree in law from the National Academy of the Ukrainian Ministry of Internal Affairs.

01>04 Operations. Company structure

Coal production

DTEK's coal mining business includes the five largest companies in the industry: DTEK Pavlogradugol (ten mines in Dnipropetrovsk region), DTEK Mine Komsomolets Donbasa (one mine in Donetsk region), DTEK Dobropolyeugol (five mines in Donetsk region, leased for 49 years), DTEK Rovenkyanthracite (six mines in Luhansk region, controlled under a 49-year concession agreement) and DTEK Sverdlovanthracite (five mines in Luhansk region, controlled under a 49-year concession agreement). DTEK companies' total coal production reached 36.8 mln tons in 2011[1].

DTEK Pavlogradugol and DTEK Mine Komsomolets Donbasa had stable increases in coal production in 2011 (+2.5% and +3.3% YoY, respectively). DTEK Pavlogradugol produced 15.414 mln tons of coal, an all-time high for the Company. DTEK Dobropolyeugol, after more than UAH 450 mln in investments in upgrades and development, increased annual coal output by 250,700 tons (+8.3%) to 3.3 mln tons in 2011. DTEK Sverdlovanthracite and DTEK Rovenkyanthracite mined 7.3 mln tons and 6.6 mln tons of coal, respectively, in 2011.

DTEK's coal companies produce a wide range of saleable coal products (G, DG, T, A grade). ROM coal and coal concentrate are consumed by the power and coking industries, while sorted fuel is used by households.

DTEK's coal processing business includes 11 processing plants located in Donetsk, Dnipropetrovsk and Luhansk regions. DTEK companies' coal processing figures remained unchanged YoY. In 2011, 27.2 mln tons of ROM coal was processed to produce 17.2 mln tons of coal concentrate.

Power generation

DTEK's generation business includes DTEK Skhidenergo, DTEK Dniproenergo, DTEK Zakhidenergo and Kyivenergo. DTEK Skhidenergo operates three plants with a total of 17 power units; its total installed capacity as of late 2011 was 4,157 MW. DTEK Dniproenergo operates three power plants with 25 units; its total installed capacity as of late 2011 was 8,185 MW. DTEK Zakhidenergo runs three TPPs with 20 units and 2 turbine generators and one HPP; its total installed capacity was 4,608 MW. Kyivenergo operates two CHPPs with 6 units; its the total installed capacity was 1,200 MW.

Electricity generated by DTEK companies is supplied to the wholesale electricity market (WEM). **The aggregate supply by DTEK's electricity generators to the WEM equalled 50.1 bln kWh in 2011.** The total installed capacity of DTEK Skhidenergo, DTEK Dniproenergo, DTEK Zakhidenergo and Kyivenergo is 18.2 GW.

Power distribution and sales

DTEK's electricity distribution and sales business includes Service-Invest, DTEK Energougol ENE, DTEK Donetskoblenergo, DTEK Dniprooblenergo, DTEK Krymenergo and Kyivenergo. The Company's electricity distribution networks stretch over Donetsk and Dnipropetrovsk regions, Crimea and the city of Kyiv, the capital of Ukraine. The total length of DTEK's networks, including companies acquired by DTEK in 2011-2012, is 174,000 km.

DTEK's electricity distribution companies purchase electricity from the WEM and supply it to end consumers, e.g. iron and steel, coal and engineering companies; organizations and households in the cities of Kyiv and Donetsk, Donetsk and Dnipropetrovsk regions, and Crimea. **DTEK companies purchased 62.8 bln kWh of electricity from the WEM in 2011*.**

[1] Coal mining by DTEK companies in 2011 amounted to 29.9 mln tons excluding Rovenkyanthracite and Sverdlovanthracite

* Purchase of electricity from the WEM by Service-Invest and DTEK Energougol ENE as well as associated companies in the reporting period including Kyivenergo (46.8% untill December 7, 2011), DTEK Donetskoblenergo (31.3%), DTEK Dniprooblenergo (1.5%) and DTEK Krymenergo (12.5%)

Heating supply

DTEK's heating production and supply business is primarily represented by Kyivenergo, which provides heating to Kyiv; the Company is involved in the production, distribution and sales of electricity and heating. The total installed capacity of all Kyivenergo's heating generators (CHPP-5, CHPP-6, CT, boilers) is 8,725 Gcal/hour.

Heating is distributed and transmitted to consumers through a pipeline network of 4,500 km (one-pipe measurement). The Company's 19 booster pumping plants guarantee hydraulic operation. The Company owns and maintains 2,400 heating distribution centers.

DTEK Dniproenergo supplies heating to the towns of Energodar and Zelenodolsk and some districts of the city of Dnipropetrovsk. The installed heating capacity of DTEK Dniproenergo is 1,983 Gcal/hour, including Prydniprovska TPP — 845 Gcal/hour, Zaporizka TPP — 788 Gcal/hour and Kryvorizka — 350 Gcal/hour. Its main consumers are public utilities, legal entities and households. Heating is distributed and transmitted through heating pipelines that are mostly owned by the state.

Renewable energy

DTEK's long-term strategy focuses on green energy. The Company is currently in the process of forming the largest project portfolio in Ukraine's wind power industry (1,200 MW). DTEK's subsidiary, Wind Power, manages its projects in this industry.

Trading

DTEK's trading operations in Ukraine and abroad were carried out by DTEK Trading and DTEK Power Trade in 2011. DTEK Trading is in charge of exports and domestic supplies of coal products, while DTEK Power Trade deals with electricity exports.

DTEK increased exports of surplus coal products by 73% YoY to 3.4 mln tons in 2011. The Company also managed last year to reduce its dependence on in-house generation with imported coal by 57% to 0.6 mln tons. Higher coal exports were mainly the result of increasing the number of consumers in Western Europe, entering South East Asia and strengthening DTEK's positions in its traditional markets.

DTEK exported 5.1 TWh of electricity to Eastern European countries in 2011 (+319% YoY). This significant increase followed the commencement of exports to Belarus (February 2011) and Moldova (April 2011) and the resumption of supplies to Poland (October 2011). The Company is a partner of the key players on the European energy market: Alpiq (Switzerland), Energy Financing Team (Switzerland), CEZ Group (Czech Republic), EDF Trading (France), Gazprom Marketing & Trading (UK), EGL (Switzerland), and E.ON Energy Trading (Germany). International partnerships contribute to DTEK's image as a reliable electricity supplier and improve the business standing of the Ukrainian fuel and energy sector as a whole. DTEK Power Trade became an associate member of the European Federation of Energy Traders (EFET) in December 2011.

Company structure

DTEK

Coal mining	Power generation	Power distribution and sales	Other
DTEK Pavlogradugol (ten mines)	DTEK Skhidenergo (three TPPs)	Service-Invest	DTEK Trading (coal sales)
DTEK Mine Komsomolets Donbasa (one mine)	DTEK Dniproenergo (three TPPs)	DTEK Energougol ENE	DTEK Power Trade (electricity sales)
DTEK Dobropolyeugol (six mines)	DTEK Zakhidenergo (three TPPs)	DTEK Donetskoblenergo	Wind Power (wind energy)
DTEK Rovenkyanthracite (six mines)	CHPP-5, CHPP-6	Kyivenergo	DTEK Oil & Gas (oil & gas)
DTEK Sverdlovanthracite (five mines)		DTEK Dniprooblenergo	DTEK Service (administrative support)
Coal processing (eleven factories)		DTEK Krymenergo	Socis (management of social infrastructure)

ANNUAL REPORT 2011 GROWTH ERA About the Company

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Key events

January

DTEK leases state-owned mining company Dobropolyeugol
DTEK signed a 49-year lease with the State Property Fund of Ukraine in Donetsk region after an auction in December 2010. The bid on behalf of DTEK was submitted by DTEK Dobropolyeugol. The deal was closed on January 4.

DTEK joins the Declaration on Responsible Business Partnerships
DTEK signed the Declaration on Responsible business Partnerships, which was initiated by the Centre for Corporate Social Responsibility Development, with the support of the Norwegian Embassy in Ukraine. DTEK was the first industrial company in Ukraine to support the initiative.

February

Service-Invest invests UAH 75.6 mln to retrofit six substations
Service-Invest upgraded six substations that provide services to large industrial consumers in Donetsk region and commissioned a new electricity transmission line.

March

DTEK's environmental management systems get certified under ISO 14001:2004
Fourteen of DTEK's companies had their environmental management systems (EMS) certified for compliance with ISO 14001:2004. They were the first in the Ukrainian energy industry to put their EMS in line with international standards. DTEK's investments into the project amounted to UAH 4.6 mln in 2010. The compliance audit was conducted by Moody International.

DTEK completes certification of its occupational safety management system
DTEK finished OHSAS 18001:2007 certification of the occupational safety management system at its coal processing, electricity distribution and service enterprises. The compliance audit was conducted by Moody International. DTEK invested UAH 175 mln into the project in 2010.

April

DTEK Power Trade starts electricity exports to Moldova
DTEK Power Trade commenced commercial electricity supplies to Moldova on April 1, 2011.

May

DTEK presents its energy sector outlook and Development Concept for the Company to 2030
DTEK presented its analysis of global and national energy sector trends and its Development Concept to 2030. The Company focused on its image as a modern energy company and its role in social development. DTEK determined six strategic development directions for the next 20 years: Energy, Society, People, Efficiency, Ukraine 'Plus', and Clients.

June

DTEK sets up a subsidiary to run its oil & gas business
DTEK founded DTEK Oil & Gas, a subsidiary responsible for the development of offshore and onshore oil and gas projects.

July

Fitch Ratings changes the outlook on DTEK Holding's ratings to positive
Fitch Ratings revised the outlook on DTEK Holding's ratings from Stable to Positive, following the agency's rating action on Ukraine's sovereign ratings. Ukraine's long-term foreign and local currency Issuer Default Ratings (IDRs) were affirmed at 'B' and short-term foreign currency IDR at 'B'. Ukraine's Country Ceiling was affirmed at 'B'.

DTEK joins Europe's largest network of Corporate Social Responsibility leaders
DTEK became the first Ukrainian company to join CSR Europe, Europe's largest business network actively engaged in the development of CSR in Europe. The organization has 70 multinational members. CSR Europe members are also focused on integrating CSR principles into their development strategies.

August

DTEK launches Energy Efficiency Program with USAID Municipal Heating Reform Project
DTEK signed a Memorandum of Cooperation with the Kyiv City State Administration and USAID Municipal Heating Reform Project to improve the heating system and energy efficiency of the city of Kyiv.

September

DTEK raises a USD 150 mln loan from ING Bank Ukraine
DTEK signed an agreement with ING Bank Ukraine to open a USD 150 mln three-year multicurrency credit line.

DTEK gets award for high business transparency
DTEK topped the Ukrainian Business Transparency and Accountability Index published by the Centre for Corporate Social Responsibility Development under international methodology from the firm Beyond Business. DTEK received the highest score among Ukrainian participants — 80%.

October

DTEK increases its credit line with Erste Bank
DTEK expanded its three-year credit line with Erste Group Bank AG from EUR 50 mln to EUR 100 mln.

DTEK starts electricity exports to Poland
DTEK started exporting 145-200 MW of electricity to Poland on October 17, 2011, resuming commercial exports of Ukrainian electricity to its western neighbor, which had been suspended for two years.

DTEK raises a RUB 10 billion loan from VTB
DTEK opened a five-year RUB 10 billion credit line with Russian Commercial Bank (Cyprus) Limited (VTB Group).

DTEK opens USD 500 mln equivalent RUB credit line from Sberbank of Russia
DTEK signed an agreement with Sberbank of Russia to open a five-year ruble denominated credit line equivalent to USD 500 mln.

November

DTEK wins the award HR-Brand Ukraine 2011
DTEK won the first national award HR-Brand Ukraine in 2011. DTEK's corporate university, DTEK Academy, won the category "Ukraine", and Generation DTEK, the Company's project dedicated to cooperating with target universities, won silver in the category "Regions".

DTEK purchases mining equipment from SANY Heavy Equipment
DTEK signed a Memorandum of Understanding with SANY Heavy Equipment Co Ltd (China) for state-of-the-art mining equipment and the transfer of coal extraction technology to Ukraine.

December

DTEK changes its Supervisory Board
At a General Meeting, shareholders of DTEK Holdings B.V., incorporated under the laws of the Netherlands, approved changes to the Company's Supervisory Board. The Supervisory Board now consists of eight directors, three of which are independent.

DTEK signs concession agreements for Rovenkyanthracite and Sverdlovanthracite
DTEK and the Ministry of Energy and Coal Industry of Ukraine signed 49-year concession agreements for the property and facilities of state-owned coal mining companies Rovenkyanthracite and Sverdlovanthracite.

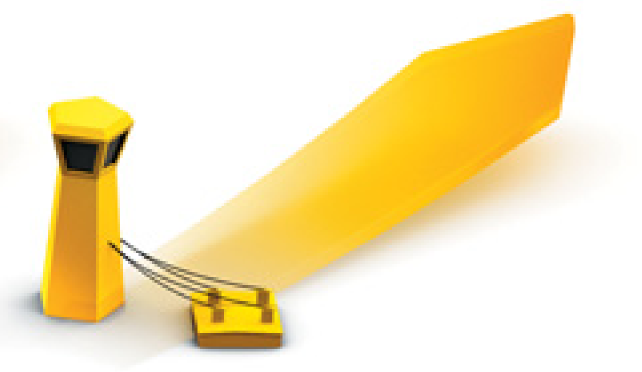
DTEK increases its stake in Kyivenergo to 71.82%
DTEK won a privatization auction held by the State Property Fund of Ukraine for a 25% stake in Kyivenergo. DTEK paid for the stake in full (UAH 450.5 mln).

DTEK gets access to Ukraine's cross-border electricity interconnectors in 2012
DTEK Skhidenergo and DTEK Power Trade, after winning tenders, signed contracts with the national operator of the country's main transmission lines, Ukrenergo, for access to the cross-border interconnectors for electricity exports in 2012.

DTEK opens a new substation for Euro-2012
DTEK's Service-Invest held an opening ceremony for the Airport-110 kV Substation. The Company constructed the substation as part of the State Program to Prepare for the UEFA's #14 European Football Championship (Euro-2012).

DTEK Power Trade signs electricity supply contracts with EDF and CEZ
DTEK Power Trade entered into framework contracts with Europe's largest energy traders of EDF (France) and CEZ (Czech Republic) groups for electricity supplies in 2012.

DTEK raises funds from UniCredit
DTEK opened three-year revolving credit lines with a total limit of USD 260 mln with UniCredit Group banks.



ANNUAL REPORT 2011 GROWTH ERA Industry review

02
Industry review

02>01
Macroeconomic indicators

The Ukrainian economy has regained its footing since the onset of the global financial crisis. Ukraine's gross domestic product grew 5.2% in 2011 (after 4.1% in 2010). Of 18 countries with transitional economies (Georgia and the CIS and Southeastern European countries), Ukraine was one of only eight whose GDP expanded in 2011, according to the United Nations.

Ukraine's nominal GDP totaled USD 165 billion in 2011. This was the third largest GDP in the region, after Russia and Kazakhstan. The economy was driven by rising export prices for energy resources and raw materials. By comparison, Ukraine's nominal GDP was higher than Bulgaria, Hungary or the three Baltic countries combined, but lower than either Romania or Poland.

Ukrainian GDP

Year	GDP in current prices	
	UAH billion	USD billion
2008	948	180
2009	913	117
2010	1,094	138
2011	1,314	165

Source: United Nations Statistics Division and the State Statistics Committee of Ukraine

Experts attributed Ukraine's economic growth to a surge in demand for metal and chemical products, a record grain harvest (56.7 thousand tons) and the implementation of large infrastructure projects for the UEFA 2012 European Football Championship. A stable political situation also contributed to economic growth.

The government downgraded its official projection for Ukraine's GDP growth in 2012 from 6.5% to 3.9% in view of negative economic expectations around the world. According to the UN Department of Economic and Social Affairs, global GDP will grow by 2.6% in 2012 compared to 2.8% in 2011 due to decreased business activity in the USA, EU, Arab world, East Asia and Latin America. CIS countries will see economic growth slow from 4.3% to 4.0% because of declines in exports and lower prices for primary goods.

With global market conditions worsening, Ukraine's economy will be supported by the domestic market. Retail turnover increased from 7.8% in 2010 to 13.7% in 2011. Inflation was 4.6%, the lowest since 1992 (except for 2002, when Ukraine had 0.6% deflation). Growth in consumer prices in Ukraine was less than in Belarus (108.7%), Kazakhstan (7.4%) and Russia (6.1%). At the same time, some industries, including the energy sector, saw administrative intervention curb prices and tariffs.

The state remains a major domestic investor. In 2011, state capital expenditures rose by 26% to USD 3.3 billion over 2010. Capital expenditures accounted for 8% of total budget expenditures and were the highest for the last three years. As a percentage of GDP, capital expenditures came to 4% in 2011 and should increase to 5% in 2012.

The government estimates that in 2012 Ukrainians' purchasing power will return to the pre-crisis level of 2008. Actual salaries increased by more than 10% in 2011. Unemployment dropped from 2.1% to 1.8%. According to the National Bank of Ukraine, companies are optimistic about their 2012 development prospects, including growth in their number of employees.

2011 was successful for Ukrainian industry. The number of profitable companies increased. We also saw clear progress toward a solution to the VAT refund issue, which is especially relevant for exporters. In 2011, about USD 5.4 billion was refunded, 1.8 times more than in 2010, including 37.1% of which was refunded automatically.

In 2011, producer prices increased by 14.2%, the least since 2006. In December 2011, the producer price index decreased, which indicated a slowdown in sales.

Ukraine's industrial production index was 107.3% in 2011. A significant drop was registered only in the refining industry due to increased competition from foreign processors. Output from the engineering industry grew by 16.9%, driven by industrial modernization in Ukraine and other countries. In 2011, machinery and electrical equipment exports from Ukraine increased by 19.2% to USD 6.8 billion.

All in all, Ukrainian exports exceeded USD 68.4 billion, while imports were USD 82.6 billion. The negative trade balance reached USD 14.2 billion, due to higher costs for energy resources, which accounted for almost 35% of imports. This gap was compensated by a positive services balance of USD 7.4 billion and direct foreign investment of USD 6.5 billion.

Ukraine's gold and currency reserves fell by USD 2.8 billion to USD 31.8 billion over the year.

There were only minor UAH exchange rate fluctuations last year. The UAH/USD exchange rate in 2011 was 7.97 (vs. UAH/USD 7.94 in 2010).

Ukraine's public debt dropped by 2.5 percentage points to 27.4% of GDP. For comparison, the average national debt of European countries was 82.2% in the third quarter of 2011. The Ukrainian government borrowed USD 10 billion from foreign lenders, almost USD 1 billion below their budget target. Funds were borrowed mainly domestically.

State budget revenue increased by 22.4% to USD 39.5 billion, while expenditures rose by 9.6% to USD 41.7 billion. The budget deficit decreased threefold compared to 2010 to USD 2.8 billion or to 1.7% of GDP. In 2012, the deficit is expected to be 1.67% of GDP.

The main task for the Ukrainian economy in 2012 will be to prevent negative effects from the EU debt crisis and a second wave of the global financial crisis. In 2013-2014, Ukraine is going to scale down anti-crisis measures and focus on stable economic development.

02>02
Coal market

Coal industry review

Ukraine's proven coal reserves are 34 billion tons, 3.3-3.9% of the world's total deposits and about 10% of European reserves, according to various estimates. The coal reserves of operating mines total 6.1 billion tons, including 3.5 billion tons of thermal coal and 2.6 billion tons of coking coal. Major coal deposits are located in the Donets, Lviv-Volyn and Dnipro coal basins, as well as in the Dnipro-Donets and Zakarpattya coal depressions. The deposits are deep in thin seams (0.8-1.0 m).

Before 1970 coal-fired TPPs generated 75% of Ukrainian electricity. As the nuclear power industry developed, coal-fired TPPs' share gradually decreased to 35% at the end of 2011. Ukraine's Energy Strategy to 2030 foresees growth in TPPs' installed capacity as a result of retrofitting operating units and constructing new ones.

As of December 2011, more than 350 companies operated in the coal, lignite and peat production, processing and agglomeration sectors. Of them, about 250 produced and processed hard coal.

There are more than 145 mines in Ukraine. The Ministry of Coal and Energy Industry of Ukraine runs 20 coal production enterprises, which operate 91 mines. The five largest companies account for almost half of domestic coal production.

The industry employs about 250 thousand people. The same number of people work at coal companies in EU countries. The Polish coal industry, which produces more coal than Ukraine, employs 130 thousand people. As of January 1, 2012, Ukrainian state-owned mines employed 196.4 thousand people. The difference in number of employees can be explained by the superior technical characteristics of Polish coal mines, which allow for full mechanization of coal production.

The average salary in Ukraine's coal, lignite and peat production industry is higher than in other industries due to the harsh working conditions. The average monthly salary increased by 32.8% to UAH 5,486 (USD 688.3) over 2011, 1.5 times more than the industry average. The average salary of employees at state enterprises increased by 25.7% to UAH 4,843 (USD 607.6) last year.

In 2011, Ukrainian enterprises sold coal, lignite and peat for UAH 46.2 billion. (USD 5.8 billion). The share of coal in industrial products turnover was 4.1%. The country was the leader in hard coal production in Europe.

Largest hard coal producers in Europe | million tons

	2010	2011	Change, %
Spain	8.4	6.6	-21.4
Czech Republic	11.4	11.3	- 0.9
Germany	14.1	13.0	-7.8
Great Britain	18.4	18.3	-0.5
Ukraine	54.4	61.8	12.4
Poland	76.6	76.3	-0.4

Source: State statistics agencies, Euracoal

Coal production and trading

The volume of coal produced in Ukraine grew by 9% YoY to 82 million tons in 2011, according to the Ministry of Energy and Coal Industry. Thermal coal production increased by 11.6% to 57 million tons, while coking coal production grew by 3.5% to 25 million tons.

Ukraine laid the basis for more production in 2012. In 2011, Ukraine completed 461.5 km of stripping and preparation works at mines compared to the 418.3 km planned. Ninety new longwalls were developed with coal reserves of more than 32 million tons.

Growth in coal production in 2011 was driven by increased capital investments in technical industry modernization in the previous year. In 2010, two leading coal companies, Sverdlovanthracite and Rovenkyanthracite, attracted UAH 460 million in investments from DTEK.

In 2011, UAH 1.7 billion (USD 213 million) in private investments were allocated for technical modernization and upgrades at Ukrainian coal enterprises. This is UAH 129 million (USD 16 million) more than in 2010. State financing for the technical modernization of mines amounted to UAH 1.4 billion (USD 176 million).

State mines spent UAH 625.3 million on capital investments (USD 78.5 million) in 2011, 7.9% more than in 2010.

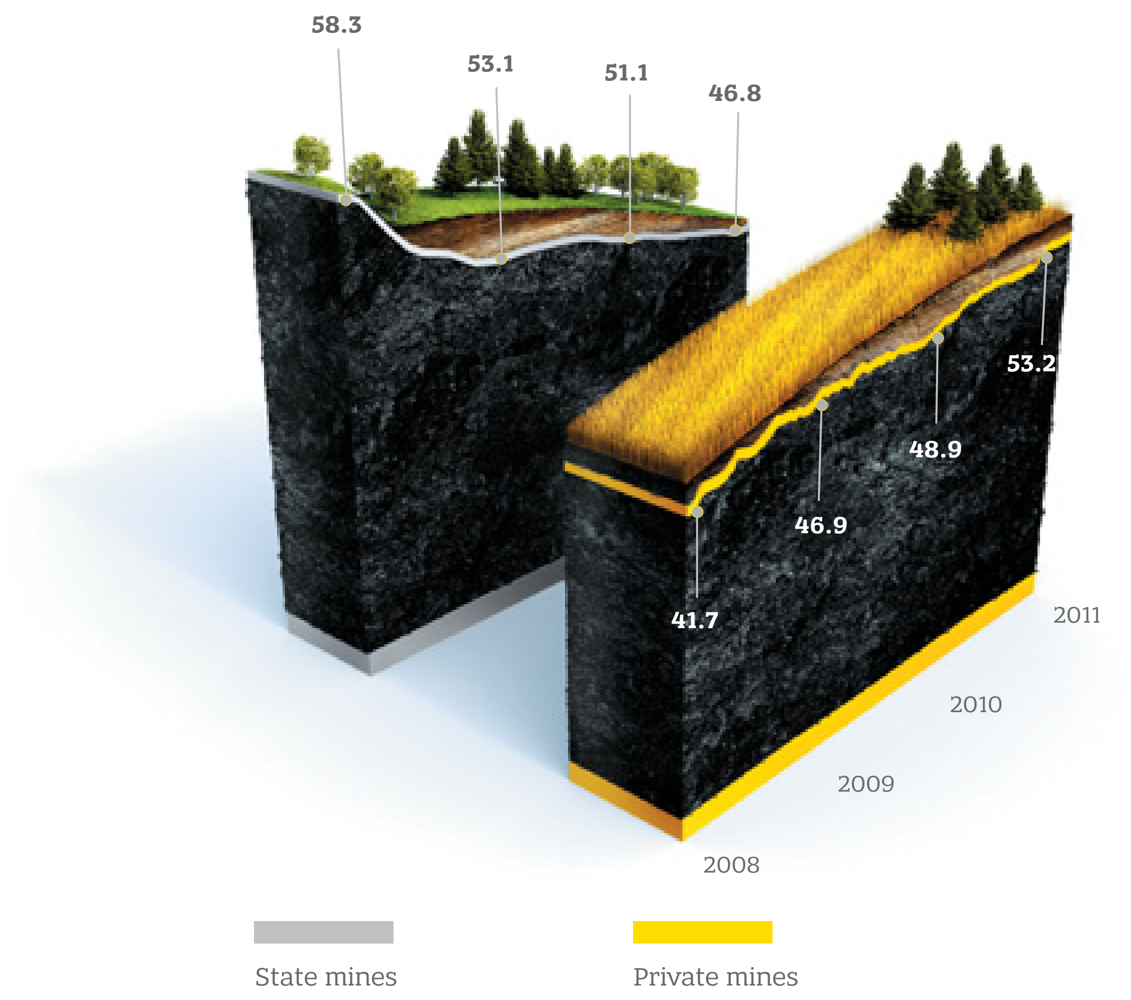
2011 coal production volumes by the largest producers in Ukraine | million tons

Plain coal extraction	2010	2011	Change, %
DTEK Pavlogradugol	15.0	15.4	+2.5
DTEK Sverdlovanthracite	6.4	6.6	+2.9
Krasnodonugol	5.8	5.6	-2.6
DTEK Rovenkyanthracite	6.0	7.3	+21.4
Chervonoarmiyska-Zakhidna	4.8	6.9	+44.4
DTEK Mine Komsomolets Donbasa	4.1	4.3	+3.3
DTEK Dobropolyeugol	3.0	3.3	+8.3
Makeevugol	3.3	2.9	-13.5

Source: Ministry of Energy and Coal Industry

State enterprises increased production volumes by 8.5% to 38.4 million tons in 2011, including 30.9 million tons of thermal coal (+10.5%) and 7.5 million tons of coking coal (+1.2%). The share of state enterprises in total domestic coal production has been decreasing due to structural changes in the industry and increased investments by private mine owners.

Structure of coal production in Ukraine by ownership type | %



Source: Ministry of Energy and Coal Industry

A portion of produced coal cannot be used due to high ash content. The quality of this coal is improved at processing plants where impurities are removed to make a commercial product. Processed coal volumes increased 12.4% YoY in 2011 to 61.8 million tons, the most since 1996 when reporting began.

In 2011, Ukraine had 64 countries that it imported coal to or exported it from. Ukraine imported 12.9 million tons for USD 2.8 billion, including 12.7 million tons of hard coal for USD 2.7 billion and 157 ths tons of coke for USD 60.6 million as well as an insignificant amount of peat and lignite. The largest coal suppliers to Ukraine were Russia, the USA and Kazakhstan. Hard coal imports in 2010 came to 12.1 million tons worth USD 1.8 billion.

Coal exports amounted to 9 million tons worth USD 1.5 billion in 2011. The largest volumes were shipped to Bulgaria, Turkey, Iran, Poland and Belgium. Volumes of hard coal exports increased by 12.8% YoY to 7 million tons worth USD 775 million, while coke exports grew by 36.5% to 2 million tons worth USD 753.7 million.

Ukraine imported 3.9 million tons more than it exported in 2011. Ukraine added six more countries to its list of coal trading partners, but the main partners remained the same. Belgium went up from #5 country for exports to #3, moving one position ahead of Iran.

According to DTEK's preliminary estimates, Ukraine produced about 67.7 million tons of coal in 2011, including 35.8 million tons for electricity generation purposes and 28.9 million tons for the steel industry.

Coal production and trading | million tons

	2010	2011	Change, %
Coal mining	75.2	82.0	+9.0
Enriched coal	56.9	63.1	+10.9
Import	13.5	12.7	-5.9
Total: enriched coal and import	**70.4**	**75.8**	**+7.7**
Export	5.9	6.9	+16.9
Energy	33.3	37.0	+11.1
Metallurgy	28.3	28.9	+2.1
Other	2.9	3.0	+3.4
Total: consumption	**70.4**	**75.8**	**+7.7**

Source: Ministry of Energy and Coal Industry, DTEK calculations

Pricing

Coal in Ukraine is sold either under direct contracts between coal producers and consumers or through the wholesale market operator, state enterprise Ugol Ukrainy.

About 65% of all sales are done by state enterprises with Ugol Ukrainy. The wholesale market operator distributes coal products under fixed prices, resulting in cross-subsidization of loss-making mines at the cost of profitable ones. Private companies set prices for their products based on supply and demand in Ukraine, taking into account general trends on the international market.

The price per ton of commercial coal from state mines increased by 9.7% to UAH 631.4 (USD 79.2) in 2011, compared to the production cost of UAH 999.6 (USD 125.4). The government allocated UAH 6.7 billion (USD 840.6 million) from the state budget to partially cover this difference. In 2011, the average price per ton of privately produced coal increased by 8.4% to UAH 649 (USD 81.4).

Changes in the average annual price per ton of concentrate (ash content – 23%, humidity – 8.9%) in Ukraine | UAH and USD per ton

	2008	2009	2010	2011
TOTAL in UAH	455.8	527.7	593.0	776.4
TOTAL in USD	86.5	67.7	75.1	97.4

Source: Ministry of Energy and Coal Industry

Price for grade A coal (anthracite, ash content — 19.8%, humidity — 7.6) and grade G coal (ash - 24%, humidity - 13.5) in Ukraine and in the world | USD/t

* DAP Ukraine – delivery of imported coal supplies to a destination in Ukraine

Source: Ministry of Energy and Coal Industry

Sector regulation

The Ministry of Energy and Coal Industry of Ukraine influences the coal market significantly. Ukraine completed the merger of its Ministry of Coal Industry and the Ministry of Fuel and Energy, which was ordered by the presidential decree "On the Optimization of Central Executive Bodies", in late April 2011.

The objective of the industry reform program, developed to deal with market weakness in 2010, is to ensure profitable coal production on the basis of enterprises with stable performance. This production should fully satisfy the needs of the national economy with coal products and, first and foremost, provide for the energy security of Ukraine.

The 2010-2014 Presidential Program of Economic Reforms outlined five key goals:

- liberalize the coal products market
- improve state support mechanisms
- accelerate the restructuring of enterprises
- establish a social support system for workers unemployed due to shutdowns or cuts in production
- change coal enterprises' ownership by means of privatization, using different measures to improve their investment potential

Key events of 2011 and plans for 2012

The state focused on attracting private capital to the coal-mining industry in 2011. It held an auction in January for a 49-year lease of Dobropolyeugol, a producer of 3 million tons of coal p.a.

In June 2011, the General Plan on Coal Industry Reconstruction in 2012-2017 was approved. According to this document, in 2012, it is planned to reduce state subsidies to cover the production costs of mines and increase subsidies to social programs aimed at job placement and retraining miners.

In July, parliament approved the law "On the Specifics of Leases or Concessions of State-Owned Fuel-Energy Objects". The document outlined a special procedure for transferring state enterprises to investors as well as for state financial support for such enterprises.

In August 2011, the Ministry of Energy and Coal Industry announced two auctions for 49-year concession agreements for state enterprises Rovenkyanthracite and Sverdlovanthracite. In December 2011, DTEK was announced the winner of those auctions.

The Ministry of Energy and Coal Industry is developing a regulatory system for the transition to on-exchange coal product sales. It is expected that already in 2012 a trading site will be chosen at an auction to assume the trading functions of Ugol Ukrainy. Apart from spot contracts, it is also planned to use futures and forward contracts.

In 2011, work on the updated Energy Strategy of Ukraine to 2030 continued. According to the draft version of this document, thermal coal production in Ukraine will increase from 51 million tons in 2010 to 75 million tons in 2030.

Tasks and challenges of the coal mining industry in 2012 are as follows:

- prepare enterprises for privatization, leases and concessions
- develop and approve regulatory documents (provisions and procedures) to conduct privatizations in line with legal requirements
- develop and approve a procedure for the transition to on-exchange coal product sales by the government
- improve the mechanism for allocating budget subsidies to the mining industry so as to redirect subsidies from technical equipment and coverage of losses to supporting social programs and developing personnel
- list enterprises to be liquidated by 2016 and develop a procedure for dismissing workers from those mines

In January 2012, the government approved a list of 80 mines to be given out on a concession basis. In 2012, it plans to start privatizing coal mines. The law "On the Specifics of the Privatization of Coal Enterprises", which outlines economic and organizational preferences for investors, was developed and approved by the central government. Reform of the ownership structure of the industry should be completed by 2014.

02>03
Electricity market

Electricity industry overview

The Ukrainian electricity grid is Europe's sixth largest after Germany, France, Italy, Spain and Great Britain. By capacity of TPPs, Ukraine ranks fifth. The installed capacity of Ukrainian TPPs in 2011 was 53.3 GW, up 149 MW YoY. Maximum capacity utilization was 32 GW. A reserve is evaluated at 30%, taking into account the need for reconstruction.

Ukraine's TPPs and CHPPs account for 33.7 GW or 63.2% of total domestic electricity production capacity. Nuclear plants, including the Zaporizhya Nuclear Power Plant, Europe's largest one, have an aggregate capacity of 13.8 GW or 25.9% of total. The utilization of nuclear energy is higher since nuclear power plants bear the base load. The aggregate capacity of hydroelectric power plants is 5.5 GW, 10.2% of the total.

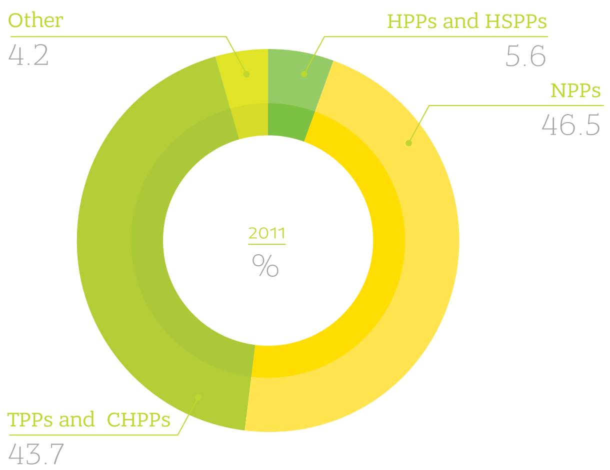
Installed capacity of power plants in 2010 and 2011 | % of total

	2010	2011	Change, %
TPP	51.4	51.2	-0.2
NPP	26.0	25.9	-0.1
CHPP and isolated generating plants	12.1	12.0	-0.1
HPP	8.6	8..6	–
HSPP	1.6	1.6	–
Solar	0.02	0.3	+0.3
Wind	0.1	0.2	+0.07

Source: Ukrenergo

The installed capacity of Ukrainian power plants has increased over the last three years due to power unit modernization by private investors and the commissioning of hydroelectric, wind and solar units.

The structure of electricity generation in Ukraine in 2011



Source: Ministry of Energy and Coal Industry of Ukraine

ANNUAL REPORT 2011 GROWTH ERA Industry review

The government dominates the electricity industry. In 2011, the share of state power plants in electricity generation was 87%. The state owns Ukraine's nuclear and hydroelectric power plants and there are no plans for their privatization. As of the beginning of 2011, Skhidenergo was the only one of Ukraine's six thermal generation companies (the others being DTEK Dniproenergo, Centrenergo, DTEK Zakhidenergo, Donbasenergo and Kyivenergo) to be privately owned. Two more companies were privatized in 2011 and by the end of 2012, the remaining companies might also become private.

There are 167 companies operating in Ukraine's electricity generation, supply and distribution sector. The industry employs about 200,000 people. The average salary in the sector is one of the highest in Ukrainian industry. In December 2011, the average salary was UAH 4,140 (USD 519.4) in the electricity generation and distribution sector, which was up 20.1% YoY. Salaries are higher only in the mining industry. In 2011, the average salary at state power generation enterprises increased by 21.0% to UAH 3,999 (USD 501.7). In the nuclear power sector, the average salary was over UAH 6,000 (USD 758), which was 14.0% higher YoY.

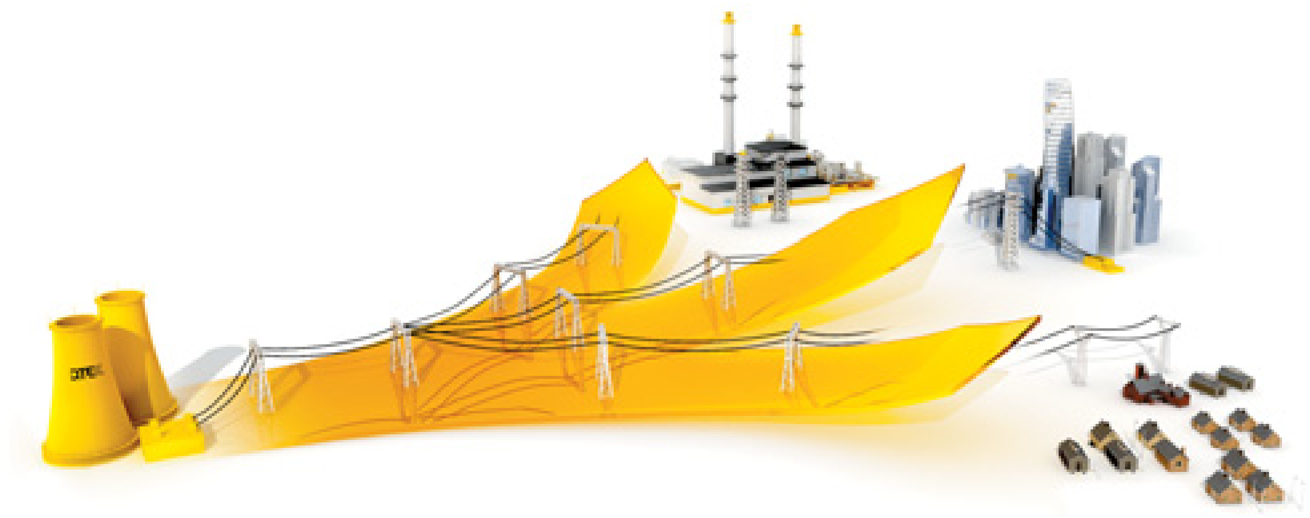
In 2011, revenue from electricity generation and distribution amounted to UAH 144.2 billion (USD 18.1 billion). The share of this type of activity in the total volume of commercial sales in Ukraine was 12.9%. In particular, generation companies increased electricity sales by 29% YoY to UAH 86.4 million (USD 10.8 billion). The entire volume of electricity is sold from generation companies to state enterprise Energorynok, which then sells it to power distribution companies. Ukraine plans to reform its market structure and gradually transition to direct contacts between suppliers and customers, with a balancing market, as outlined in the president's economic reform program for 2010-2014.

Electricity production and trading

Ukraine increased its electricity generated in 2011 by 3.2% to 193.9 bln kWh. The electricity industry fully provided Ukraine's growing economy with required resources. NPPs increased production volumes by 1.2% to 90.2 bln kWh, TPPs and CHPPs by 8.7% to 84.8 bln kWh, while HPPs and HSPPs decreased production volumes by 16.8% to 10.78 bln kWh due to low water inflow.

The volume of electricity consumed by households and industry increased by 2.4% to 151 bln kWh and exceeded the pre-crisis levels of 2007 and 2008 due to increased volumes of consumption by the chemical and petrochemical industry (up 17.6%), engineering (up 8.1%), transport (up 4.9%) and households (up 2.5%).

In 2011, electricity grid losses amounted to 21.1 bln kWh or 11.9% of the total supply volume to the grid. This figure is down 0.6% from 2010.



Electricity consumption in Ukraine | mln kWh

Consumption category	2010	2011	Change	Change, %	2010, share, %	2011, share, %
Consumption (gross)	183,908.5	187,647.0	3,738.5	2.0		
Consumption (net)	147,483.4	150,967.0	3,483.6	2.4	100.0	100.0
1. Industry, including:	71,517.3	73,037.9	1,520.6	2.1	48.5	48.4
metallurgy	38,438.1	37,674.8	-763.3	-2.0	26.1	25.0
fuel	9,397.3	9,532.4	135.1	1.4	6.4	6.3
engineering	5,961.8	6,446.0	484.2	8.1	4.0	4.3
chemical and petrochemical	5,328.2	6,267.5	939.3	17.6	3.6	4.2
food and processing	4,623.2	4,664.1	40.9	0.9	3.1	3.1
construction materials	2,425.8	2,696.7	270.9	11.2	1.6	1.8
other industry	5,342.9	5,756.3	413.4	7.7	3.6	3.8
2. Agriculture	3,394.4	3,526.9	132.5	3.9	2.3	2.3
3. Transport	9,451.1	9,916.4	465.3	4.9	6.4	6.6
4. Construction	951.4	952.6	1.2	0.1	0.6	0.6
5. Communal-household consumption	18,282.0	18,369.3	87.3	0.5	12.4	12.2
6. Other non-commercial consumption	6,213.3	6,554.7	341.4	5.5	4.2	4.3
7. Households	37,673.9	38,609.1	935.2	2.5	25.5	25.6

Source: Ministry of Energy and Coal Industry

Ukraine increased electricity exports in 2011 by 52.5% YoY to 6.4 bln kWh due to increased supplies to Hungary, Slovakia and Moldova and renewed exports to Poland. The supplies amounted to USD 400 million (USD 180 million in 2010). Hungary used USD 175 million of this amount and Belarus – USD 137 million. Ukraine did not import any electricity in 2011.

Structure of Ukrainian electricity exports* | bln kWh

	2010	2011	Change, %
Belarus	2.94	2.56	-12.9
Hungary	0.61	2.47	304.9
Moldova	0.03	0.67	2,133.3
Slovakia	0.5	0.59	18.0
Poland	0	0.06	-
Russia	0.08	0.06	-25.0
Romania	0.06	0.03	-50.0
Total	**4.22**	**6.44**	**52.6**

Source: Ministry of Energy and Coal Industry of Ukraine

Market model

The wholesale electricity market (WEM) is a single-buyer market operated by state enterprise Energorynok. Ukraine plans to make a transition to a model with bilateral contacts and a balancing market.

The only competitive segment of the electricity market today is the heating generation segment, which operates under a day-ahead bidding principle. Based on supplied bids from each TPP power unit and the forecast for the consumption the following day, Energorynok draws up a system to load the power units from the least costly to the highest. Under this system, the first power units to be loaded are those that submit the lowest bids. The last satisfied bid determines the base price for electricity at all loaded TPP power units. Thus, generation companies with the lowest production cost get the highest load and margin.

For other electricity producers, supply tariffs are set by the National Electricity Regulatory Commission (NERC).

Energorynok calculates a common hourly wholesale electricity price for electricity distribution companies, taking into account administration costs and donations. End customers get electricity from distribution companies at fixed prices also set by NERC depending on the voltage class. All consumers are divided into two classes: those connected to 27.5 kV and higher grids (first class) and those connected to grids up to 27.5 kV (second class).

Independent suppliers that do not have their own grids but have an opportunity to supply electricity at an unregulated tariff are also present on the market. Their market share does not exceed 15%.

Electricity tariffs for consumers

In 2011, the single tariff grew by 16.8% to 67.1 kopecks (8.4 US cents) per kWh for first-class consumers, and by 21.6% to 87.6 kopecks (11 US cents) per kWh for second-class consumers. In 2010, tariffs grew by 16.8% and 9.4%, respectively.

Bonus tariffs remain in force for the following groups:

- households
- companies supplying electricity for street lighting
- electric city transport
- coal producing companies
- the Artek and Moloda Gvardia children's recreational centers
- entities implementing innovative projects

In 2011, subsidies for these categories of consumers reached UAH 28 billion (USD 3.5 billion), UAH 5 billion (USD 627 million) more than in 2010. Subsidies accounted for 30% of the wholesale electricity price in 2011.

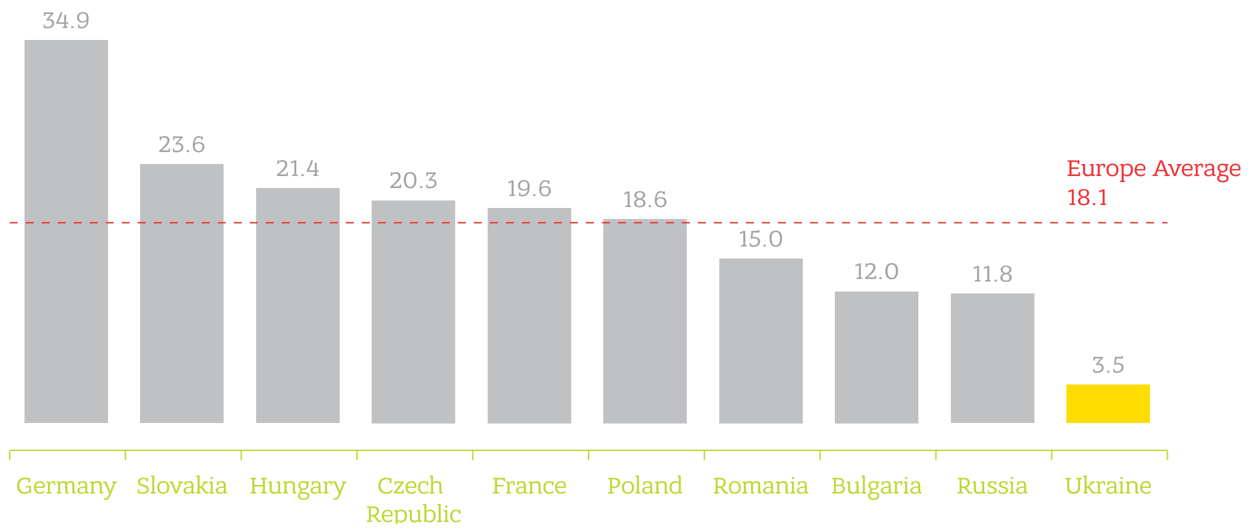
In 2011, the NERC introduced differentiated tariffs for households:

- for consumers of less than 150 kWh per month (250 kWh per month for consumers with electric ovens and electric heating units)
- for consumers of more than 150 kWh per month (250 kWh per month for consumers with electric ovens and electric heating units).

Tariffs for the first group of consumers were increased by 15% in April 2011, while tariffs for the second group increased in two stages: by 30% in February 2011 and then by another 15% in April 2011.

For households consuming less than 150 kWh/month, the tariff is 23.35 kopecks (2.9 cents) per kWh net of VAT. Every kWh consumed beyond this point costs 30.40 kopecks (3.8 cents). For households with electric ovens, every kWh of electricity consumed before 250 kWh costs 17.95 kopecks (2.2 cents) and after 23.35 kopecks (2.9 cents) .

Tariffs for populations | cents/kWh



Source: DTEK

Electricity transmission and supply

The methodology for setting the electricity distribution tariff by local electricity networks and supply tariffs for electricity distribution companies remained the same in 2011:

- Based on the 'Cost plus' principle (for most of the companies)
- Five electricity distribution companies privatized in 2011 by strategic investors (AES-Kyivoblenergo, AES-Rivneenergo, Kirovohradoblenergo, Sevastopolenergo and Zhytomirenergo) maintained use of a system based on profit rate with some incentive factors

In 2011, electricity transmission and supply tariffs were revised several times by the NERC mainly because the average salary increased. Tariffs increased on average by 6.0% in June, by 4.5% in November and by 1.1% in December.

The National Plan for Economic Reforms for 2010-2014 (according to order #504/2011 by the President of Ukraine on April 27, 2011) included the development and introduction of an incentive pricing methodology in 2011.

Sector regulation

The main regulatory for the wholesale electricity market (WEM) of Ukraine is the National Electricity Regulatory Commission (NERC).

The NERC has the authority to:

- participate in creating national policy for the development and operation of the WEM
- regulate natural monopolies in the electricity sector
- implement pricing and tariff policy
- issue licenses for companies that produce, distribute and supply electricity
- approve amendments to the Agreement Between the Wholesale Electricity Market Participants subject to approval by the Ministry of Energy and Coal Industry and the Anti-Monopoly Committee
- protect electricity consumers' rights.

In 2011, the legal framework for the regulation of electricity production in Ukraine went through a series of changes.

- The law of Ukraine "On some issues of debts for natural gas and electricity consumption" (#3319-VI dated May 12, 2011) was passed. The goal of the legislation was to address the problem of debts accumulated by fuel and energy enterprises and improve the financial and economic standing of the energy sector. The law provides a comprehensive debt support from local budgets for companies engaged in supplying thermal electricity to the public, as well as the debts of fuel and energy enterprises for natural gas and electricity in 1997-2010 including penalties and interest.

In December 2011, the term of the law was extended by another six months to June 30, 2012.

- The law of Ukraine "On amendments to the Tax Code of Ukraine" (#3320-VI dated May 12, 2011) resolved questions concerning tax liabilities for enterprises involved in epy production, transportation, heating supply and electricity for debt relief under the law of Ukraine "On issues of debts for natural gas and electricity consumption."
  In addition, the issues dealt with tax obligations to licensees for transferring local electricity and supplying electricity at the regulated tariff in the event of an imbalance due to technical electricity losses.
- The law "On amendments to some laws of Ukraine on connection to networks of natural monopolies" was drafted.

This draft law was designed to ensure transparent procedures for determining the amount of connection fees based on the economic and technical characteristics of the grid as determined by sources of financing for investment programs, electricity transmission companies and settled some specific issues related to connection to the networks in particular for apartment buildings and "green" energy objects.

Following consideration in a Verkhovna Rada committee, the bill was sent back for revisions.

- In July 2011, the board of the Ministry of Energy and Coal Industry approved a Strategy for the Development of the Electricity and Coal Industry in the document "Updated Energy Strategy to 2030".

Results of electricity sector reforms in 2011

- Development of a program to fulfill EU environmental directives started. In March, public hearings were held to discuss the concept of the State Target Program for a Gradual Reduction of Emissions into the Atmospheric Air, according to the requirements of directive 2001/80/EC.
- In 2011, "Energy Strategy to 2030" was being updated.
- Work on the law of Ukraine "On the basic functions of the electricity market of Ukraine" continued.
- In 2011, Ukraine started privatization in the thermal generation sector. The State Property Fund declared auctions for four power generation and 20 power distribution companies. By February 2012, it sold stakes in DTEK Zakhidenergo (45%), DTEK Dniproenergo (25%), Kyivenergo (25%), DTEK Donetskoblenergo (40%), Chernivtsioblenergo (45%), Vinnytsyaoblenergo (50%) and Zakarpatoblenergo (50%). Revenues to the state budget were UAH 4.5 billion (more than USD 560 million).

Ukrainian electricity sector reform in 2011

The electricity sector is being prepared for market reforms at different levels within the Concept of the Operation and Development of the Wholesale Electricity Market. Various special task forces are continuing work on a national level, studying problems associated with the new market model. Another task force was created by the Council of the Wholesale Electricity Market. They made a detailed analysis of the main problems related to the introduction of bilateral agreements and a balancing market; and proposed solutions to transforming the existing wholesale electricity market structure, licensing conditions, regulation features and other important issues. Draft regulatory and legislative documents needed for reform and maintain the new market are being finished.

At the corporate level, DTEK started the project on "Preparations for Reform of the Ukrainian Electricity Market". Internal corporate training and workshops with external consultants were held on the problems and peculiarities of bilateral contract markets. Proposals were made on amendments to legislative and regulatory documents related to the Wholesale Electricity Market.

On February 1, 2011, Ukraine joined the European Energy Community. This step will stimulate reform of the energy sector, competition in the electricity and gas sector, international electricity trading and improves the efficiency of the electricity sector and its environmental footprint.

By entering the Energy Community, Ukraine committed to introducing European legislative standards. Obligations to introduce the rules of the internal electricity and gas market (Directives 2003/54/EC and 2003/55/EC) include the obligation to ensure non-discriminatory conditions for access to cross-border electricity and gas networks for international electricity and gas trading.

In March 2011, new directives 2009/72/EC and 2009/73/EC were introduced for countries in the EU. Another issue is fulfillment of the provisions of article 33 (1) of Directive 2009/72/EC, which stipulates that all categories of consumers shall be considered qualified starting from January 1, 2015. The second serious problem is the need to comply with Directive 2001/80/EC on emissions reductions, which requires substantial investment into the sector. The key problem for distribution companies will be to comply with Directive 2009/72/EC, which is related to the separation of transmission and supply activities. The Directive also requires the corporatization of Ukrenergo by January 1, 2013.

The plan for implementation of these directives in national legislation is currently being developed.

The NERC has been reformed within the economic reform program for 2010-2014 in the electricity and public utility field. To make regulatory policy transparent and gradually reach economically feasible tariffs that stimulate cost-effectiveness and attract investment in the sector, the NERC's functions related to heating supplies and public utility services have been given to the newly-created National Public Utility Regulatory Commission.

Task and challenges for the electricity sector in 2012

- Improve the price setting system in the electricity sector
- Introduce incentive price setting for natural monopolies
- Develop and introduce legislation to gradually reduce cross-subsidies in the electricity sector (including for coal producing companies, public electric transport, street lighting in towns, households)
- Reduce consumer debt for electricity (improve the mechanism of environmental shield financing, cancel the ban on disconnecting debtors)
- Liberalize the electricity market
- Develop and adopt a law of Ukraine on bilateral contracts, a balancing market and exchange electricity trading
- Develop a regulatory base for the electricity market during the transition period
- Develop a draft law of Ukraine on repaying electricity debt to the Wholesale Electricity Market
- Hold tenders for the development of software and hardware for the balancing market
- Decide on appointing a settlement administrator, commercial accounting administrator and electricity transmission company
- Approve samples of bilateral contracts
- Approve a procedure for purchasing auxiliary services by the system operator and methodology for tariff setting for auxiliary services
- Develop and amend laws related to the corporatization of Ukrenergo and Energoatom, corporatize these companies
- Increase the independence of the regulator (to prepare and make changes to the law of Ukraine "On State Regulation")
- Amend and approve the draft of the updated Energy Strategy to 2030
- Finish privatization of electricity companies. In the beginning of 2011, the president of Ukraine signed the law of Ukraine "On the State Privatization Program" #4335-VI dated January 13, 2012 developed by the State Property Fund of Ukraine. Hold two-stage privatizations of two power generation and 11 power distribution companies.

Updating the "Energy Strategy to 2030"

The presidential Economic Reforms Program for 2010-2014 was first published in 2010 with the title "A prosperous society, competitive economy and effective state". One of the tasks of electricity sector reform is to update the "Energy Strategy to 2030." Work on updating the Energy Strategy started in 2010 and should be finished in 2012.

The main reasons for updating the Energy Strategy include:

- Adjust macroeconomic projections in the Energy Strategy, demand for energy resources and projected fuel mix
- Include new environmental tasks and goals to reduce greenhouse gases and solid particle emissions from energy production, new priorities and goals for renewable power generation
- Revise activities to increase energy efficiency and energy saving
- Reflect Ukraine's commitments to the EU Energy Community and the goal of integrating the energy markets of Ukraine and the EU
- Define strategic areas for investment projects in the fuel and energy sector of Ukraine, necessary financial resources and sources
- Define the priorities for the development of competition in the energy sector.

03 Performance

03>01 Production

DTEK companies increased production significantly in 2011.

In total, coal production came to 36.8 million tons, electricity output to 50.1 bln kWh, and electricity sales to 62.8 bln kWh.

The rise in production was the result of the implementation of several operating improvements, a large multi-year equipment upgrading and retrofitting program, and growth in electricity consumption in Ukraine.

DTEK's key production indicators[1]

Indicators	Meas. unit	2010	2011	Change (+/-)	Change (%)
Coal production,					
DTEK Pavlogradugol	kt	15,043.0	15,414.2	371.2	2.5
DTEK Mine Komsomolets Donbasa	kt	4,121.5	4,257.2	135.7	3.3
DTEK Dobropolyeugol	kt	3,014.6	3,265.3	250.7	8.3
DTEK Rovenkyanthracite	kt	6,033.6	7,324.4	1,290.8	21.4
DTEK Sverdlovanthracite	kt	6,375.9	6,559.0	183.1	2.9
Coal processing					
Run-of-the-mine coal processing	kt	12,490.0	12,523.0	33.0	0.3
Concentrate output	kt	7,904.0	7,935.0	32.0	0.4
Power generation					
Electricity output by DTEK Skhidenergo	mln kWh	16,352.6	17,135.9	783.3	4.8
Electricity output by DTEK Dniproenergo	mln kWh	14,331.9	15,844.0	1,512.1	10.6
Electricity output by Kyivenergo	mln kWh	4,108.6	4,481.7	373.1	9.1
Electricity output by DTEK Zakhidenergo[2]	mln kWh	10,230.1	12,631.8	2,401.7	23.5
Electricity distribution and sales					
Electricity purchase from WEM by Service-Invest and DTEK Energougol ENE	mln kWh	13,287.3	14,066.0	778.7	5.9
Electricity purchase from WEM by DTEK Donetskoblenergo	mln kWh	10,173.7	10,324.9	151.2	1.5
Electricity purchase from WEM by DTEK Dniprooblenergo	mln kWh	24 762.3	24 240.4	-521.9	-2.1
Electricity purchase from WEM by DTEK Krymenergo	mln kWh	4 827.6	4 891.0	63.4	1.3
Electricity purchase from WEM by Kyivenergo	mln kWh	9,313.5	9,271.6	-41.9	-0.4
Electricity exports	mln kWh	1,214.5	5,091.9	3,877.4	319.3
Coal exports	kt	1,961.0	3,396.0	1,435.0	73.0
Coal imports	kt	1,313.0	569.0	-744.0	-57.0

[1] A 49-year lease for Dobropolyeugol was signed on December 22, 2010; the enterprise has been consolidated in DTEK's financial reporting since January 2011. Two 49-year concession agreements for Sverdlovanthracite and Rovenkyanthracite were signed on December 1, 2011. The enterprises' production volumes were fully consolidated in DTEK's figures in 2011. The companies have been consolidated in DTEK's financial reporting since December 2011.
DTEK Dniproenergo, DTEK Zakhidenergo, DTEK Donetskoblenergo, DTEK Dniprooblenergo and DTEK Krymenergo were considered associated entities to DTEK in 2011. These enterprises officially became a part of DTEK in 2012. DTEK increased its stake in Kyivenergo to controlling on December 9, 2011; the latter enterprise has been consolidated in DTEK's financial reporting since December 2011.

[2] Ladyzhinskaya HPP's output was not included

Coal production and processing

DTEK's coal production business has included five large companies since 2011: DTEK Pavlogradugol, DTEK Mine Komsomolets Donbasa, DTEK Dobropolyeugol, DTEK Rovenkyanthracite and DTEK Sverdlovanthracite.

DTEK Pavlogradugol and DTEK Mine Komsomolets Donbasa significantly raised annual coal production (+2.5% and +3.3% respectively) in 2011. DTEK Pavlogradugol's annual output was a record 15,414 million tons.

DTEK signed a 49-year lease agreement with the regional department of the State Property Fund of Ukraine in Donetsk Region to rent the facilities and property of state enterprise Dobropolyeugol on December 22, 2011. DTEK Dobropolyeugol consists of five mines (Belitskaya, Dobropolskaya, Almaznaya, Novodonetskaya and Pioneer), as well as auxiliary units and social infrastructure. DTEK invested over UAH 450 million on upgrades and production in 2011, which resulted in DTEK Dobropolyeugol increasing its annual coal output by 250,700 tons (+8.3%) to 3.3 million tons.

DTEK Sverdlovanthracite and DTEK Rovenkyanthracite signed concession agreements with the Ministry of Energy and Coal Industry of Ukraine for state enterprises Sverdlovanthracite and Rovenkyanthracite. The concession agreements were concluded following open auctions, which were held in Ukraine for the first time. According to the terms and conditions of the agreements, the companies were granted out on a concession basis for 49 years, but the headcount and social guarantees at the time of the transfer remained unchanged.

The property and facilities of DTEK Rovenkyanthracite include six mines (Kievskaya #81, Vakhrusheva, Frunze, Kosmonavtov, Dzerzhinskogo, and the Rovenkovskoye mine group) and three coal preparation plants and auxiliary units. DTEK Sverdlovanthracite includes five mines (Dolzhanskaya-Kapitalnaya, Tsentrsoyuz, Kharkovskaya, Krasnyi Partizan, Sverdlova), three coal processing plants, a mine-building department and auxiliary units supporting their operations. DTEK Rovenkyanthracite and DTEK Sverdlovanthracite produced 7.3 million tons and 6.6 million tons of coal, respectively, in 2011.

Commercial reserves of coal | as of December 31, 2011

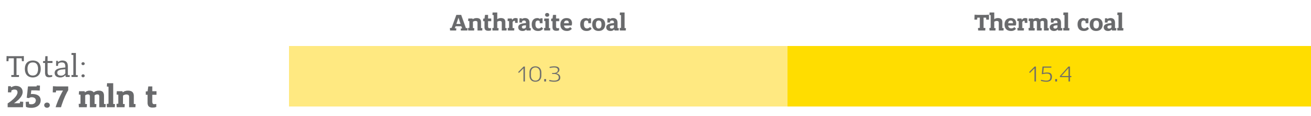
Company	Commercial reserves, mln tons	Mine life (available reserves), years
DTEK Pavlogradugol	649.7	52
DTEK Mine Komsomolets Donbasa	114.7	32
DTEK Dobpropolyeugol	369.5	95
DTEK Rovenkyanthracite	165.3	33
DTEK Sverdlovanthracite	211.9	40
Total	**1,511.1**	**50 (average)**

Coal structure | thousand tons

Company	A	T	G	D
DTEK Pavlogradugol			1,109.1 (C)	14,305.1
DTEK Mine Komsomolets Donbasa		4 257,2		
DTEK Dobpropolyeugol			319.6 (C) +2,945.7 = 3,265.3	
DTEK Rovenkyanthracite	7,324.4			
DTEK Sverdlovanthracite	6,559.1			
Total	**13,883.5**	**4,257.2**	**4,374.4**	**14,305.1**

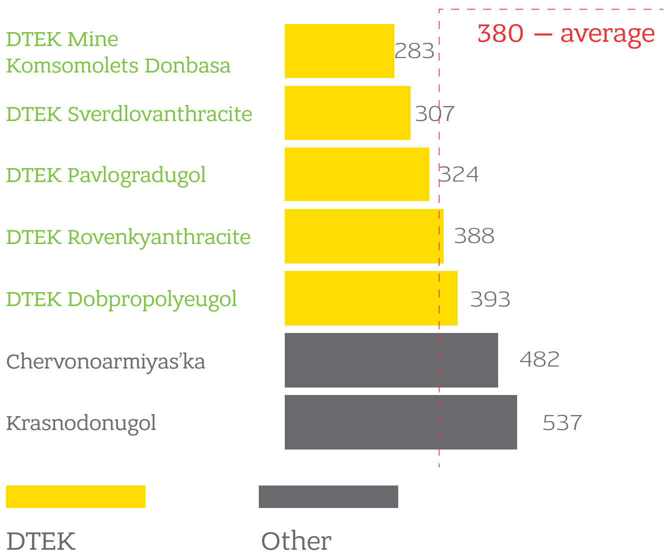
A – Anthracite coal   T – Thermal meager coal   G – Thermal gas coal   D – Thermal long-flame coal   C – Coking grades

Coal production | million tons

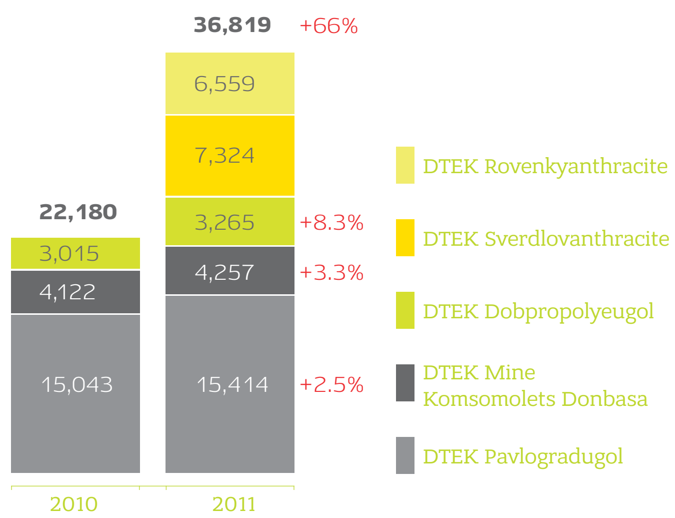


Coal consumption | million tons

Production cost of coal mining by the largest coal-mining companies in Ukraine in 2011 | UAH/ton



Coal mining by DTEK companies | thousand tons, 2011 and 2010



* Consolidated since December 4,2011
** Consolidated since January 4,2011

DTEK's coal processing business consists of several coal preparation plants: Mospinskoye CPP, Pavlogradskaya CPP, Kurakhovskaya CPP, Oktyabrskaya CPP, and Dobropolskaya CPP.

Production at DTEK's coal preparation plants was steady compared to the previous year's level in 2011: 12.5 million tons of coal was processed and 7.9 million tons of coal concentrate was produced. Taking into account the coal preparation plants of DTEK Rovenkyanthracite and DTEK Sverdlovanthracite, 27.2 million tons of coal was processed and 17.2 million tons of coal concentrate was produced.

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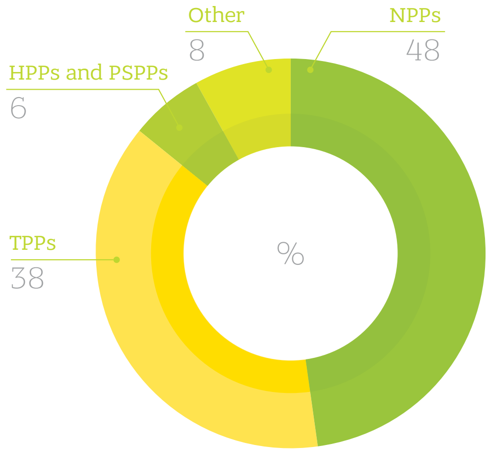
Power generation

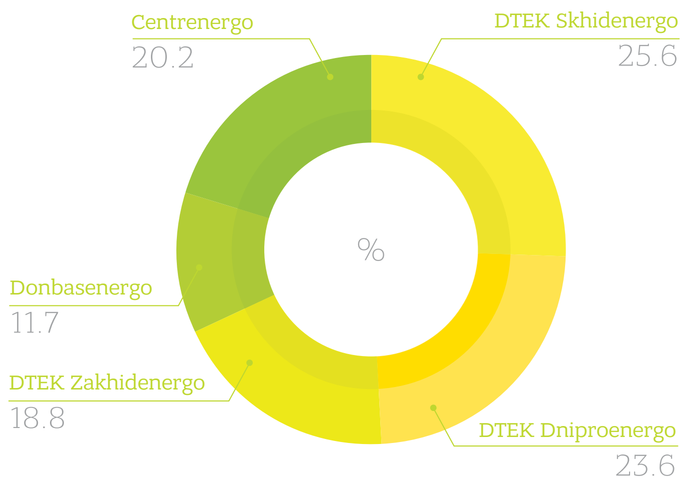
DTEK's electricity generation business included DTEK Skhidenergo and stakes in DTEK Dniproenergo (47.55%), DTEK Zakhidenergo (25.81%) and Kyivenergo (46.82%) as of 2011. After winning privatization auctions in December 2011–January 2012, DTEK raised its stakes to 72.55% in DTEK Dniproenergo, 70.91% in DTEK Zakhidenergo and 71.82% in Kyivenergo.

DTEK Skhidenergo's three thermal power plants operate 17 power units. As of late 2011, installed capacity totaled 4,157 MW. DTEK Dniproenergo's production facilities also consist of three power plants (25 units); installed capacity totaled 8,185 MW as of late 2011. DTEK Zakhidenergo operates three power plants (20 units and two turbine-generators) and one HPP with a total installed capacity of 4,608 MW. Kyivenergo manages and operates two CHPPs (six units) with an overall installed capacity of 1,200 MW. All generated electricity is supplied to the wholesale electricity market (WEM).

Power generation in Ukraine* | %, 2011



Thermal power generation in Ukraine* | %, 2011

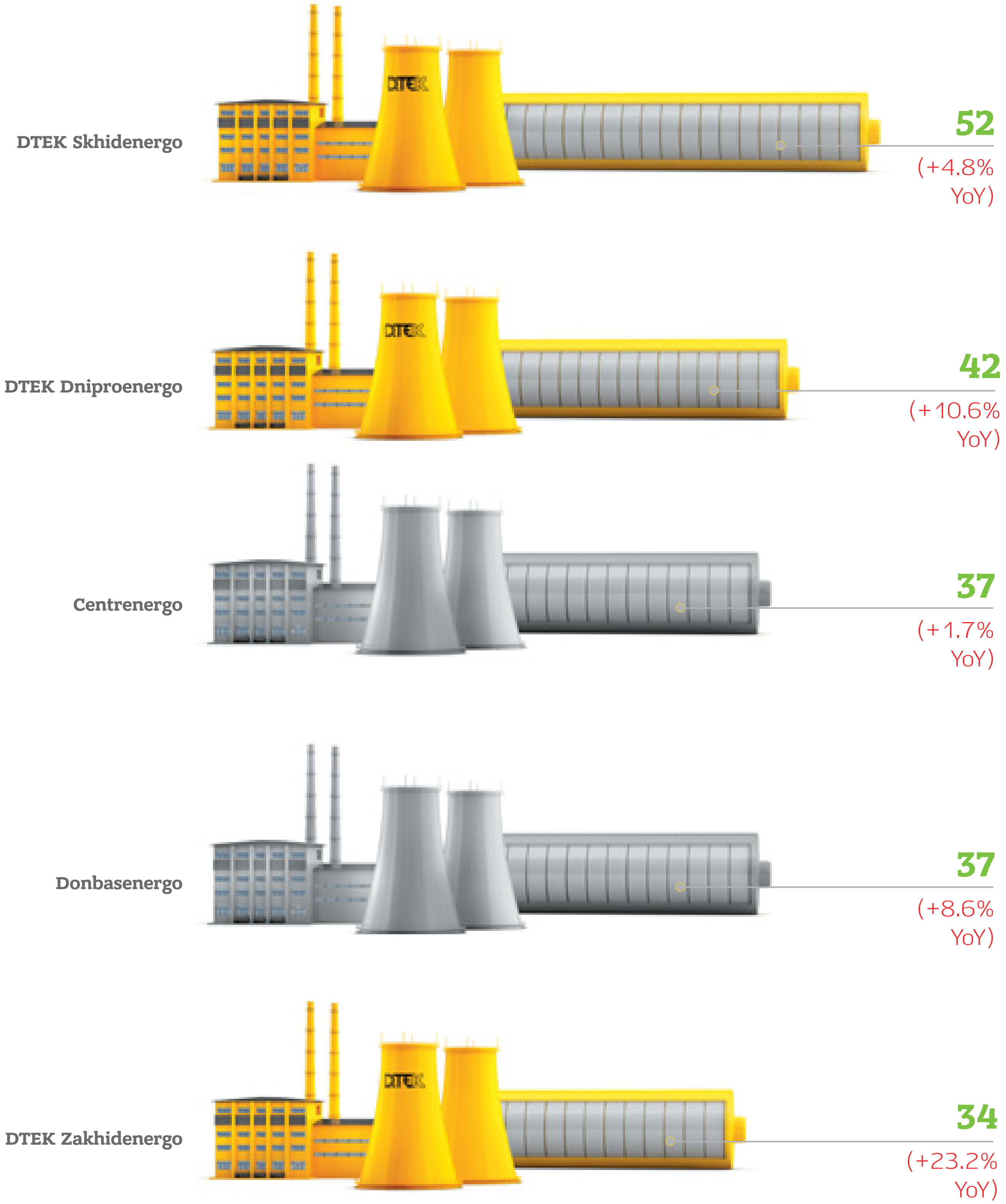


Source: Ministry of Energy and Coal Industry of Ukraine

Power generation in Ukraine | mln kWh

Electricity supply in Ukraine	2010	2011	Change, %
Total by Ukrainian generators	170,955	176,592	+3.3
TPPs, including	61,537	67,011	+8.9
DTEK Skhidenergo	16,352	17,135	+4.8
DTEK Dniproenergo	14,331	15,843	+10.6
Centrenergo	13,386	13,539	+1.1
DTEK Zakhidenergo	10,254	12,631	+23.2
Donbasenergo	7,211	7,860	+9
NPPs	84,041	85,056	+1.2
HPPs and PSPPs	12,386	10,241	-17.3
CHPPs	12,634	13,779	+9.1
Alternative sources	294	388	+31.8
Other	61	114	+87.2
Additionally (import, Russia)	23	22	-6.7

Installed capacity utilization rate (ICUR) of thermal generation companies in Ukraine | 2011, %



DTEK Skhidenergo LLC

DTEK Skhidenergo's share of total electricity generation in Ukraine was 9.7% in 2011 (vs. 9.57% in 2010) when it generated 17.1 bln kWh of electricity (+4.8% YoY), according to the Ministry of Energy and Coal Industry of Ukraine.

DTEK Skhidenergo experienced the highest demand among thermal generation companies in 2011. Its installed capacity utilization rate (ICUR) grew from 50% in 2010 to 51.9%, the highest among Ukrainian TPPs. This was attributed to a 2% increase in electricity consumption in Ukraine from 2010 and the Company maintained the lowest production cost of electricity generated and, correspondingly, higher load at its power units.

DTEK Skhidenergo's production units include three thermal power plants: Zuevskaya and Kurakhovskaya TPPs in Donetsk region, and Luganskaya TPP in Luhansk region.

Key operational indicators of DTEK Skhidenergo's TPPs | mln kWh

Company	Indicators	2010	2011	Change, YoY
Kurakhovskaya TPP	Power generation	5,991.2	6,656.6	665.4
	Electricity consumption for internal purposes, %	10.8	10.2	
	Electricity output	5,337.0	5,969.6	632.6
	ICUR, %	46.3	51.1	
Zuevskaya TPP	Power generation	5,888.4	6,728.3	839.9
	Electricity consumption for internal purposes, %	7.2	7.0	
	Electricity output	5,461.1	6,253.8	792.7
	ICUR, %	54.5	61.7	
Luganskaya TPP	Power generation	6,230.1	5,509.8	-720.3
	Electricity consumption for internal purposes, %	10.8	10.8	
	Electricity output	5,554.6	4,912.5	-642.1
	ICUR, %	49.9	44.1	
DTEK Skhidenergo	**Power generation**	**18,109.7**	**18,894.7**	**785.0**
	Electricity consumption for internal purposes, %	**9.7**	**9.3**	
	Electricity output	**16,352.6**	**17,135.9**	**783.3**
	ICUR, %	**50.0**	**51.9**	

DTEK Skhidenergo's production units | as of December 31, 2011

Power unit No.	Installed capacity, MW	Date of commissioning/ last major overhaul or retrofit	Hours in service	Major overhaul/ retrofit
Zuevskaya TPP				
1	325	1982/2010	173,181	Retrofit in 2008-2010 increased installed capacity by 25 MW
2	320	1982/2009	167,848	Retrofit in 2007-2009 increased installed capacity by 20 MW
3	300	1986/2006	151,854	Retrofit in 2011-2014 to increase installed capacity by 25 MW.
4	300	1988/2005	142,389	Retrofit in 2010-2013 to increase installed capacity by 25 MW
Total	**1,245**			
Kurakhovskaya TPP				
3	200	1972/2007	256,878	Retrofit in 2015-2017 to increase installed capacity by 15 MW
4	210	1973/2004	235,920	Retrofit in 2014-2015 to increase installed capacity by 15 MW
5	222	1973/2008	218,640	Retrofit in 2007-2009 increased installed capacity by 12 MW
6	210	1973/2005	216,602	Retrofit in 2011-2013 to increase installed capacity by 15 MW
7	225	1974/2010	224,041	Retrofit in 2008-2010 increased installed capacity by 15 MW
8	210	1974/2003	222,438	Retrofit in 2010-2012 to increase installed capacity by 15 MW
9	210	1975/2006	229,184	Retrofit in 2012-2014 to increase installed capacity by 15 MW
Total	**1,487**			

Power unit No.	Installed capacity, MW	Date of commissioning/ last major overhaul or retrofit	Hours in service	Major overhaul/ retrofit
Luganskaya TPP				
4	-	1956 /mothballed	279,039	Turbine-generator is mothballed. It is physically impossible to generate electricity
9	200	1962 / 2007	301,930	Retrofit in 2015-2016 to increase installed capacity by 10 MW
10	175	1962 / 1999	290,000	Retrofit in 2008-2012 to increase installed capacity by 35 MW
11	200	1963 / 2004	301,471	Retrofit in 2012-2014 to increase installed capacity by 10 MW
12	-	1967/mothballed	199,661	Mothballed. It is physically impossible to generate electricity
13	175	1968/2003	267,843	Retrofit in 2010-2013. Expected increase in the installed capacity by 35MW
14	200	1968/2006	261,783	Retrofit in 2014-2016 to increase installed capacity by 10 MW
15	200	1969/2005	270,957	Retrofit in 2012-2015 to increase installed capacity by 10 MW
Total	**1,150**			

Fuel supply to DTEK Skhidenergo

The primary fuel for DTEK Skhidenergo plants is coal supplied by DTEK's coal mining companies. Zuevskaya and Kurakhovskaya TPPs use gaseous grade coal, and Lugansksya TPP uses anthracite and meagre coal. Strict control over quality used helps Skhidenergo to use a minimum amount of gas and fuel oil for coal burning.

Coal purchases amounted to 9.6 million tons in 2011. DTEK Pavlogradugol, DTEK Mine Komsomolets Donbasa and DTEK Dobropolyeugol supplied 61% of the total amount (5.8 million tons); DTEK Rovenkyanthracite provided an additional 0.9 million tons. The rest was purchased from third-party suppliers.

DTEK Dniproenergo

DTEK Dniproenergo's share of total electricity output in Ukraine was 9% in 2011, an increase of 0.6% YoY. Electricity supply grew by 10.55% from 14.3 bln kWh in 2010 to 15.8 bln kWh in 2011. The Company's available capacity (net of gas units and units in cold reserve) reached 42.4% (vs. 38.0% in 2010). DTEK Dniproenergo's installed capacity utilization rate (ICUR) was 24.1% (+2.3%) in 2011.

The growth was due to higher electricity consumption in Ukraine, lower production costs and higher equipment flexibility, which in its turn resulted in higher demand for DTEK Dniproenergo units.

DTEK Dniproenergo's production units consist of three power plants: Pridneprovskaya and Krivorozhskaya TPPs in Dnipropetrovsk region and Zaporozhskaya TPP in Zaporizhya region.

Key operational indicators of DTEK Dniproenergo's TPPs | mln kWh

Company	Indicators	2010	2011	Change, YoY
Zaporozhskaya TPP	Power generation	5,033.4	4,908.9	-124.5
	Electricity consumption for internal purposes, %	6.8	6.7	-0.1
	Electricity output	4,640.0	4,534.9	-105.1
	Supply of sold heat, thou. Gcal	108.3	87.4	-20.9
	ICUR, %	47.9	46.7	
Krivorozhskaya TPP	Power generation	6,744.3	8,299.4	1,555.1
	Electricity consumption for internal purposes, %	6.7	6.4	-0.2
	Electricity output	6,214.1	7,668.9	1,454.8
	Supply of sold heat, thou. Gcal	57.3	60.2	2.9
	ICUR, %	34.1	42.0	
Pridneprovskaya TPP	Power generation	3,881.5	4,076.4	194.9
	Electricity consumption for internal purposes, %	9.0	9.2	0.2
	Electricity output	3,477.7	3,640.1	162.4
	Supply of sold heat, thou. Gcal	514.2	556.8	42.6
	ICUR, %	37.1	38.9	
DTEK Dniproenergo	**Power generation**	**15,659.2**	**17,285.0**	**1,625.8**
	Electricity consumption for internal purposes, %	**7.3**	**7.2**	
	Electricity output	**14,331.9**	**15,844.0**	**1,512.1**
	Supply of sold heat, thou. Gcal	**679.8**	**704.4**	**24.6**
	ICUR, %	**38.4**	**42.4**	

Fuel supply to DTEK Dniproenergo

DTEK Dniproenergo plants are 97.7% coal-fired. Pridneprovskaya and Krivorozhskaya TPPs use meagre coal, and Zaporozhskaya TPP uses gaseous grades of coal. Gas and fuel oil do not exceed 2.3% of total fuel at DTEK Dniproenergo's plants.

Actual coal consumption amounted to 7.6 million tons, and coal purchases to 7.7 million tons. DTEK Trading LLC was the main coal supplier (98%) in 2011. The remaining 2% of coal was purchased from state enterprise Ugol Ukrainy. Coal suppliers were selected via open tenders.

DTEK Dniproenergo's production units | as of December 31, 2011

Power unit No.	Installed capacity, MW	Date of commissioning/last major overhaul or retrofit	Hours in service	Major overhaul/ retrofit
Zaporozhskaya TPP				
1	300	1971/2010	253,807	Retrofit in 2011-2012 to increase installed capacity by 30 MW
2	300	1971/2006	244,727	Retrofit in 2014-2016 to increase installed capacity by 30 MW
3	300	1972/1999	250,598	Retrofit in 2012-2014 to increase installed capacity by 30 MW
4	300	1972/2002	232,574	Retrofit in 2013-2015 to increase installed capacity by 30 MW
5	800	1974/1995	148,888	Oil & Gas power unit. No plans
6	800	1974/1993	127,365	Mothballed
7	800	1975/1992	133,159	Oil & Gas power unit. No plans
Total	**3,600**			

Two more new super critical technical parameter units are to be constructed until 2020 of 660 MW

Power unit No.	Installed capacity, MW	Date of commissioning/last major overhaul or retrofit	Hours in service	Major overhaul/ retrofit
Krivorozhskaya TPP				
1	282	1963/1993	290,398	Retrofit in 2013-2014 to increase installed capacity by 33 MW
2	282	1964/1998	289,483	Retrofit in 2017 to increase installed capacity by 33 MW
3	282	1965/1993	252,773	Retrofit in 2007-2012 to increase installed capacity by 18 MW
4	282	1966/2005	226,599	Retrofit in 2016 to increase installed capacity by 33 MW
5	282	1967/1994	273,069	Retrofit in 2014-2015 to increase installed capacity by 33 MW
6	282	1968/1995	236,909	Retrofit in 2015-2016 to increase installed capacity by 33 MW
7	282	1968/1991	190,390	No retrofit is planned
8	282	1969/1996	243,718	No retrofit is planned
9	282	1971/1994	178,750	Retrofit in 2012-2014 to increase installed capacity by 33 MW
10	282	1972/1992	184,474	No retrofit is planned
Total	**2,820**			

Two more new super critical technical parameter units are to be constructed of 660 MW

Power unit No.	Installed capacity, MW	Date of commissioning/last major overhaul or retrofit	Hours in service	Major overhaul/ retrofit
Pridneprovskaya TPP				
7	150	1958/2000	315,814	No retrofit is planned
8	150	1958/2007	332,731	No retrofit is planned
9	150	1959/1995	303,583	Retrofit in 2008-2012. Increase of installed capacity is not planned
10	150	1960/2006	312,399	No retrofit is planned
11	310	1962/2001	249,958	Retrofit in 2015-2016 to increase installed capacity by 5 MW
12	285	1963/1996	221,579	No retrofit is planned
13	285	1964/1997	285,750	Retrofit in 2014-2015 to increase installed capacity by 30 MW
14	285	1965/1993	246,383	Retrofit in 2012-2014 to increase installed capacity by 30 MW
Total	**1,765**			

The new units are to be constructed: one with circulating fluidized bed (CFB) technology of 300 MW and one with super critical technical parameters of 660 MW

DTEK Zakhidenergo

DTEK Zakhidenergo's share of total electricity output in Ukraine amounted to 7.2% in 2011 (+1.2% YoY). DTEK Zakhidenergo's TPPs supplied 12.6 bln kWh, 23% more than in 2010. The Company's installed capacity utilization rate (ICUR) reached 34.5%, compared to 27.5% in 2010. This considerable growth was attributed to both higher electricity consumption in Ukraine and the introduction of international best practices into management procedures, and more effective planning and utilization of company resources.

DTEK Zakhidenergo's production units consist of three thermal and one hydro power plants: Dobrotvorskaya TPP in Lviv region, Burshtynskaya TPP in Ivano-Frankivsk region, and Ladyzhinskaya TPP and Ladyzhinskaya HPP in Vinnitsya region.

Key operational indicators of DTEK Zakhidenergo's TPPs | mln kWh

Company	Indicators	2010	2011	Change, YoY
Burshtynskaya TPP	Power generation	6,137.9	8,658.6	2,520.7
	Electricity consumption for internal purposes, %	9.7	9.03	
	Electricity output	5,487.8	7,818.0	2,330.2
	ICUR, %	30.5	43.0	
Dobrotvorskaya TPP	Power generation	1,457.6	1,790.1	332.5
	Electricity consumption for internal purposes, %	9.3	8.9	
	Electricity output	1,298.4	1,602.4	304.0
	ICUR, %	27.7	38.9	
Ladyzhinskaya TPP	Power generation	3,746.0	3,508.0	-238.0
	Electricity consumption for internal purposes, %	7.6	7.8	
	Electricity output	3,447.9	3,215.1	-232.8
	ICUR, %	23.8	22.2	
Ladyzhinskaya HPP	Power generation	33.9	26.,7	-7.2
	Electricity consumption for internal purposes, %	0.8	0.9	
	Electricity output	33.4	26.3	-7.1
	ICUR, %	51.5	40.6	
DTEK Zakhidenergo	**Power generation**	**11,375.4**	**13,983.4**	**2,608.0**
	Electricity consumption for internal purposes, %	**8.9**	**8.7**	
	Electricity output	**10,267.6**	**12,661.8**	**2,394.2**
	ICUR, %	**27.6**	**34.5**	

DTEK Zakhidenergo's production units | as of December 31, 2011

Power unit No.	Installed capacity, MW	Date of commissioning/ last major overhaul or retrofit	Hours in service	Major overhaul/retrofit
Burshtynskaya TPP				
1	195	1968/2010	267,819	Major overhaul in 2015. Retrofit in 2020-2021 to increase installed capacity by 15 MW
2	185	1965/2008	254,996	Major overhaul in 2014. Retrofit in 2019-2020 to increase installed capacity by 25 MW
3	185	1966/2008	266,371	Major overhaul in 2016
4	195	1966/2007	283,803	Major overhaul in 2013. Retrofit in 2018-2019 to increase installed capacity by 15 MW
5	195	1967/1998	285,063	Major overhaul in 2018. Retrofit in 2012 to increase installed capacity by 13 MW
6	185	1967/2010	276,872	Major overhaul in 2016
7	185	1968/2012	263,708	Retrofit in 2007-2011 to increase installed capacity by 27 MW
8	195	1968/2009	280,853	Retrofit in 2015 to increase installed capacity by 15 MW
9	195	1968/2006	262,401	Retrofit in 2014 to increase capacity by 15 MW
10	195	1969/2004	274,103	Retrofit in 2013 to increase installed capacity by 15 MW
11	195	1969/2011	237,713	Retrofit in 2016 to increase installed capacity by 15 MW
12	195	1969/2002	234,232	Major overhaul in 2012. Retrofit in 2017 to increase installed capacity by 15 MW
Total	**2,300**			

Power unit No.	Installed capacity, MW	Date of commissioning/ last major overhaul or retrofit	Hours in service	Major overhaul/retrofit
Dobrotvorskaya TPP				
5	100	1960/2010	314,297	Major overhaul in 2015. Major overhaul in 2020
6	100	1961/2009	308,335	Major overhaul in 2014. Major overhaul in 2019
7	150	1963/2011	317,288	Retrofit in 2014 to increase installed capacity by 10 MW
8	150	1964/2007	298,959	Retrofit in 2012-2013 to increase installed capacity by 10 MW
Total	**500**			
Ladyzhinskaya TPP				
1	300	1970/2007	227,601	Retrofit in 2017 to increase installed capacity by 10 MW
2	300	1971/2009	219,871	Retrofit in 2018 to increase installed capacity by 10 MW
3	300	1971/2011	204,137	Retrofit in 2019 to increase installed capacity by 10 MW
4	300	1971/2001	223,051	Retrofit in 2013 to increase installed capacity by 25 MW
5	300	1971/2003	207,439	Retrofit in 2014 to increase installed capacity by 10 MW
6	300	1971/2004	220,055	Retrofit in 2015 to increase installed capacity by 10 MW
Total	**1,800**			

Fuel supply to DTEK Zakhidenergo

Gaseous coal makes up 98.3% of the Company's fuel mix. Actual consumption of coal in 2011 was 7.1 million tons. Gas and fuel oil accounted for 1.7% of fuel, 2.1% less than in 2010.

DTEK Zakhidenergo bought 7.3 million tons of coal in 2011. Coal suppliers were DTEK Trading LLC (67% of total supply) and state enterprise Ugol Ukrainy (33%). Coal suppliers were selected via open tenders.

Kyivenergo

Kyivenergo's share of the total Ukrainian electricity output was 2.5% in 2011 (vs. 2.6% in 2010). Electricity supply jumped 9.1% YoY from 4,108.7 mln kWh in 2010 to 4,481.8 mln kWh in 2011. The Company's installed capacity utilization rate (ICUR) was 48.6% in 2011 (vs. 45.1% in 2010).

Key production indicators of Kyivenergo (CHPP 5, CHPP 6) | mln kWh

Company	Indicators	2010	2011	Change, YoY
CHPP-5	Power generation	2,605.6	2,701.8	96.2
	Electricity supply	2,243.9	2,355.7	111.8
	Electricity consumption for internal purposes (electricity production), %	6.4	5.9	-0.6
	Electricity consumption for internal purposes (heating production)	194.0	187.9	-6.2
	ICUR, %	42.5	44.1	1.6
CHPP-6	Power generation	2,140.4	2,406.4	266.0
	Electricity supply	1,864.8	2,126.1	261.3
	Electricity consumption for internal purposes (electricity production), %	5.6	4.9	-0.7
	Electricity consumption for internal purposes (heating production)	160.5	165.9	5.4
	ICUR, %	48.9	54.9	6.0
Kyivenergo	**Power generation**	**4,746.0**	**5,108.2**	**362.2**
	Electricity supply	**4,108.7**	**4,481.8**	**373.1**
	Electricity consumption for internal purposes, total, %	**13.5**	**12.3**	**-1.2**
	ICUR, %	**45.1**	**48.6**	**3.5**

Production capacities of Kyivenergo (CHPP-5, CHPP-6) | as of December 31, 2011

Power unit No.	Installed capacity, Gcal/h	Date of commissioning/last major overhaul or retrofit	Hours in service	Major overhaul/ retrofit
ELECTRICITY GENERATION				
CHPP-5				
Unit 1	100	1971/2009	286,017	Major overhaul in 2015. Retrofit in 2012-2015 to increase installed capacity by 10 MW
Unit 2	100	1972/2007	279,050	Major overhaul in 2012. Average overhaul in 2015
Unit 3	250	1974/2010	247,760	Average overhaul in 2012. Major overhaul in 2014
Unit 4	250	1976/2008	215,449	Average overhaul in 2015. Major overhaul in 2013
Total	**700**			
CHPP-6				
Unit 1	250	1982/2009	195,609	Average overhaul in 2015. Major overhaul in 2013
Unit 2	250	1984/2010	185,986	Average overhaul in 2015, 2018. Major overhaul in 2012
Total	**500**			

Power unit No.	Installed capacity, Gcal/h	Date of commissioning/last major overhaul or retrofit	Hours in service	Major overhaul/ retrofit
HEAT GENERATION				
CHPP-5 Kyivenergo – 1,874 Gcal/h				
1	160	1971/2009	286,017	Major overhaul in 2015
2	160	1972/2007	279,050	Major overhaul in 2012. Average overhaul in 2015
3	324	1974/2010	247,760	Major overhaul in 2014. Average overhaul in 2012
4	330	1976/2008	215,449	Major overhaul in 2013. Average overhaul in 2015
PTVM-180 St. #1	180	1972/2008	29,929	
PTVM-180 St. #2	180	1972/1994	23,364	
PTVM-180 St. #3	180	1977/1997	36,501	
KGVM-180 St. #4	180	1992	40,481	
KGVM-180 St. #5	180	1998	26,723	

Power unit No.	Installed capacity, Gcal/h	Date of commissioning/last major overhaul or retrofit	Hours in service	Major overhaul/ retrofit
CHPP-6 Kyivenergo – 1,740 Gcal/h				
1	330	1982/2009	195,609	Major overhaul in 2013. Average overhaul in 2015
2	330	1984/2010	185,986	Average overhaul in 2014, 2018. Major overhaul in 2012
KGVM-180 St. #1	180	1981/2010	46,462	
KGVM-180 St. #2	180	1982/2011	44,633	
KGVM-180 St. #3	180	1983/2011	42,807	
KGVM-180 St. #4	180	1986/2010	40,117	
KGVM-180 St. #5	180	1998	7,643	
Alstom Boiler St. #5	180	2004	3,309	
Total Kyivenergo (CHPP, boiler rooms & "Energy" factory)	**8,725.2**			

Fuel supply to Kyivenergo

Kyivenergo burnt natural gas to generate electricity and used natural gas and hard coal to produce heat last year. Consumption of natural gas totalled 2,787.2 million cubic meters, and hard coal totalled 1,020 tons. From January to September 2011, the Company purchased gas from state enterprise Gas Ukrainy of Naftogaz of Ukraine NJSC, and from October to December 2011 directly from Naftogaz of Ukraine.

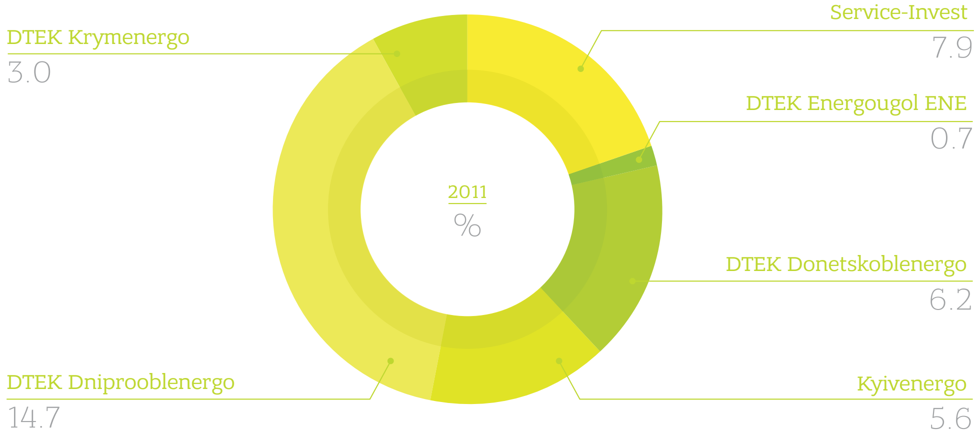
Power distribution and sales

DTEK's electricity distribution and sales business includes Service-Invest, DTEK Energougol ENE, DTEK Donetskoblenergo, DTEK Dniproblenergo, DTEK Krymenergo and Kyivenergo.

The Company's electricity distribution networks stretch over Donetsk and Dnipropetrovsk regions, Crimea and the city of Kyiv, the capital of Ukraine. The total length of DTEK's networks, including companies acquired by DTEK in 2011-2012, is 174,000 km. DTEK's electricity distribution companies purchase electricity from the WEM and supply it to end consumers, e.g. iron and steel, coal and engineering companies; organizations and households in the cities of Kyiv and Donetsk, Donetsk and Dnipropetrovsk regions, and Crimea. DTEK companies purchased 62.8 bln KWh of electricity from the WEM in 2011*.

* Purchase of electricity from the WEM by Service-Invest and DTEK Energougol ENE as well as associated companies in the reporting period that are Kyivenergo (46.8% until December 7, 2011 with the subsequent privatization of a controlling stake), DTEK Donetskoblenergo (31.3%), DTEK Dniproenergo (1.5%) and DTEK Krymenergo (12.5%)

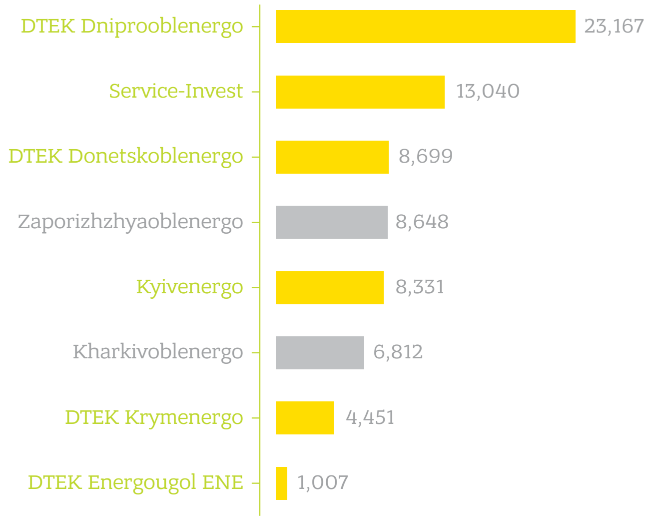
Purchases from the WEM: DTEK enterprises | %



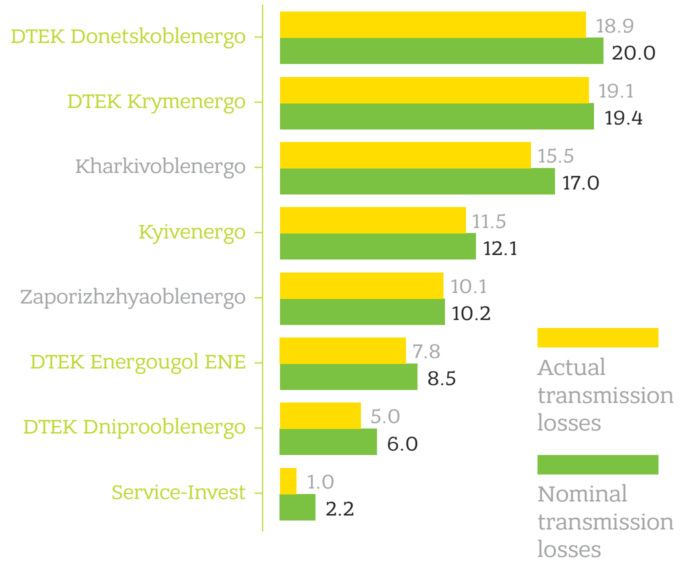
Electricty sales: DTEK enterprises | mln kWh

Company	2010	2011	Change, YoY	Change, YoY (%)
Electricity purchase from the WEM by Service-Invest and DTEK Energougol ENE	13,287.3	14,066.0	778.7	5.9
Electricity purchase from the WEM by DTEK Donetskoblenergo	10,173.7	10,324.9	151.2	1.5
Electricity purchase from the WEM by DTEK Dniproblenergo	24,762.3	24,240.4	-521.9	-2.1
Electricity purchase from the WEM by DTEK Krymenergo	4,827.6	4,891.0	63.4	1.3
Electricity purchase from the WEM by Kyivenergo	9,313.5	9,271.6	-41.9	-0.4

Electricity transmission: major enterprises | MWh



Nominal vs. Actual transmission losses: major enterprises | %



Source: National Electricity Regulatory Commission of Ukraine (NERC)

Service-Invest

Service-Invest has 2,684 km of electricity transmission lines and 88 transformer substations with a total capacity of 2,578 MVA. The Company's networks are in Donetsk and Dnipropetrovsk regions.

Service-Invest's share of sales from the wholesale electricity market (WEM) grew to 7.9% in 2011 (vs.7.5% in 2010), with a volume of 13 mln kWh, which is 6.2% more than in 2010. Electricity transmission also went up 6.6% YoY. The growth was due to increased energy consumption by iron and steel making and coal mining companies.

Service-Invest's key customers in 2011 remained iron and steel making and coal mining companies in Donetsk and Dnipropetrovsk regions, which accounted for 79.7% of total consumption. Overall, the coal mining and engineering sectors increased their consumption by 7.9% and 4.9%, respectively. Service-Invest supplied 63% of its total supplies last year to Metinvest Holding Group companies and 7.8% to DTEK Group companies (the largest consumer was DTEK Pavlogradugol with a 4.3% share). Overall, Service-Invest's largest customer remains Ilyich Iron and Steel Works of Mariupol, which consumed 15.3% of total supplies in 2011.

The Company reduced its electricity network losses to a minimum last year — only 1%.

DTEK Energougol ENE

The length of DTEK Energougol ENE's transmission lines grew 14 km to 1,179 km in 2011. Seven new transformer substations were commissioned in 2011, increasing DTEK Energougol ENE's number to 402. The Company's network is located in Donetsk region.

DTEK Energougol ENE's share of electricity purchases from the WEM in 2011 remained at the same level as in 2010 — 0.7% (1.1 mln kWh), while electricity transmission volumes grew by 1.2%.

The Company's main customers last year were mines and mining engineering companies (about 60%). Housing and public utilities accounted for 5% of total electricity transmission and households for about 6%. DTEK Energougol ENE's total number of consumers in 2011 was 26,800.

DTEK Energougol ENE's electricity losses were 7.8% in 2011 (vs. 7.5% in 2010).

DTEK Donetskoblenergo

DTEK Donetskoblenergo's electricity transmission lines stretched 69,000 km and it had 13,356 transformer substations as of 2011.

DTEK Donetskoblenergo's share of purchases from the WEM was 6.2% in 2011 (vs. 6.3% in 2010). The Company purchased 10.3 bln kWh from the WEM that is up 1.5% YoY. Electricity transmission also went up in 2011 (+1.3%) compared to 2010.

Households accounted for a major part of the Company's clientele — 41.2%. The Company also supplied electricity to municipal bodies, housing organisations and public utilities (16.4%), and iron and steel making plants (7.7%). DTEK Donetskoblenergo's largest customers are public water company Voda Donbasa, state-owned company Donuglerestrukturizatsia and communal enterprise Donetskteplokommunenergo.

The Company's network losses were 18.9% in 2011 (vs. 19.1% in 2010).

DTEK Dniprooblenergo

DTEK Dniprooblenergo operated 47,200 km of electricity transmission lines, 11,940 transformer substations and 182 distribution substations in 2011.

The Company accounted for 14.7% of electricity purchased from the Wholesale Electricity Market (WEM) in 2011. It bought 24.2 bln kWh from the WEM in 2011, 2.1% less YoY. Electricity transmission by the Company also dropped in 2011 (-5.1% YoY).

The electricity supplied by the Company was mostly consumed by industrial companies (73.6%), of which iron and steel makers accounted for 62.4%. The Company's next largest consumers were housing and public utilities (4.5%) and households (4.8%). DTEK Dniprooblenergo's largest clients are steel makers ArcelorMittal Kryvyi Rih and Dniprovsky Integrated Iron and Steel Works, as well as Nikopol Ferroalloy Plant, and Ingulets and Southern Iron Ore Enrichment Works.

The Company's electricity network losses decreased to 5.02% in 2011 (vs. 4.99% in 2010).

DTEK Krymenergo

DTEK Krymenergo operated 27,700 km of electricity transmission lines and 8,767 transformer substations in 2011.

The Company accounted for 3% of electricity purchased from the WEM. It bought 4,891 mln kWh in 2011, 1.3% more YoY. The Company's electricity transmission also edged up by 0.1% YoY.

Most of the Company's customers are in socially-important consumer categories: households, public utilities and housing entities, which together consume more than 55% of all electricity supplied. The largest industrial consumers of DTEK Krymenergo are construction materials producers: Bakhchisarai plant Stroyindustriya, chemical plant Brom, and the shipyard Zaliv.

The Company's electricity networks losses in 2011 amounted to 19.1% (vs.18.3% in 2010).

Kyivenergo

Kyivenergo's share of electricity purchased from the WEM in 2011 was 5.4%. The volume purchased from the WEM dropped by 41.9 mln kWh (0.45%) compared to 2010, due to lower network losses and because of an unregulated tariff supplier operating in Kyivenergo's licensed area. The Company's electricity network transmission increased by 137 mln kWh (1.3%) to 11.48 bln kWh in 2011.

The total length of Kyivenergo's overhead and cable electricity transmission lines was 11,742 km as of 2011. It also had 60 35/150-kV substations with a total capacity of 3,709 MVA, 3,352 35/0.46/0.4-kV transformer substations with a total capacity of 2,582 MVA and 187 35-6 kV distribution centers with a total capacity of 190 MVA.

Supplies to consumers increased by 70.6 mln kWh (0.85%) YoY to 8,330.7 mln kWh (including supplies to DTEK entities — 8,313.9 mln kWh) in 2011.

Kyivenergo's key electricity segment clients are non-industrial consumers (32.1%), households (30.0%), industrial consumers (29.9%) and public electric transport (4.2%).

The Company cut its actual electricity losses by 93.5 mln kWh (8.9%) YoY in 2011.

03>02 Investments

Continuous investment in core assets was the foundation for the successful implementation of DTEK's strategy in 2011.

Coal production and preparation

DTEK's coal mines increased output and reduced occupational injuries in 2011 thanks to the implementation of comprehensive operations upgrade programs and the modernization of mining equipment. DTEK continues to purchase roadheaders and shearers, dintheaders, conveyors and other machinery from both leading domestic and international manufacturers including those from Germany, the Czech Republic and China.

DTEK bought four longwall sets from domestic (Mining Machines company) and foreign (Ostroj and T.Machinery) producers worth USD 55.2 million in 2011, including three for DTEK Pavlogradugol's mines worth USD 44.3 million and one for the Dobropolskaya mine of DTEK Dobropolyeugol worth USD 10.9 million. DTEK also purchased 34 roadheaders from SANY (China), Kopeysk Machine Building Plant (Russia) and Yasynovatskyi Machine Building Plant (Ukraine) for the mines of DTEK Pavlogradugol, DTEK Dobropolyeugol, and DTEK Mine Komsomolets Donbasa worth USD 17.3 million.

One of DTEK's largest investment projects in 2011 was the resumption of construction of an air shaft at the Dobropolskaya mine of DTEK Dobropolyeugol (project cost is about USD 12.0 million, of which USD 0.1 million was spent in 2011). DTEK Mine Komsomolets Donbasa started to introduce an automated dispatch control system, which allows for real-time monitoring of processes, thus securing safe coal production (project cost is about USD 5.1 million, of which USD 1.7 million was invested in 2011). DTEK Mine Komsomolets Donbasa has also been implementing a project called Processing Plant Upgrades, and spent USD 0.4 million of a total project cost of USD 19.7 million in 2011.

DTEK mines started operating an underground monorail overhead transport in 2011, which saves time on installation and removal, as well as cargo and people transportation, thus facilitating and providing for safer operations. DTEK allocated USD 3.8 million in 2011 for the implementation of this project at DTEK Pavlogradugol and DTEK Mine Komsomolets Donbasa.

DTEK's coal processing companies continued to implement a comprehensive upgrading and technical replacement program in 2011. The largest projects were carried out at Pavlogradskaya CPP (commissioning of a primary sludge processing unit), DTEK Oktyabrskaya CPP (installation of dry screening equipment), and DTEK Dobropolskaya CPP (replacement of two jiggers). DTEK's coal processing companies spent USD 6 million to replace and conduct major overhauls of equipment in 2011.

Power generation

DTEK Skhidenergo

DTEK Skhidenergo's Luganskaya TPP unit #10 and Kurakhovskaya TPP unit #8 began to be retrofitted in 2011. The work is planned to be completed in the first half of 2012. All key parts of both units will be upgraded: the boiler, turbine, generator, and a full-scale automated process control system will be installed.

The retrofit is expected to increase the installed capacity of Luganskaya TPP unit #10 by 35 MW from 175 to 210 MW; decrease specific fuel consumption by 63 grams of standard fuel per kWh and enhance the flexible operating range from 45 to 80 MW.

Kurakhovskaya TPP unit #8 will have an electric precipitator installed to bring its flue gas treatment rate to 50 mg/m^3, in accordance with European standards for the first time in the Company's history.

The retrofit will prolong the units' service life by 15-20 years. Total investments spent to retrofit these units of DTEK Skhidenergo was USD 112.4 million. The scope of the units' overhauls was increased significantly in 2011: actual repair costs were USD 43.4 million in 2010 and USD 59.8 million in 2011 (+37.7%).

In 2012, DTEK Skhidenergo plans to proceed with the reconstruction of Zuevskaya TPP unit #4 (March-December 2012), Kurakhovskaya TPP unit #6 (April-December 2012) and Luganskaya TPP unit #13 (June-December 2012). Investments in 2012 will amount to USD 218.0 million, including USD 175.5 million on reconstruction projects.

DTEK Dniproenergo

DTEK Dniproenergo continued to retrofit Pridneprovskaya TPP unit #9 and Krivorozhskaya TPP unit #3 in 2011; both projects are planned to be completed in 2012.

The retrofitting of Pridneprovskaya TPP unit #9 will cut specific fuel consumption from 411.5 to 389.6 grams of standard fuel per kWh and expand the flexible operating range from 50 to 75 MW.

The retrofitting of Zaporozhskaya TPP unit #1, which started in 2011, will increase unit capacity from 300 to 330 MW and cut specific fuel consumption from 365 to 340 grams of standard fuel per kWh. The boiler's regulated load range will expand to 180 MW.

Retrofitting Krivorozhskaya TPP unit #3 will restore its design capacity of 300 MW, from the current 282 MW. Fuel consumption will decrease from 383.5 to 368.5 grams of standard fuel per kWh. The boiler's regulated load range will expand to 215 MW.

The retrofits will prolong the equipment's service life by 15-20 years and reduce dust emissions to below 50 mg/m^3, which complies with EU standards. Total investment in the projects, including re-equipping the electric precipitator at Pridneprovskaya TPP unit #11, is USD 0.15 billion.

Investments in DTEK Dniproenergo in 2011 totalled USD 67.2 million.

DTEK Dniproenergo is planning to spend USD 100 million to implement a number of large-scale unit upgrade projects in 2012. The Company plans to start re-equipping Krivorozhskaya TPP unit #1, Zaporozhskaya TPP unit #3, and Krivorozhskaya TPP unit #9 for a total amount of USD 189.1 million. These projects are expected to be completed in 2013.

DTEK Zakhidenergo

DTEK Zakhidenergo completed the retrofitting of Burshtynskaya TPP unit #7 in 2011. It upgraded key equipment, including the boiler, turbine, electrical equipment, flue gas treatment facilities, and installed a new unit control system. It was the first time DTEK Zakhidenergo retrofitted the low-pressure cylinder of a turbine, including the full replacement of the Alstrom-manufactured rotor and upgrading the cylinder case. The work will ensure an increase in the installed capacity to 212 MW, reduction in fuel consumption, increase in the flexible operating range to 106 MW and extension of the service life by at least 15 years. A new electric precipitator was installed to bring dust emissions in line with European standards. USD 47.2 million was spent on this project. DTEK Zakhidenergo finalized the first stage of an outdoor switchgear upgrade, which increased its TPPs' operational durability and increased its export potential from 550 to 650 MW. The total cost of the retrofit was USD 8.2 million.

Capital overhauls of Dobrotvorskaya TPP units #7, Ladyzhinskaya TPP #3 and Burshtynskaya TPP #11 helped restore designed capacity and improve the technical parameters of the aforementioned units, as well as enhance the efficiency of flue gas treatment.

The total amount of investment into DTEK Zakhidenergo in 2011 totaled USD 28.6 million.

In 2012, DTEK Zakhidenergo is planning to retrofit Burshtynskaya TPP unit #5, Dobrotvorskaya TPP #8 and overhaul Burshtynskaya TPP power unit #12.

Kyivenergo

Kyivenergo invested USD 45.4 million into the development of heating supply, electricity generation and distribution in 2011, 1.3 times more than in 2010.

Of the total investments, USD 5 million or 11.1% was allocated for electricity generation; USD 3.7 million and USD 1.3 million were spent on equipment installation and work at CHPP-5 and CHPP-6, respectively. The biggest investment projects in 2011 were to retrofit the chemical workshop, including the implementation of ultra filtration technology (USD 1.1 million) and retrofit autotransformers (USD 1.4 million) at CHPP-5.

Kyivenergo is going to invest more than USD 0.1 billion into the development of heating supply, construction, electricity generation and distribution in 2012. About USD 21.3 million will be allocated to the generation segment. The largest projects for 2012 include: major overhauls of equipment at CHPP-5 and CHPP-6 (USD 3.4 million); retrofitting excitation system G-2 (USD 1.4 million); revamping the chemical workshop through the implementation of ultra filtration technology (USD 1.0 million), as well as retrofitting and replacing outdoor switchgear 330 kV with the installation of AT-3 at CHPP-5 (USD 0.6 million).

Heating and electricity distribution and sales

Service-Invest

Service-Invest implemented a number of large investment projects in 2011, including the retrofitting of the following substations: Druzhkovka-110 kV, Davydovka-Severnaya-110 kV, Zuevka-110 kV, Ugolno-Rtutnaya -110 kV, Novomakeevka -110 kV and Shvernik-110 kV. It also finalized the second stage of construction of a 35 kV overhead transmission line to make power supply to the Yubileynaya-35 kV substation more reliable.

Service-Invest also completed the construction of two substations: Yubileynaya-110 kV in Dnipropetrovsk region and Airport-110 kV in Donetsk. The construction of the Airport-110 kV substation to supply electricity to the Donetsk airport (part of preparatory work for Euro-2012) was exactly on schedule. It was the first time an energy supply company installed next generation 110 kV electrical equipment manufactured by ABB (Sweden). DTEK invested USD 9.8 million in the project.

Total investments amounted to USD 26.0 million in 2011. Investments to upgrade substations totaled USD 40.1 million for the period from 2006 to 2010.

In 2012, Service-Invest is planning a number of large investment projects, including retrofitting equipment at substations Iverskaya-110 kV, Chasov-Yar-110 kV, RTI-110 kV, Yelenovka-35 kV, Illich-6 kV and Druzhkovka-110 kV. Equipment upgrades will continue at Ugolno-Rtutnaya-110 kV and Davydovka-Severnaya-110 kV. The overhead transmission lines at the GPP-7 and GPP-4 sections of the Donetsk electricity network will also be upgraded. Planned investment into these projects for 2012 is USD 16.4 million.

DTEK Energougol ENE

DTEK Energougol ENE's investment program in 2011 was USD 4.3 million. More than USD 0.8 million was allocated for the construction and retrofitting of 6-10 kV lines and USD 0.7 million for the construction and retrofitting of 0.4 kV lines.

DTEK Energougol ENE also launched projects in 2011 to upgrade substations and transmission lines, supplying electricity to Euro-2012 championship facilities in Donetsk. For example, The retrofit of the Skif substation will enhance the reliability of electricity supplies to Donbass Arena and the Victoria Hotel. The Company is planning to upgrade 6 kV outdoor switchgears at Oktyabrskaya substation (powers the Donetsk International Airport), Novo-Tsentralnaya-6 kV substation (powers the Euro-2012 fan zone) and Mine 11 (powers the under construction Europe Hotel). The work will be completed in 2012.

DTEK Energougol ENE successfully completed implementation of an automatic system for commercial accounting of power consumption (ASCAPC) based on Smart Metering (started in 2006) in 2011. System modernization is scheduled for 2012-2015. DTEK Energougol ENE believes this is mandatory to improve efficiency and is a first step toward the construction of smart grids. The Company allocated more than USD 0.3 million for the project in 2011. More than 5,000 household meters were installed last year.

Total investments in projects at DTEK Energougol ENE will amount to USD 4.8 million in 2012.

DTEK Donetskoblenergo

DTEK Donetskoblenergo's investments totaled USD 40.5 million in 2011 (including USD 29.1 million for its NERC-approved investment program). Most of that amount (USD 20.8 million) was directed to construct, retrofit and upgrade its electricity networks, and construct new transformer and distribution substations.

The Company implemented several investment projects, including the construction and commissioning of overhead transmission lines (including the 35 kV transmission line to the Belosarayskaya Kosa substation from the 35 kV Yalta-Melekino transmission line). The retrofit of the Shcherbakovskaya substation has been in progress since 2006. USD 2.0 million was invested in this project in 2011. Another USD 1.5 million was channeled into the construction of transmission lines to the substation.

DTEK Donetskoblenergo started to retrofit the Kalinovka substation in 2011 (USD 2.8 million was invested) and continued to upgrade the Ignatevskaya substation (USD 1.3 million was allocated in 2011). The total amount of project investments was USD 1.6 million over 2008-2011.

DTEK Donetskoblenergo is planning to invest USD 44.9 million in a number of projects in 2012, in particular to retrofit Shcherbakovskaya substation and switch it to 110 kV voltage, and complete the retrofit of the Kalinovka, Ignatevskaya and Vetka substations to ensure reliable electricity supplies to Donetsk during and after Euro-2012. DTEK Donetskoblenergo is planning to invest over USD 12.5 million to retrofit the existing transmission lines and USD 0.3 million to construct new ones. The Company also plans to continue upgrading substations and retrofitting boiler # 10 of Mironovskaya TPP energy unit #5.

DTEK Dniprooblenergo

DTEK Dniprooblenergo's planned investments amounted to USD 48.7 million in 2011 (including USD 37.7 million for the investment program approved by the National Electricity Regulatory Commission (NERC)).

DTEK Dniprooblenergo is one of a few companies in Ukraine that continue building large power facilities.

A large portion of the funds (USD 27.3 mln) was allocated for the construction, retrofitting and upgrading of electricity networks, and the construction of new transformer substations and distribution centres. The largest investment projects in 2011 were the completion of the retrofitting and commissioning of 31 km of overhead electricity transmission lines; the completion of construction on the Auly-2 and Zernovaya substations, and the completion of retrofitting the Karl Liebknecht substation.

DTEK Dniprooblenergo is planning to invest USD 47.7 mln in various projects in 2012. One of the largest investment projects is retrofitting the Podgorodneye-35 and Mezherichi substations. The Company will also continue constructing and upgrading its networks in 2012 and invest over USD 7.3 million to retrofit 104 km of 0.4-10 kV electricity transmission lines and over USD 2.1 million on the construction of 25.5 km of 0.4-6(10) kV transmission lines.

DTEK Krymenergo

DTEK Krymenergo's investments amounted to USD 26.5 million in 2011 (including a USD 25.4 million investment program approved by the NERC).

The Company has been increasing capital expenditures in its networks and substations over the last few years, allocating over USD 12.5 million each year starting from 2007. The Company has significantly improved the reliability and quality of power supplies to its consumers on the southern coast of Crimea due to the retrofitting of the 110 kV Perevalnoye-Alushta and Dobroye-Perevalnoye overhead lines, upgrading of facilities at 110 substations along the southern coast, and the construction of eight and retrofitting of nine transformer substations and 10 kV distribution centres, which increased the transmission capacity of the Simferopol-Alushta line (a USD 6.3 million investment).

DTEK Krymenergo designed a comprehensive investment development program for 2012-2016, which envisages USD 25.7 million in investments in 2012 alone.

The Company's plans for 2012 include retrofitting 620 kilometers of 0.4–110 kV lines, continuing the construction of the Kubanskaya and Olenyevka substations and a new unloading substation, retrofitting a number of transformer substations, and installing over 75,000 household electricity meters. The Company is planning to invest over USD 3.5 million to retrofit 0.4-110 kV electricity transmission lines and over USD 14.6 million to construct and retrofit 35-110 kV substations. These measures are designed to ensure uninterrupted power supplies to consumers.

Kyivenergo

Kyivenergo invested USD 19.5 million in electricity distribution in 2011, including USD 2.6 million for projects to prepare for Euro-2012. The biggest projects were the construction of the Moskovskaya substation with a 110 kV line (USD 0.6 million invested), construction of the Universitetskaya substation with a 110 kV line (USD 0.1 million), and retrofitting of the CHPP-6-Levoberezhnaya 110 kV transit line (USD 1.8 million).

USD 1.6 million was allocated to purchase electronic single-phase and three-phase electricity meters and install them in households.

Kyivenergo is going to channel USD 83.4 million into its electricity distribution segment in 2012, which is 65.6% of total investments stipulated by its investment program. The largest distribution projects planned for 2012 include the Moskovskaya substation with a 110 kV line (USD 18.6 million), retrofitting the Artemovskaya and Radiotekhnicheskaya substations (USD 3.8 million and USD 2.3 million, respectively), retrofitting the VUM substation (USD 1.3 million), as well as retrofitting electricity networks and replacing cable lines.

Kyivenergo allocated USD 19.1 million or 42.1% of its total investments on its heating supply segment in 2011. To accomplish one of its priority tasks, Kyivenergo conducted large-scale retrofitting of its heating networks in 2011. The Company invested USD 13.6 million in that project. The Company invested USD 0.8 million into the technical re-equipment of its branches and subdivisions and to implement information technologies.

Kyivenergo is planning to allocate USD 21.5 million or 16.9% of its total investments on heating supply in 2012. The Company is going to channel USD 18.2 million to retrofit and upgrade its heating network in 2012. Of this amount, USD 16.2 million will be invested on construction and assembly work in the heating sector, which is the equivalent of retrofitting almost 30 km of heating networks (double tube option).

Investments | USD mln

Business segment	2010	2011	Change, %
Coal production and preparation[1]	155.4	317.7	+162.3
Power generation[2]	97.7	168.8	+71.1
Power distributions and sales[3]	12.3	32.5	+20.2
Other[4]	12	21.2	+9.2
Total	**277.5**	**540.3**	**+262.8**

[1] **Consists of the following companies:**
2010 — DTEK Pavlogradugol PJSC, DTEK Mine Komsomolets Donbasa PJSC, CPP Pavlogradskaya LLC, CPP Kurakhovskaya LLC, DTEK Dobropolskaya CPP PJSC, DTEK Oktyabrskaya CPP PJSC, Mospinskoye CPP LLC
2011 — DTEK Pavlogradugol PJSC, DTEK Mine Komsomolets Donbasa PJSC, DTEK Dobropolyeugol LLC, CPP Pavlogradskaya LLC, CPP Kurahovskaya LLC, DTEK Dobropolskaya CPP PJSC, DTEK Oktyabrskaya CPP PJSC, Mospinskoye CPP LLC

[2] **Consists of the following companies:**
2010 — DTEK Skhidenergo LLC
2011 — DTEK Skhidenergo LLC, Kyivenergo PJSC (December 2011)

[3] **Consists of the following companies:**
2010 — Service-Invest LLC, DTEK Energougol ENE PJSC
2011 — Service-Invest LLC, DTEK Energougol ENE PJSC, Kyivenergo PJSC (December 2011)

[4] **Consists of the following companies:**
2010 and 2011 — DTEK LLC, DTEK Service LLC, Sotsis LLC, Pershotravensky Repair and Engineering Plant, Ekoenergoresurs LLC, Wind Power LLC

03>03 Financial Performance

The positive macroeconomic situation drove growth in demand for DTEK's products. The increase in coal output due to capital investments and the purchase of new coal production, electricity generation and electricity distribution companies ensured significant growth in DTEK's financial indicators in 2011.

DTEK's consolidated revenues for the reporting period rose 63.0% to USD 4,965 million vs. USD 3,046 million in 2010. The cost of production grew 58.3% to USD 3,759 million vs. USD 2,374 million in 2010. Gross income increased 79.5% to USD 1,206 million vs. USD 672 million in 2010. Net financial expenses increased 31.5% to USD 133 million.

Income before taxes went up 42.7% to USD 711 million. This rise can be attributed to substantial growth in profit from operating activities that was partially reduced by losses from the transfer of assets to subsidiaries and associated companies in the amount of USD 86 million and the recognition of losses in the amount of USD 56 million from depreciation of investments in associated companies. Net profit increased 23.3% to USD 442 million compared to USD 358 million in 2010. Growth in net profit disregarding one-offs from acquisitions totaled 63%.

Income

DTEK generates its income from the wholesale of electricity to Energorynok, sale of coal to end consumers, and the distribution and sale of electricity and heating.

DTEK's consolidated revenues grew 63.0% to USD 4,965 million in 2011. Revenues from coal sales made up 43.8% of consolidated revenues in 2011, electricity wholesale contributed 26.2%, sales of electricity to end consumers and electricity exports were 29.0%, and sales of heating to end consumers was 0.7% (a new income item in 2011). This item consisted of revenues from the sale of heating for the period from the date of the acquisition of control of Kyivenergo on December 13, 2011 to December 31, 2011. DTEK's management analyzes this business line separately from other segments and expects substantial improvements in future periods, which is why this business line was converted to a separate business segment. The share of revenues from other sales was 0.3%.

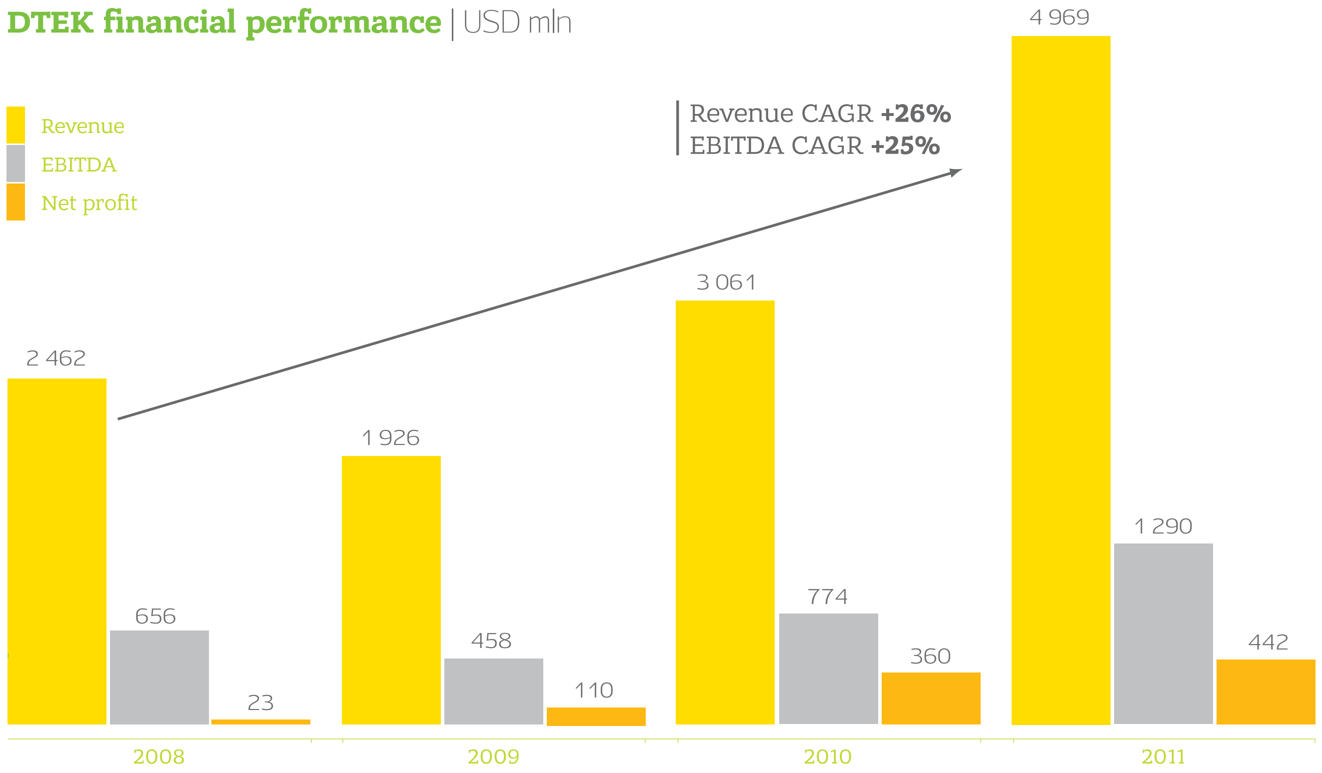
Most of the Company's income — 83.6% of consolidated revenues — was generated in the domestic market. Income from export sales rose 174% in 2011 (from USD 297 million to USD 813 million). The share of export income in DTEK's total income grew to 16.4% (vs. 9.7% in 2010). DTEK successfully accomplished its plans to expand its sales marketing area in the reporting year. Income in all the business segments rose in 2011:

- DTEK's income from coal sales increased 80.4% in 2011 to USD 2,175 million vs. USD 1,205 million in 2010, including growth in income from coal exports to USD 447 million vs. USD 225 million in 2010
- Income from electricity generation went up 32.0% to USD 1,299 million vs. USD 984 million in 2010
- Income from electricity transmission and distribution rose 38.1% to USD 1,075 million vs. USD 778 million in 2010, including income from electricity exports of USD 366 million vs. USD 72 million in 2010

Cost of sales

DTEK's cost of sales rose 58.3% from USD 2,374 million to USD 3,759 million in 2011. Revenues grew faster, by 63.0%. The increase in gross income in 2011 was USD 534 million (+79.5% compared to 2010). The gross margin rose from 22.1% in 2010 to 24.3% in 2011. This increase was mainly accounted for by higher electricity tariffs and increasing exports of coal and electricity. Distribution companies' expenses for purchasing electricity from Energorynok for further sale to end consumers rose by 65.4% to USD 1,332 million. Expenses on raw materials and supplies rose 36.4% to USD 648 million vs. USD 475 million in 2010. Personnel expenses in the cost of sales grew 14.0% to USD 423 million. Depreciation charges on DTEK's fixed production assets went up 43.8% to USD 262 million, mainly due to the implementation of the Company's investment program and revaluation of fixed assets in 2011.

DTEK financial performance | USD mln



Operating expenses

General administrative expenses and other expenses were the most costly operating expense items in 2011. General administrative expenses increased 39.1% to USD 148 million. Personnel expenses, including payroll taxes, were the main item in general administrative expenses. They made up 65.8% of total general administrative expenses in 2011, compared to 69.2% in 2010. Other operating expenses equaled USD 86 million, including USD 17 million of expenses associated with down time at newly acquired coal companies.

Assets

DTEK's assets more than doubled in 2011 to USD 7,052 million vs. USD 3,221 million in 2010. The balance sheet value of non-current assets rose 106.5% to USD 4,850 million. Non-current assets grew mainly due to the consolidation of new companies (DTEK Dobropolyeugol LLC, DTEK Rovenkyanthracite LLC, DTEK Sverdlovanthracite LLC and Kyivenergo PJSC) in the amount of USD 1,395 million, the revaluation of fixed assets by USD 730 million and an increase in the value of investments in associated companies by USD 185 million.

Current assets increased by more than 2.5 times, from USD 864 million in 2010 to USD 2,203 million in 2011. This trend is accounted for by the substantial growth in the balance sheet value of commodity stock, from USD 145 million in 2010 to USD 277 million in 2011 (including due to the acquisition of subsidiaries for USD 101 million) and growth in the balance sheet value of accounts receivable from USD 375 million in 2010 to USD 577 million in 2011. The Company's accounts receivable mostly consisted of the debt of Energorynok for supplied electricity and the debts of major and medium-sized Ukrainian companies. At the end of the reporting year, accounts receivable on commercial operations grew by more than 2.7x, from USD 142 million in 2010 to USD 384 million.

Cash funds and their equivalents grew considerably, rising 6 times, from USD 213 million in 2010 to USD 1,305 million in 2011. This was due to positive cash flow and the drawdown of credit facilities from Sberbank of Russia and Russian Commercial Bank (VTB Group). The amount of deposits with terms of up to three months increased from USD 138 million in 2010 to USD 689 million in 2011.

The amount of current financial investments was substantially reduced (by 68.5%, from USD 131 million in 2010 to USD 41 million in 2011), mainly due to decreasing the amount of 3-12 month deposits, from USD 95 million in 2010 to USD 34 million in 2011.

Equity and liabilities

Changes in DTEK's liabilities were mostly associated with the increased debt burden — the amount of long-term loans and credits in 2011 rose from USD 566 million to USD 1,553 million, and the amount of short-term loans grew from USD 125 million to USD 335 million. Substantial borrowings in 2011 included long-term loans from Sberbank of Russia and Russian Commercial Bank (VTB Group) with the amount of borrowed funds equaling USD 811 million. The amount of short-term loans grew in 2011 mainly due to the acquisition of new companies borrowings', which came to USD 215 million at yearend 2011.

The amount of DTEK's pension liabilities more than doubled in 2011 to USD 440 million vs. USD 199 million in 2010, including USD 257 million recognized due to the acquisition of new companies.

The Company's accounts payable at yearend 2011 increased by more than 2.9 times, from USD 246 million to USD 728 million, including USD 504 million due to the acquisition of new subsidiaries.

DTEK's equity rose 86.9% in 2011 to USD 3,107 million, mostly due to generating profit of USD 442 million, the revaluation of fixed assets by USD 778 million (including deferred tax liability) and the recognition of the share in revaluation of the fixed assets of associated companies of USD 237 million.

Cash flows

Net cash flow from operating activities rose 86.0% in 2011 to USD 755 million. The main factors influencing that growth were:

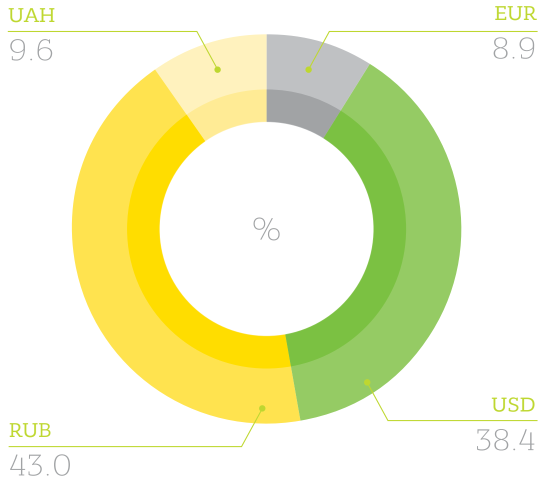
- increased income before taxes and non-cash adjustments, which resulted in growth in net operating cash flow by USD 549 million
- changes in the current assets, resulting in a decrease in net operating cash flow by USD 71 million in 2011
- increased income tax payments due to the growing profitability of the group's companies, which resulted in a USD 130 million decrease in net operating cash flow.

Investment activity payments rose 29.8% in 2011. The main drivers were increased funds allocated for the Company's investment program (USD 171 million) and advance payments for the acquisition of new companies in Ukraine's utilities sector through privatization (total of USD 45 million). Apart from that, the optimization of deposit management resulted in growth in positive cash flow from investment activities by USD 109 million.

Cash funds generated by financial activities amounted to USD 840 million in 2011, which is almost 10 times more than the figure in 2010. The main growth contributor was an increase in borrowings by USD 737 million in 2011 compared to 2010.

ANNUAL REPORT 2011 GROWTH ERA Performance

DEBT currency profile | as of December 31 2011, %



DTEK's debt

The largest part of DTEK's debt at yearend 2011 was denominated in RUB and USD and approximately equally in EUR and UAH. The amount of loans in RUB was USD 812 million, which is equivalent to 43.0% of the loan portfolio; the amount of loans in USD was USD 725 million, which is equivalent to 38.4% of the loan portfolio. Debt denominated in UAH came to USD 181 million or 9.6%. Loans in EUR equaled USD 169 million or 8.9% of total loans. The Company's debt mostly consisted of long-term loans — the average loan maturity was 3.5 years (at yearend 2011) and the largest share of debt was in the form of Eurobonds and loans in RUB. The share of long-term loans in the total loan portfolio was 82.3%. Funds in USD (Eurobonds) and in UAH were borrowed at a fixed rate, funds in EUR were mostly borrowed at a floating rate linked to Euribor, and funds in RUB were borrowed at a floating rate linked to Mosprime. The group borrowed USD 811 million under loan agreements with Sberbank of Russia and Russian Commercial Bank (VTB Group) in October 2011. These credit facilities were denominated in RUB with a 5-year maturity period and floating interest rate. The group entered into agreements to swap these credit facilities from RUB at a floating rate into USD at a fixed rate for the purpose of more effective financial asset management.

The key ratios of DTEK's equity funds to borrowed funds as of December 31, 2011 were as follows:

	2009	2010	2011
Total debt/ EBITDA	1.2	0.9	1.65
Net debt/ EBITDA	1	0.6	0.63
EBITDA/ Interest expenses	8	13.5	16.7

The ratio of net debt[1] to EBITDA remained virtually unchanged at 0.63 (vs. 0.60 in 2010).

The ratio of net debt to EBITDA grew from 0.90 to 1.65.

Credit ratings

Fitch Ratings raised DTEK Holdings Limited's long-term credit rating to 'B' with a stable outlook on October 19, 2011. Moody's Investors Service increased DTEK Holdings B.V. a long-term credit rating to 'B2' with a stable outlook on December 29, 2011. The agencies affirmed both ratings in March 2012.

Rating agency	Rating	Outlook	Review
Fitch Ratings			
Long-term credit rating	'B'	Stable	June 2012
Moody's Investors Service			
Long-term credit rating	'B2'	Stable	March 2012

[1] The debt consists of short-term and long-term borrowings and concession liabilities in relation to the property of DTEK Dobropolyeugol LLC, DTEK Rovenkyanthracite LLC and DTEK Sverdlovanthracite LLC.

03>04
New business development

DTEK made investments in several promising businesses in 2011 in both existing and new directions.

Renewable energy

The total nominal capacity of DTEK's wind power projects reached 1,200 MW in 2011:

- Wind Power LLC's projects in Zaporizhya and Donetsk regions consist of four sites with a total nominal capacity of more than 1,200 MW
- The projects have been geographically consolidated into two wind parks:
  - DTEK Pryazovsk Wind Park: three wind farms in Zaporizhya region (200 MW Botievo wind farm, 200 MW Prymorska wind farm and 150 MW Berdyansk wind farm)
  - DTEK Mangush Wind Park: 700-800 MW wind farm in Donetsk region
- The Botievo wind farm, with a capacity of 200 MW, construction of which started in 2011, is the pilot wind farm in the DTEK Pryazovsk Wind Park.

DTEK invested about USD 1.75 mln in 2011 to develop its wind farm projects, net of construction costs, which amounted to USD 8.87 mln.

DTEK Pryazovsk Wind Park

Botievo wind farm (195 MW)

The first stage of the Botievo wind farm started in 2011.

It is planned to purchase and install 30 wind turbines during this stage, each with a unit capacity of at least 3 MW in 2012. The Company signed turbine supply and installation agreements with Vestas (Denmark), a world leader in the wind power sector. Negotiations are being held with European and Russian financial institutions for financing.

A master contract was signed with Vira Construction Company in July 2011. Construction of project infrastructure is in progress: the site is being prepared, roads are being laid, and a dispatcher station and power supply facilities are being constructed.

Investments into the Botievo wind farm amounted to USD 8.68 mln in 2011. The total amount of investment for the first stage (30 wind turbines) is planned to reach about USD 0.25 bln.

Berdyansk wind farm (150 MW) and Prymorska wind farm (200 MW)

Consultants finished a two-year certified wind monitoring program in 2011 and prepared a report on the wind potential of the sites. The Company prepared minimum documentation to start the design and construction of the wind farms and secure funds.

After completing the design for the first stage of the wind farm's infrastructure in December 2011, the Company started construction.

Investments into the preparatory and construction stages of the Berdyansk wind farm in 2011 was USD 0.1 mln in each stage. For the Prymorska wind farm, these figures were USD 0.17 mln and USD 0.1 mln, respectively.

DTEK Mangush Wind Park (700-800 MW)

Consultants finished a two-year certified wind monitoring program in 2011 and prepared a report on the wind potential of the wind park site. A land allocation plan is being prepared. The wind park's general layout has been determined. Investments into the prepartory stage was USD 0.11 mln in 2011.

Oil & gas business

Natural gas production in Ukraine is an issue not only of energy independence, but a necessary condition for economic growth, improvement in the welfare of the population and for becoming a leader in Europe.

DTEK's entrance to the oil & gas business will help diversify the fuel base of the vertically integrated energy holding, and meet the fuel demands of the gas units of DTEK's thermal power plants in the long-term.

This business line has been represented by subsidiary DTEK Oil & Gas since 2011, the task of which is to develop oil & gas projects onshore and offshore.

One of the activities of the new company is to develop unconventional gas in Ukraine: coal bed methane, shale and tight sandstone gas. DTEK has been implementing pilot projects in these spheres since 2007. Methane is currently utilized at the Stepnaya Mine (DTEK Pavlogradugol) and DTEK Mine Komsomolets Donbasa. In the near future, the Company plans to launch similar projects at other mines belonging to the DTEK Pavlogradugol and DTEK Dobropolyeugol groups.

DTEK Oil & Gas plans to purchase a number of promising assets in Ukraine in 2012, and participate in tenders for Product Sharing Agreements and licenses to develop promising sites (both onshore and offshore). The Company plans to implement non-conventional gas projects by utilizing the latest technology and highly skilled personnel.

03>04 New functions

DTEK's Compliance Office was established in 2010 according to a decision by the Supervisory Board of DTEK Holdings B.V. Formation of the Compliance function in the Ukrainian manufacturing company is an industry benchmark.

To minimize pressure and ensure independent decision making, the Compliance Officer reports directly to the CEO and is accountable on certain matters to the Company's Supervisory Board. This was done to ensure independence of the newly created structure. Compliance is represented on the Risk Committee of DTEK's Executive Board.

The main goal of the corporate compliance system is to effectively mitigate key compliance risks, which include risks of violation legislative and corporate requirements which can lead to significant regulatory, reputational, financial or legal penalties.

In 2011 DTEK has approved its Compliance Policy. The document covers main focus areas, goals and compliance principles of the Group.

Compliance policy principles

DTEK Group ensures execution of the Compliance Policy by:

- Declaring compliance with the Corporate Ethics Code and business ethics as a priority goal
- Promoting a compliance culture at all companies of the Group
- Preventing conflicts of interest among employees
- Control over compliance with legislative requirements and cooperation with regulators in markets where the Group operates
- Integrating regulatory expectations into corporate risk management and internal controls
- Maintaining an effective system to prevent manipulations on the securities market
- Compliance with covenants under the corporate loan portfolio
- Supporting anti-corruption and antifraud activities
- Performing actions to mitigate risks of top-managers' personal liability.

Key Compliance processes

- managing internal ethics — monitoring and compliance monitoring of employees to the Corporate Ethics Code on the prevention of conflicts of interest and internal ethical standards
- managing legislative and regulatory requirements — ensure the activities of enterprises and the Group meet the requirements of legislation, the financial markets regulators, exchanges; respond to legislative changes and interact with regulators and oversight bodies
- preventing insider trading and securities market manipulation — minimize compliance risks associated with the possible manipulation of securities of the Group and unfair use of inside information
- monitoring the implementation of financial commitments — monitoring the process and compliance with commitments made by the Group under loan agreements and as per the issuance of debt and other securities
- preventing corruption and financial crimes — minimizing the risk of committing acts of corruption and financial crimes with the use of assets and resources of the Group
- managing the risk of the personal liability of top management — minimizing the risk of sanctions against the Group's management due to inconsistency of their actions with relevant requirements.

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Key Compliance achievements of 2011

- DTEK's Compliance was named The Best Compliance Function in the Industrial Sector of the CIS by the annual award "Compliance 2011" organized by the International Compliance Association and Dow Jones
- The Compliance hotline system was launched
- A Personal Data Protection project got started
- A conflict of interests control mechanism was introduced
- Ethics trainings were conducted for DTEK personnel
- E-learning course on Compliance was developed. Its integration with employee's annual assessment along with extensive utilization are planned for 2012
- New employee orientation courses were supplemented with Corporate Ethics Code assignments
- The system of control over loan covenants was first introduced
- Know Your Client system was developed
- Business Hospitality and Gifts procedure was presented
- An approximation process of corporate risk management with the UK's Financial Services Authority methodology called ARROW was initiated
- Compliance controls were automated.

Key Compliance Office plans for 2012

- To develop DTEK Compliance Strategy for 2012-2015
- To take part in the Most Ethical Companies of the Year rating
- To ensure control over the prevention of penalties for top management due to regulatory non-compliance
- To integrate Compliance risks into DTEK's corporate risk management system
- To adapt DTEK's new Corporate Ethics Code
- To develop a system of preventive controls in the financial crime area based on global best practices.

03>05
DTEK and international cooperation

DTEK became the first Ukrainian company in 2011 to open a representative office in Brussels — the capital of the key EU institutions (home to the EU Parliament, the European Commission and the European Council). Close daily proximity to the numerous policy and expert platforms in Brussels — such as parliamentary sessions and committees, public hearings, and advisory meetings — allow us to better stay on top of and monitor the strategic directions and long-term consequences of EU regulatory policy development in the energy and environmental spheres. In addition, through its representative office in Brussels, DTEK contributes to the gradual progress of Ukraine's European integration by means of regular communication and awareness-building among politicians, diplomats, experts, representatives of international non-governmental organizations and businesses on the key developments and opportunities in the energy sector of the country.

Membership in professional associations

DTEK is a member of reputable industry associations — EURACOAL, EURELECTRIC and EFET — which are efficient advocates of the interests and priorities of the European coal and electricity producers as well as traders. The working committee meetings of these associations address key issues of the EU energy sector (e.g. the introduction of new technologies, ensuring transparency of wholesale electricity markets or economic components of decarbonization), which might have a direct impact on the company.

In Ukraine, DTEK is also a member of the European Business Association (EBA) and the American Chamber of Commerce (ACC). As a part of the fuel and energy committees of each of these associations, we have presented — independently or in collaboration with other member companies — working papers, reports, draft position papers on relevant issues of Ukrainian legislation development and regulatory procedures. With our direct participation, the EBA and the ACC have become actively involved in expert discussions related to Ukraine's fulfillment of its obligations in the framework of membership in the European Energy Community (since February 2011) including issues such as environmental standards, electricity market reform, etc. In 2011 DTEK joined the European-Ukrainian Energy Agency (EUEA) — a professional club of energy companies promoting an energy efficiency agenda and alternative energy sources; we also supported EUEA's traditional Energy Days in Kyiv (May 2011).

The World Economic Forum (WEF)

The increasing role of the company on the European energy market allowed DTEK to become a prominent participant in the World Economic Forum and, in particular, in its Energy Partnership, which unites several dozens of the world's largest energy companies. Both at the WEF Annual Meeting in Davos in January 2011, and at the meeting of New Champions in Dalian, China in September 2011, DTEK's top executives, together with their peers, promoted the development of a "social contract" — a set of voluntary principles that determines the contribution of the energy industry in societal development.

WEF and IHS CERA (the world's leading analytical and expert center in the field of energy) published an article by DTEK CEO Maxim Timchenko devoted to the challenges and social aspects of modernization of Ukraine's energy sector. The article became part of their study "Energy for Economic Growth: Energy Vision Update 2012", which was released on the eve of the Davos Annual Meeting in January 2012.

Memorandum of Understanding with SANY, the leading Chinese manufacturer of mining equipment

In order to accelerate the modernization of mining production, DTEK established a long-term partnership with SANY Heavy Equipment, the leading Chinese engineering company. Since 2011, Chinese EBZ 160 road headers have been in operation at DTEK Mine Komsomolets Donbasa and at DTEK Pavlogradugol. DTEK and SANY signed a Memorandum of Understanding in November 2011 that set up a framework and defined main areas for long-term strategic cooperation. In particular, DTEK plans to purchase several dozen units of equipment from SANY over the next few years.

DTEK expects cooperation with SANY, a strong and reputable Chinese manufacturer, to become a valuable competitive advantage, while at the same time allowing Ukrainian manufacturers — our long-standing and reliable suppliers — to catch up to cutting-edge technologies and to build upon existing experience. Furthermore, this partnership is in line with deepening bilateral cooperation envisaged in a joint Ukraine-China declaration in 2011 on the establishment and development of strategic partnerships.

Round table at the European Parliament

DTEK actively participated in a round table at the European Parliament in July 2011 on reform and upcoming privatization of the electricity sector in Ukraine, building on its positive experience with open communications with European partners. Organized by the well-known European media portal EurActiv, this event was the first international discussion with European stakeholders on how to prepare for privatization auctions. In addition to official information from the president of the National Joint-Stock Company Energy Company of Ukraine, DTEK presented a view from the business community on the key conditions for successful modernization of the Ukrainian electricity sector. Lawmakers from the largest political groups in the European Parliament drove a discussion on the European experience with privatization and other major reforms, the importance of the energy sector for sustainable economic and social development, and on current issues of EU-Ukraine cooperation.

04
Sustainable development

Increasing corporate responsibility is a matter of trust between business and society and one of the main global energy sector development trends. Sustainable social, economic and environmental development is an integral part of DTEK's business strategy. This is a challenging task, requiring a systematic approach and the active participation of all shareholders. To that end, sustainable development is an indispensable part of the growth strategy DTEK is consistently implementing.

04 > 01
Working conditions & Occupational safety

A priority for DTEK's production division is to provide safe and healthy working conditions and protect the lives of all employees.

The Company's management has assumed personal control of compliance with safety standards. The systematic and targeted approach to occupational safety has made it possible to gradually reduce the level of industrial injuries. In 2011, DTEK decreased its number of accidents by 14% YoY from 511 to 441 incidents; the frequency of accidents (per 200,000 man-hours) was reduced by 12% YoY from 0.86 to 0.76 cases.

To implement safety policies at DTEK enterprises, every year the Company publishes a **Declaration of goals and objectives** for occupational safety, which includes an analysis and evaluation of the goals and objectives for the reporting period and approves priorities and a program for managing occupational safety for the coming year. The goals and objectives are established based on information about the functioning of the occupational safety system, conclusions from a risk assessment and identified gaps.

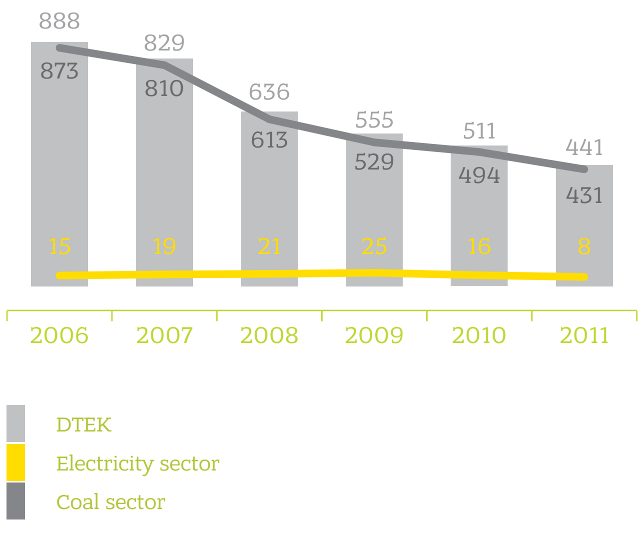
At each production company, DTEK has a **Committee of Employee Safety**. The chairman of the committee is the head of the enterprise and committee members include top management, representatives of trade unions, and representatives of labor collectives. The number of people on the committee at each enterprise is 8-10 people.

At DTEK, there is a functioning **system of internal audits** including behavioral audits, and internal investigations of all accidents, including those that could potentially lead to emergency situations. Behavioral audits are designed to form and consolidate principles of safe behavior with employees that might need to be applied in connection with the performance of their professional duties, and possible consequences of dangerous behavior. The internal audits of production risks are carried out – conclusions from which are used to develop organizational measures to reduce them to an acceptable level, maintain strict control of the safety of the work of contractors and other innovative management tools.

DTEK invests the necessary funds for the maintenance and modernization of safety systems at industrial facilities (fire extinguishing systems, lighting, emergency warning and alarm systems, drainage and control of mine gases, etc.) as well as in sanitary-domestic services. Most of the work is done in the field of occupational medicine. Great importance is placed on learning. All production managers are trained each year on corporate safety standards and evaluated on their knowledge. On a regular basis, the following items are updated – simulators, office safety equipment, visual learning aids and safety signs.

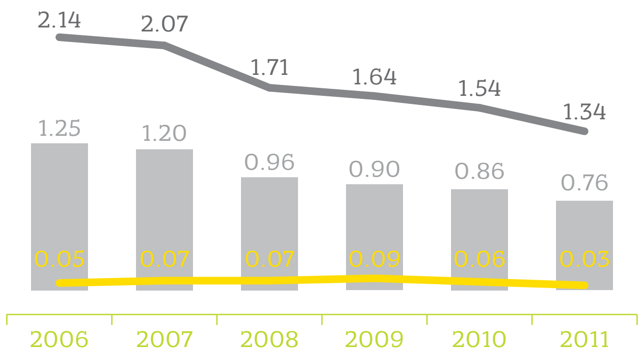
DTEK has been in the process of changing its occupation safety management system (OSMS) at production companies to bring it into compliance with the requirements of OHSAS 18001:2007 since 2007. The first stage of integrating the new system took place from May 2007 to February 2009 at coal mining and power generation companies (DTEK Pavlogradugol, DTEK Mine Komsomolets Donbasa and DTEK Skhidenergo). The OSMS change began at DTEK's coal preparation, power supply and servicing companies in 2008, and was completed with successful certification through an audit at the end of 2010. DTEK Dniproenergo's OSMS was also certified as compliant with the requirements of OHSAS 18001:2007 in 2011. The same year DTEK Skhidenergo underwent a recertification audit and all other enterprises of the group passed compliance audits.

Number of industrial accidents



Source: DTEK

Industrial accident frequency



Source: DTEK

DTEK's expenditures on occupational safety | USD mln

2006	2007	2008	2009	2010	2011
0.76	1.18	1.85	1.81	2.72	5.12

DTEK implemented a series of programs in 2011 to improve occupational safety:

- Developed a system of safety audits at coal preparation enterprises
- Launched a pilot project introducing a corporate PPE at seven enterprises. The project will be completed in 2013
- Carried out a pilot project to introduce a corporate occupational health system at DTEK Mine Komsomolets Donbasa and Kurakhovskaya TPP of DTEK Skhidenergo
- Completed a pilot project to establish a corporate financial and non-financial incentive system for occupational safety at DTEK Mine Komsomolets Donbasa and Zuevskaya TPP of DTEK Skhidenergo.

The most significant activities DTEK is carrying out in occupational safety and health are:

- Introduction of a systematic approach, oversight and best practices, implementing modern techniques for safe production
- Improvement of technical processes and equipment to reduce the impact of occupational hazards
- Inform employees about working conditions' existing industrial risks and actions they can take to reduce them
- Training and skills development for works in the areas of occupational health and safety
- Involve all employees in efforts to ensure safe working conditions through motivation techniques.

04 > 02
Social development strategy

The main means for DTEK's sustainable development activities are systematic social partnerships between private businesses, local authorities and the community.

Currently, DTEK is undergoing a qualitative transition from ad-hoc charity to planned long-term social investments involving modern management technologies. We believe that the cities where DTEK operates must become the best cities for living, both throughout Ukraine and Europe, and we are going to help lead initiatives to attain this goal. In the long-term, we regard the development of regions where DTEK operates to be a strategic competitive advantage.

DTEK has chosen the track of social investment. This type of strategic financing creates new opportunities for the benefit of the entire community. We expect that this approach will create a more sustainable environment for positive social and economic changes. DTEK invested USD 3.84 million in the development of regions where it operates in 2011. Of the Company's total social investments, 78% were directed into social partnership programs and 22% to charity. Within the social partnership programs, the key investment areas were: health care, energy efficiency in the utilities sector, education, culture, sports and business environment development.

In 2011, DTEK developed a Social Development Concept for 2012-2013 that set out the Company's strategic goals and means to achieve them. The top priority objective is to complete the transition from case-by-case charity to systematic strategic social investments (in 2012 DTEK increased planned social investments to USD 7.5 million). At the same time, we aspire to improve the quality of project selection within social partnership programs and to ensure direct participation of the main stakeholders in the project selection process. We are planning to develop Social Development Strategies for 2012-2015 for cities where DTEK operates in conjunction with local officials and conduct a series of public hearings to ensure a better understanding and to account for the opinion of community residents.

Key social investment areas have been defined for 2012-2013:

- **Energy efficiency in the utilities sector** (improve heating and power supply systems by carrying out energy saving activities)
- **Health care** (increase access to health care, implement DTEK's Occupational Medicine Strategy, extend the Telemedicine national network)
- **Social infrastructure** (enhance accessibility and the quality of social services; solve acute problems with vital infrastructure, provide assistance to academic, children and sports' facilities)
- **Business environment development** (help create favorable conditions for the development of small and medium-sized businesses, improve the organizational capacity of local governments and public organizations, develop project skills and engagement of international technical assistance)
- **Education, culture and sports** (sponsor sports and creative teams, participate in joint CSR/ Sustainable Development projects with higher educational institutions).

DTEK's Social Development Strategy has been the winner of the CSR MarketPlace national exhibition of social and environmental corporate projects for two years running. The strategy is featured in the university textbook Best CSR Practices and in the book Best CSR Practices in Ukraine.

04 > 03
Development of DTEK's regions of operation

We are aware of problems in the regions where we operate and actively participate in their resolution.

In 2011, we expanded the geography of our Declaration on Social Partnership: altogether 19 cities and four districts have signed the document. Lviv, Burshtyn, Ladyzhin and Dobrotvor were 2011 signees. In social partnership programs, we changed to a systemic approach for planning social investments. We have not finished this task yet, but city mayors generally support this initiative and serve as examples for others. The Social Partnership Coordinating Committee has reached an entirely new level of operations. At present, this is a regular experience exchange platform for representatives of local governments in regions where DTEK operates and is the basis for a constructive dialogue between businesses, authorities and the community. We believe that an important outcome of our cooperation with local authorities is the fact that we are now on the same page and they are actively supporting our approach.

The most significant projects implemented within social partnership programs have been:

1. Energy efficiency in the communal utility sector

Pilot projects within the Municipal Heating Reform project in Kurakhovo, Donetsk Oblast.
The implementation of energy planning and energy efficiency systems was started in the municipal central heating supply sector: heating pipelines were replaced, a project for central heating units and a scheme for cold water supplies were developed, and a number of energy efficiency measures were taken with three homeowners' associations. The program is implemented in partnership with the Municipal Heating Reform Project in Ukraine (MHR), funded by the United States Agency for International Development (USAID) with local governments. In 2011, the project was expanded to Pavlograd, Dnipropetrovsk and Kyiv. It has had a substantial effect on the regions where DTEK operates and for the businesses as well: the energy audit reports are used both by the cities' public utilities services and by DTEK companies.

Within the MHR project, DTEK Pavlogradugol invested UAH 1.2 million for the comprehensive thermo-modernization of Public School #19 in Pavlograd. As a result, the temperature in the school's classrooms has increased 2.5 times and is +22-25 degrees in winter, with expected electricity payment savings of up to 30%.

DTEK Skhidenergo directed 50% of its social investments (more than USD 0.41 million) to energy efficiency issues. It implemented a project to modernize the public heating networks and repair of heating systems' thermal insulation in Schastie town. It renovated the central heating system of the Solnyshko Preschool in the village Petrovka, which will be able to educate 120 children in a warm and comfortable environment. It also carried out repairs of heating, sewage, and water supply systems of Zolushka Preschool #6 in Zugres.

2. Health care

In partnership with Rinat Akhmetov's Foundation for the Development of Ukraine and MTS, **DTEK is implementing a "telemedicine" project – creation of a Ukrainian telemedicine network to improve the quality of diagnostics and early disease detection, as well as the access to highly specialized medical aid in regions**. DTEK funded the addition of four hospitals to the network in the cities of Lviv and Burshtyn in 2011. DTEK plans to expand the project geographically by adding health-care facilities in cities of Eastern Ukraine in 2012. The "telemedicine" project is supported by the Ministry of Health of Ukraine but its implementation in Western Ukraine moved forward only due to the initiative and efforts of DTEK.

Investments were made in purchases of necessary medical equipment to hospitals in the Company's regions of operations. In Pavlograd city, medical equipment for the diagnostic center of City Hospital #4 was purchased, a child health care clinic was largely overhauled and received new medical equipment and instruments.. New X-ray equipment was purchased for the Zelenodolsk City Hospital in Dnipropetrovsk region. New diagnostic and medical equipment was acquired for City Hospital #2 in Zugres. Equipment was purchased for Petrovskoye district hospital in the city of Schastie.

3. Development of the business environment

DTEK reached a partnership agreement with the Federation of Canadian Municipalities to implement a project to improve the business environment in the cities in the Western Donbas. Within this program, the parties carried out an analysis of the social and economic environment, determined the key growth areas for the region and are working on a common development strategy for Western Donbas. Partner cities are going to receive support for creating a favorable environment for economic development, investment planning and further marketing activities.

Together with the non-government organization (NGO) Socially Responsible Business, DTEK is working in regions where DTEK Zakhidenergo operates on a program to develop the institutional capacity of local governments and NGOs, and to attract international technical assistance. The implementation of the project will help resolve a number of local strategic objectives, including the attraction of investments, development of small and medium-sized businesses, establish cooperation with non-government organizations which have the required competencies, establish contacts and cooperation with foreign colleagues.

Within the program, trainings were conducted for local governments to develop their competencies for project work. Support was provided in writing, submitting and tracking of technical assistance grant applications. During 2011, a number of applications for grants in cross-border cooperation programs were prepared.

In Dobrotvir village in Lviv region, DTEK and the NGO Socially Responsible Business jointly attacted a private investor, which repaired a building and a sewing factory was put into operation. The project aimed to improve the issue of low female employment in Dobrotvir, broaden the local tax base , and use existing qualified personnel that were bound to look for jobs in other locations.

DTEK Mine Komosomolets Donbasa directed 60% of its social investments into business environment development. In particular, the General Plan of Kirovskoye Town Development was modified to include a Greenfield industrial zone.

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4. Culture and sport

DTEK Skhidenergo is implementing a project to reconstruct the Palace of Culture in the town of Schastie (2011-2012). Renovation of the Palace will allow for holding mass cultural events for the town community on a high level. A total of 477 people are involved in 19 different clubs and circles in various areas in the Palace of Culture.

DTEK Pavlogradugol created a park area near Public School #5 in Pershotravensk town in Dnipropetrovsk region, and established a children's playground and rebuilt the stadium of Public School #1.

DTEK Mine Komosomolets Donbasa invested more than USD 0.06 million to improve the Kirovskoe city's Pobeda Park of Culture and Recreation and to install entertainment attractions there.

DTEK continued to provide support to its main charity target groups: children, the disabled and veterans.

Cooperation with stakeholders

In 2011, DTEK was the top scoring company in the Ukrainian Business Transparency and Accountability Index rating compiled by the Centre for Corporate Social Responsibility Development in accordance with the Beyond Business international methodology as a result of DTEK's sustainable development activities in 2010-2011. DTEK's top score was 80%, versus the average score from the 100 largest Ukrainian businesses in the national survey of 59.8%.

In addition, DTEK participated in national and regional discussion meetings held at the initiative of parent SCM in Kyiv, Dnipropetrovsk and Donetsk in 2011. During these meetings, stakeholders discussed CSR priorities of the Group's companies and feedback mechanisms for more accurate planning. Representatives of local authorities, international organizations, public organizations, academic institutions, businesses and experts took part in these meetings.

In 2011, DTEK took charge of the Environmental Committee under the UN Global Compact in Ukraine.

04 > 04 Personnel

The basis for DTEK's sustainable development is highly qualified personnel. Effective human resources management, continuous professional development, effective motivation and safety are priority issues for the Company.

DTEK's key strategic HR goal is to fill at least 80% of vacancies for top and middle management internally by 2013.

The main goals of DTEK in this area are:

- to create conditions for the realization of personal potential, satisfaction and productivity
- to create a unified corporate culture based on the values of professionalism, cooperation, openness, pursuit of excellence and responsibility

To achieve these goals, DTEK does the following:

- implements a talent management system (identification, development and retention)
- provides comprehensive personnel development, putting equal emphasis on managerial and technical expertise
- utilizes a differentiated motivation system
- encourages the highest quality and productivity standards

Remuneration policy

In 2009, DTEK's industrial enterprises started introducing a remuneration system from Hay Group. It is based on job classifications according to the importance of each individual position to the Company as a whole. Employee remuneration is split into two parts: fixed and variable (bonus), which depends on the performance of an employee's unit and their individual performance.

This system was introduced at the end of 2011 at DTEK Pavlogradugol, DTEK Mine Komsomolets Donbasa, DTEK Skhidenergo and at DTEK's coal processing plants.

The system is based on five basic principles: fairness, simplicity, flexibility, transparency and competitiveness. An employee's salary depends on the value of their position to the Company and increases depending on their efficiency. This system allows employees to influence their pay directly, as every employee knows their prospects for growth and can target their own efforts to increase their own salary. In addition, the system makes rewards more competitive and attractive for those already working at the enterprise and for prospective employees.

Introduction of the Hay Group remuneration system made it possible to unify the different approaches to compensation that existed at various DTEK enterprises and scrap manual payrolls. In order to make salaries competitive, surveys from leading consulting companies are used.

New competencies model

DTEK's new competencies model, which was adopted in 2011, has become the basis for virtually all HR processes: evaluation, selection, development and training, work with talent pool.

The competencies model was developed by a project team that included the heads of various departments from the corporate headquarters and operating companies. It was based on the Company's long-term development concept and takes into account the features of each company and DTEK's business as a whole.

Productive work and numerous discussions identified seven key competencies: cooperation, innovation, development, effectiveness, consistency, activity arrangement and communicativeness.

The project team developed a model that describes in detail each competences for every position, which gives each employee clear goals for development.

DTEK COMPETENCIES MODEL

COOPERATION	Cooperates with colleagues for reaching team goals, provides help. If controversies a rise, puts a priority on shared team goals.
INNOVATIVENESS	Accepts new ideas. Finds new opportunities to raise work efficiency. Initiates working process changes, implements them.
DEVELOPMENT	Is interested in raising professional and personal development. Takes steps for self-development. Shares with experiences. Attitudes to new tasks are executed with interest.
EFFECTIVENESS	Is result oriented. Independent. Takes consistent steps to reach goals. Takes responsibility for results.
CONSISTENCY	Seeks and systemizes information. Takes decisions on the basis of analyzed situation. Prevents potential difficulties.
ACTIVITY ARRANGEMENT	Organizes work. Assigns resources. Controls efficiency.
COMMUNICATIVENESS	Initiative. Expresses thoughts clearly. Maintains attitude. In the process of negotiations is pressure resistant.

Staff evaluation

DTEK evaluates its personnel, their performance and competences on an annual basis in the first quarter. The evaluation determines the best employees in the Company, and is the basis for remuneration, annual goal setting, and approval of a development and training program for each employee.

DTEK's annual performance evaluation (APE) procedure has been in place since 2006. The Company adopted a new model for competencies in 2011, which was the basis for the APE procedure in 2012.

The APE procedure itself has undergone some changes, becoming easier both for managers and their subordinates, and reducing the risk of subjective opinions during evaluation and scoring.

DTEK Academy

DTEK provides employees with opportunities for professional and personal growth and development.

Administrative personnel can choose from a wide range of training programs from DTEK Academy, our corporate university. Each employee has to take at minimum a professional development program and undergo training on a competence. Also, employees of the corporate headquarters and some companies have the ability to participate in the training programs via electronic courses.

Employees in the Company's talent pool or top-50 successors program have the possibility of participating in the "Power of Knowledge" or "Energy of a Leader" training programs. The programs were designed in accordance with MBA standards. Courses are conducted by top DTEK managers, or professors from the London Business School and Kyiv-Mohyla Business School. The first two groups of 22 and 55 students completed the "Power of Knowledge" and "Energy of Leader" courses respectively in 2011.

Since being founded 20,114 employees have completed training at DTEK Academy in programs to develop competences, modular programs, classroom courses and electronic courses.

DTEK Academy has become a member of two international business education associations: CEEMAN (Central and East European Management Development Association) and EFMD (European Foundation for Management Development). The Company plans to use the corporate university's knowledge and experience not just internally, but also to provide high-quality training, consulting and appraisal services to DTEK's partners.

Production management school

Production management training is another large component of DTEK's educational initiatives. This training project was designed for production personnel and shift supervisors. All employees undergo regular professional development and occupational safety training.

DTEK's industrial enterprises have training centers that for many years have been training operational staff and providing training services to other industrial enterprises in Ukraine's coal and energy sectors.

In 2010, DTEK launched an Internal Trainer Institute. Every year the Company screens all production staff for people that have strong communication skills and are respected by their colleagues to be developed as trainers. After the institute, the trainers can organize and conduct seminars for their colleagues to develop their competences. The trainings can take four days every month. The main three goals of this project are to develop professional and management skills at DTEK enterprises, introduce new training methods and technologies at production enterprises and bring training in line with the requirements of the Company's business.

DTEK Generation

DTEK has been conducting a cooperation program with Ukrainian universities, the DTEK Generation program, since 2009. The Company cooperates with Donetsk National Technical University, National Mining University of Dnipropetrovsk and National Technical University of Ukraine Kyiv Polytechnic Institute. Each year fifth-year students from these institutions with relevant knowledge and skills are enrolled in the training program within specialized DTEK groups. DTEK's experts design an additional training course for these students at DTEK businesses. The practical training course includes open classes and self-study based on the Company's courses, seminars and practical classes. Students receive an additional scholarship from the Company depending on their performance for their university study and time at the Company. Executives from DTEK's corporate headquarters and production enterprises participate in organizing internships and work with the State Examination Boards. The Company also contributes to the improvement of universities' material and technical resources. For example, the Donetsk National Technical University and National Mining University of Dnipropetrovsk use computer classrooms equipped by DTEK. The Company plans to work with more Ukrainian universities depending on the needs of its production enterprises.

ANNUAL REPORT 2011 GROWTH ERA Sustainable development

DTEK won the HR-Brand Ukraine 2011 national competition

Two of DTEK's HR programs received top awards at the first national competition HR Brand Ukraine 2011 held last November. The Company's DTEK Academy won the "Ukraine" category, while Generation DTEK program got second prize in the "Regions" category.

The HR-Brand awards are independent annual recognition of successful initiatives that create a positive reputation of a company as an employer. The awards started in Russia in 2008, and in Ukraine in 2011. There were three categories – Ukraine, Regions and the Capital. The judges were eleven executives from Ukrainian and international companies specializing in recruiting, HR consulting and branding.

04 > 05 Environmental policy

DTEK is an environmentally responsible company. Our development strategy provides for an increased level of environmental safety and growth in asset capitalization due to reliable and environmentally friendly operations.

Environmental activities and ecological balance are integral parts of DTEK's business. The company seeks to prevent or minimize the environmental impact of all stages of the production process from coal extraction to electricity generation and distribution.

Organizational changes related to DTEK's environmental activities include:

- Production enterprises kept improving environmental management systems introduced in 2010, which was confirmed by compliance audits held in late 2011. Independent auditors from Moody International verified the compliance of DTEK's environmental management systems with international standard ISO 14001:2004 at fourteen of DTEK's enterprises.
- DTEK Dniproenergo's environmental management system passed a certification audit for compliance with international standard ISO 14001:2004 in 2011.
- Kyivenergo has been working since March 2011 on the implementation of an environmental management system. The Company has developed an environmental strategy, restructured its environmental services, and set up environmental protection units. The company has adopted 12 regulations that outlined the main requirements for its environmental management system, identified key environmental issues and trained personnel. A certification audit is scheduled for 2012.

An up-to-date environmental management system is a part of DTEK's corporate governance system and an important element of non-financial risk management. Using this system to form a unified approach to environmental management at all enterprises of the group is a boon to the competitive ability and investment potential of DTEK.

Other important results of activities in the environmental protection sphere in 2011:

- On May 18, 2011, DTEK Academy hosted a round table titled "Carbon Capture and Storage Perspectives in Ukraine" organized by the International Energy Agency and DTEK, with the support of the Ministry of Energy and Coal Industry of Ukraine.
- DTEK focused on training staff in response procedures for mitigating the consequences of adverse environmental events. The Environmental Safety Department of DTEK developed and introduced standard regulations "Training and Actions of Staff to Mitigate Consequences of Adverse Environmental Events" for mining, coal preparation and generation enterprises.

Results of DTEK's environmental activities in 2011

Air protection

One of the priorities of the DTEK's environmental activities is to reduce emissions and greenhouse gas in compliance with the requirements of European legislation.

In order to attain compliance with Directive 2001/80/EC, "On the Limitation of Emissions of Certain Pollutants into the Air from Large Combustion Plants", the company initiated measures to reduce harmful emissions of generation companies and ensure financing for air protection programs.

Employees of DTEK Skhidenergo updated and are implementing an environmental protection program.

During the year, an electric precipitator project was implemented at power unit #8 of Kurakhovskaya TPP. Commissioning is scheduled for 2012. The retrofit is expected to bring down dust emissions from 2,449 mg/m3 to 50 mg/m3 as required by international environmental standards.

Luganskaya TPP developed a project to install gas treatment facilities at power unit #10 last year. Equipment is being installed, and commissioning is scheduled for 2012. The retrofit is expected to bring down dust emissions from 2,526 mg/m3 to 257 mg/m3.

The Company introduced a flue gas monitoring system at Zuevskaya TPP for continuous control of atmospheric emissions from units #1 and #2 in 2011.

In order to reduce emissions of solid particles from the boiler of unit #2 at DTEK Pavlogradugol's Stepnaya mine, the Company introduced new modern equipment: a cyclic filter that ensured 99% treatment of flue gas. The concentration of particles was reduced from 284 mg/m3 to 10 mg/m3, which corresponds with regulatory indicators.

In order to reduce the operation of solid-fuel fired boilers via methane utilization, the KE-25-14C boiler at unit #2 of the Stepnaya mine was converted from solid fuel to mine gas, which resulted in savings of 6,000 tons of solid fuel per year.

DTEK is completing an investment project to re-equip gas treatment facilities at the boilers of the Kurakhovskaya CPP: designs have been prepared, expert opinions have been obtained, and equipment has been purchased and installed. The project is expected to reduce emissions of pollutants: of carbon dust by 13% (from 4.136 t/year to 0.521 t/year) and of carbon monoxide by 17% (from 1.020 t/year to 0.170 t/year).

Water protection and sustainable use

DTEK's enterprises are implementing measures to minimize their impact on Ukraine's water resources.

DTEK Skhidenergo reduced consumption of water for its business and household needs by 11.8% (from 1,462.3 thousand cubic meters to 1,290.1 thousand cubic meters) due to the replacement of 140 meters of pipes at the Zuevskaya TPP and the installation of six water meters at the Kurakhovskaya TPP.

Zuevskaya TPP reduced industrial effluents by 138.7 thousand cubic meters or by 40.3% year-on-year (from 344.5 thousand cubic meters to 205.8 thousand cubic meters) due to the introduction of a scheme to return clarified water from its treatment pond to clarification tank #4.

The replacement of filtering material and fittings at the treatment facilities at Kurakhovskaya TPP in 2011 resulted in the reduction of industrial effluents by 18.8% YoY (75.7 thousand cubic meters).

Luganskaya TPP decreased household effluents by 38.2% YoY (by 48.9 thousand cubic meters) due to the installation of water meters.

In order to prevent discharge and technological use (dust suppression) of non-disinfected water from the mines Stashkova and Blagodatnaya, DTEK Pavlogradugol commissioned the Plamya-2 water disinfection plant.

In order to prevent the unauthorized transfer of mine water from collection reservoirs and the pollution of surface waters and soil, the Pruvoks office of DTEK Pavlogradugol decided to build treatment facilities in Taranov hollow.

For the efficient treatment of discharged mine waters, the Pruvoks office also prepared the project Land Surveying and Defining the Area and Boundaries of the Water Protection Zone of Bioengineering Facilities of the Ternovskaya Mine on Territory under the Jurisdiction of the Bogdanovskiy Village Council of Pavlogradskiy District.

In order to prevent pollution and the erosion of land and to promote sustainable water use, production companies carried out repair and reconstruction work at main drainage pipelines, namely:

- 150 meters of a mine water collection canal at Stashkova mine
- 1,000 meters of a potable water collection canal at DTEK Mine Komsomolets Donbasa, which resulted in the reduction of potable water losses by 88% (from 41 thousand cubic meters per quarter to 5 cubic meters per quarter)
- 3,800 meters of a household effluent collection canal at air supply shaft #3 at DTEK Mine Komsomolets Donbasa. For effective water consumption control and sustainable use, DTEK Pavlogradugol installed 10 Irka water meters.

Waste disposal

DTEK's production enterprises produce a large amount of bulk waste and ash.

One of the key priorities of DTEK's environmental policy is to increase the use of ash.

To assess the prospects for wider ash use at generation companies in Ukraine, the exchange of knowledge and expertise in coal-fired power plants' ash utilization, DTEK organized the round table "Utilization of Coal Combustion Products by Thermal Power Plants" in 2011. The meeting included representatives of the Ministry of Fuel and Energy, R&D institutes, cement-manufacturing and construction companies, road-construction organizations, the largest energy companies of Ukraine and foreign organizations.

DTEK held a series of negotiations and outlined cooperation mechanisms with the Donetsk State Regional Administration, Donetsk State Environmental Board and potential ash consumers for the joint implementation of initiatives to promote the utilization of coal combustion products. Jointly with the Polish Coal Combustion Product Union and Polish-Ukrainian Chamber of Commerce, DTEK developed a project for Ukrainian-Polish partnership for the utilization of coal combustion products.

In order to increase TPPs' utilization of coal combustion products, in 2011, DTEK used DTEK Skhidenergo as a platform for the analysis of quality parameters of ash mixes and the technical potential for selling coal combustion products and developed a program for increasing the utilization of fly ash, slag and ash for 2012-2020.

In order to prevent the allocation of new land for the storage of coal combustion products, Kurakhovskaya TPP designed a project and commenced work on the construction of a second tier of section #2 of the ash disposal area of Sukhaya hollow. In 2011, capital investments in the project amounted to UAH 5.1 million. Luganskaya TPP is topping a dam in ash disposal area #3. In 2011, capital investments in this project reached USD 0.38 million.

DTEK Dobropolskaya CPP replaced 3,000 meters of pipelines for coal flotation waste, which minimizes the risk of leaks and therefore the risk of soil contamination with liquid coal processing waste.

Furthermore, four coal processing enterprises are carrying out work to treat sludge ponds for the extraction of coal components for further concentrate production.

DTEK developed a program for handling bulk waste from mining enterprises that made it possible to analyze the current situation in mine rock disposal areas, assess the risks of mine rock storage to 2030 and review alternatives for mine rock utilization. Conclusions and recommendations from the program will be used for future projects.

Land reclamation

DTEK Pavlogradugol is actively working on land reclamation.

To restore area damaged by mining operations at the Blagodatnaya, Samarskaya, Ternovskaya and Pavlogradskaya mines, DTEK planted trees on 23 hectares of land.

The Blagodatnaya, Ternovskaya and Pavlogradskaya mines increased the height of critical areas of protective dams to a design height with 11.53 thousand cubic meters of rock.

The Blagodatnaya mine carried out biological reclamation of 10 hectares of land.

In the area of the Zapadno-Donbasskaya mine, DTEK is working on flood prevention in case Ternovka River overflows as a result of mining operations. The river bed is being cleaned and deepened. About 6 tons of fish was recently released into the river.

In 2011, the Company carried out the following landscaping activities:

- DTEK Oktyabrskaya CPP – planting trees and shrubbery on 0.4 hectares of a sanitary protection zone in the mine rock disposal area
- Kurakhovskaya CPP – planting 1 hectare of the western slope of an inactive mine rock disposal area

Handling of hazardous substances and materials

DTEK is actively working to minimize the handling of hazardous materials and substances. As a part of its environmental management system, DTEK developed and introduced regulations on the handling of hazardous substances and materials and carried out an inventory of hazardous substances at generation and distribution companies.

In order to mitigate the negative impact on the environment, DTEK Skhidenergo conducted an inventory of hazardous materials and substances and developed a program to optimize their utilization. In accordance with this program, Zuevskaya TPP is replacing 80.3 cubic meters of IKI plates containing asbestos with 150 Conlit mineral-wool plates.

DTEK Energougol organized the utilization of 1.6 tons of worked-out static condensers containing polychlorinated biphenyls.

Kyivenergo is retrofitting the chemical water treatment facilities of CHPP #5. In early 2011, the Company commissioned a reverse osmosis plant (first stage of the retrofit) that produces deionized water for its boilers, which resulted in a threefold reduction in consumption of sulfuric acid (from 178.5 tons in 2010 to 56.5 tons in 2011) and a fivefold reduction in caustic soda utilization (from 104.3 tons to 21.3 tons). The second stage, work on which is underway, involves the installation of membrane facilities (ultrafiltration and pressure-type filters) that will significantly reduce the production of lime sludge. Total cost of work in 2011 amounted to USD 2.1 million.

ANNUAL REPORT 2011 GROWTH ERA Corporate Governance

05 Corporate Governance

DTEK is developing a corporate governance system in accordance with international best practices for public international corporations.

Quality corporate governance facilitates successful development and raises the investment attractiveness of the Company, while at the same time giving shareholders, partners and clients additional guarantees and helping to enhance internal control systems. In their day-to-day activities, DTEK Group companies are guided by the corporate values of professionalism, responsibility, pursuit of excellence, unity, openness, and ethics.

05>01
DTEK's corporate governance structure

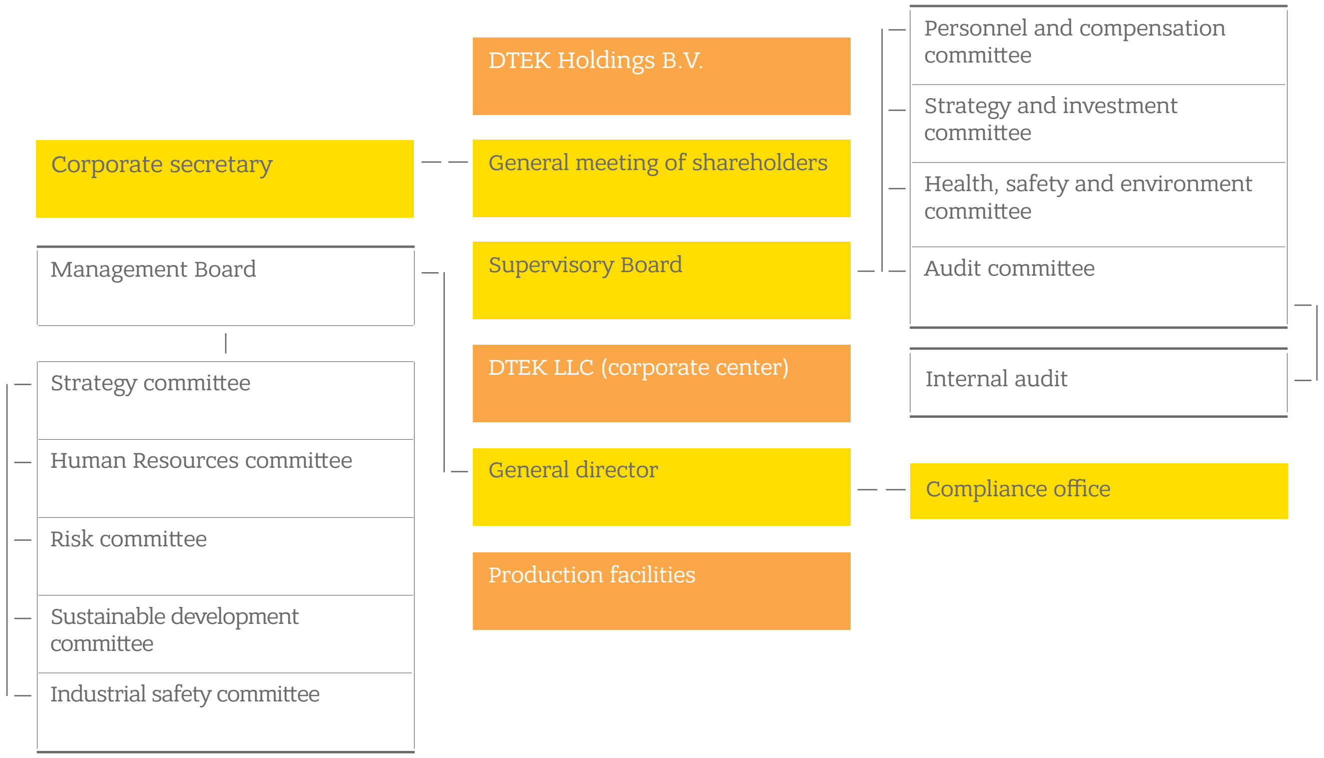
DTEK's corporate structure includes the holding company (DTEK Holdings B.V., the Netherlands), the corporate headquarters (DTEK LLC, in the cities of Kyiv and Donetsk) and operational companies (in eight regions of Ukraine).

This structure ensures an efficient and transparent corporate management and ownership system; sets up mechanisms for making and communicating strategic decisions in line with the best international practices; and improves the competitiveness and shareholders value of DTEK.

SCM (System Capital Management) is a shareholder of DTEK Holdings B.V.

DTEK's highest management body is the General meeting of shareholders. The Company's Supervisory Board, elected by shareholders, exercises the strategic management and control over the activities of the Company's executive body. The CEO of DTEK's headquarters manages the day-to-day activities of the group and implements tasks set out by shareholders and the Supervisory Board of the holding company. DTEK also has an advisory body, the Management Board, which consists of 11 company directors and is chaired by the CEO.

DTEK corporate governance structure



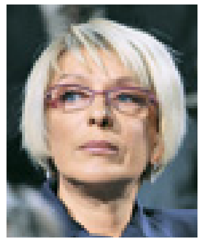
05>02
Supervisory Board

The following changes took place in DTEK Holdings B.V.'s Supervisory Board in 2011: Damir Akhmetov joined as a director, and Catherine Stalker and Johan Bastin as independent directors. Roman Bugaiov left the Supervisory Board. This left the Supervisory Board with eight directors, three of which are independent.

Oleg Popov

Chairman of the Supervisory Board, Chief Executive Officer of SCM JSC

Oleg Popov graduated from the Donetsk Polytechnic Institute in 1991 and from the Donetsk State University in 1996. He became the Executive Director of SCM JSC in 2000 and was promoted to Chief Executive Officer in December 2006. Oleg also chairs the Supervisory Board of the Shakhtar football club (Donetsk). He represents SCM on the Supervisory Boards of Metinvest, SCM's banking assets and Ukraina Media Group.



Natalia Izosimova

Member of the Supervisory Board, Managing Director of the Foundation for Effective Governance

Natalia Izosimova has a Master's Degree in English and American Literature from the Moscow State Pedagogic University. She worked at SCM JSC in 2005-2007. Natalia has been Managing Director of Rinat Akhmetov's Foundation for Effective Governance since June 2007. She represents SCM on the Supervisory Boards of the group's mining and smelting, energy, finance and media businesses.

Robert Sheppard

Member of the Supervisory Board, Independent Director, Chairman of IPM Advisors

Robert Sheppard graduated from the University of Wyoming in 1972 and has a Bachelor's degree in Physics and Mathematics. He graduated from the Columbia University Business School in 1991 with an Executive MBA degree. Robert began his career in the oil industry at Amoco in 1972. In the middle of the 1980s, he worked at Amoco Exploration as a vice president. He was Executive Director of GUPCO (the Gulf of Suez Petroleum Company) from 1992 to 1995. Robert was the President and CEO of the Amoco representative offices in Argentina and Egypt from 1995 to 1999. He worked as the Chief Operating Officer, and then as President of Sidanco until it merged with BP from 2002 to 2004. He was Senior Vice President at BP responsible for overseeing assets in Russia. He is currently Chairman of the consulting company IPM Advisors.

Irina Mykh

Member of the Supervisory Board, Senior Lawyer at Voropayev& Partners Ltd

Irina Mykh graduated from the law school of the Ivan Franko State University in Lviv in 1994. She later studied at Osgoode Hall School of Law, York University, Toronto, Canada. She was a senior lawyer at The Silecky Firm, an affiliate of Squire Sanders & Dempsey LLP from 1996 to 2006, where she became a partner in 2006. Irina then worked as the Head of the Legal Department of Klub Syra Ltd until 2009. Now she is a Senior Lawyer at the law firm Voropayev & Partners Ltd.

Sergey Korovin

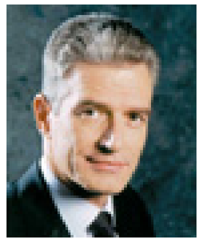
Member of the Supervisory Board, Director of Energy Business Development of SCM JSC

Sergey Korovin graduated with honors from the Department of Computational Mathematics and Cybernetics at Lomonosov Moscow State University in 1993. He worked in the Danish and Russian offices of the leading international consultancy McKinsey & Company from 2002 to 2008. He has managed projects for telecom companies and sat on the board of Microsoft's office in Russia since 2008. He has been the Director of Energy Business Development of SCM JSC since 2010.

Catherine Stalker

Member of the Supervisory Board, Independent Director

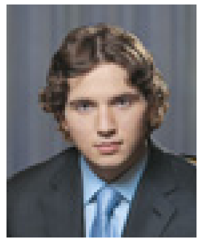
Catherine Stalker graduated from the Heriot Watt University in Edinburg, Scotland, with a Bachelor's degree, and then from the London School of Economics (UK) with a Master's degree. She started her career in 1991 at the Bank of England as an analyst and banking operations inspector. She worked at PricewaterhouseCoopers in Moscow and Berlin from 1995 and 2007 and was then appointed a partner, responsible for the Human Resources and Compensation Department in Central and Eastern Europe, as well as in the CIS countries. Catherine has extensive practical experience in developing executive compensation programs, organizational restructuring as well as increasing the efficiency of policies and procedures for managing personnel.



Johan Bastin

Member of the Supervisory Board, Independent Director, CEO of Cap Asia

Johan Bastin received a Master's degree in city planning at the Technical University of Eindhoven (the Netherlands), as well as a Doctorate of Science for Regional Planning at Montreal University (Canada), specializing in state administration and finances. He worked at the Institute for International Development of Harvard University (Indonesia) from 1985 to 1992. He held a number of executive positions at the European Bank for Reconstruction and Development in London (UK) including the post of director of the business group for investing in debt instruments and equity capital in infrastructure, transport and energy companies, municipal and ecological services as well as energy efficiency. He later worked as the Managing Director of Darby Private Equity. He is currently the CEO of Cap Asia, an international company on managing equity funds and investments in the infrastructure of developing countries in Asia.



Damir Akhmetov

Member of the Supervisory Board

From 1998 to 2006 he attended Le Rosey (Switzerland) under International Baccalaureate Diploma Programme. In 2010 Damir Akhmetov graduated from Sir John Cass Business School (City University London) as a Master of Science in Finance (MSc in Finance).

The Supervisory Board's committees

The Supervisory Board's committees, as advisory bodies, consider and prepare recommendations on issues in the board's competence. The committees meet regularly in accordance with the annual work plan approved by the Supervisory Board. DTEK's Supervisory Board has four committees:

1. Personnel and Compensation Committee

Acting Chairperson: N. Izosimova
Committee member: O. Popov
Committee member: C. Stalker

Main tasks:

- To assist management in improving the efficiency DTEK's personnel management system
- To monitor international best practices on the motivation, remuneration and development of top-managers and prepare recommendations to DTEK's management
- To monitor international best practtices in corporate governance
- To make recommendations to the Supervisory Board on the appointments of the top managers of DTEK
- To prepare recommendations regarding the composition of the Supervisory Board and its committees.

The committee held seven meetings and considered 17 agenda items in 2011.

2. Strategy and Investment Committee

Chairperson: S. Korovin
Committee member: O. Popov
Committee member: J. Bastin
Committee member: D. Akhmetov

Main tasks:

- To analyze the long-term prospects for the Company (10-20 years), developments in the economy, future changes in legislation and technology and, accordingly, the Company's positioning, its mission and activities
- To set mid-term tasks for the Company (5-10 years) according to its vision for the future, to establish main goals, strategies and strategic plans for reaching these goals
- To plan investments, large investment projects, M&A and joint projects, control compliance with strategy, prepare justification, risk assessment and monitoring, organization and supervision of projects
- To organize the collection of strategic data and lobbying on strategic issues
- To manage or mitigate strategic risks
- To set standard risk levels and internal rates of return on investments
- To set goals for DTEK due to strategic planning.

The committee held 11 meetings and considered 31 agenda items in 2011.

3. Health, Safety and Environment Committee

Chairperson: R. Sheppard
Committee member: I. Mykh

Main tasks:

- To identify risks associated with health, safety and the environment
- To develop measures for mitigating risks associated with health, safety and the environment.

The committee held six meetings and considered 38 agenda items in 2011.

4. Audit Committee

Chairperson: S. Korovin
Committee member: I. Mykh

Main tasks:

- To supervise the internal risk control and management system, internal and external audits
- To analyze and consider the accuracy and authenticity of financial statements and other reports
- To consider issues regarding the operation of the risk management, internal control and compliance systems
- To make recommendations to the Supervisory Board with regard to the selection of an auditor to certify the financial statements of DTEK. To assess the scope and quality of the auditing services and the extent of independence and objectivity of the auditor.

The committee held 13 meetings (including four in absentia) and considered 54 agenda items in 2011.

ANNUAL REPORT 2011 GROWTH ERA Corporate Governance

05>03
Management Board

DTEK's Management Board is an advisory body chaired by the CEO of DTEK LLC.

Members as of July 01, 2012 are as follows:

- Chief Executive Officer/Chairman of the Management Board – Maxim Timchenko
- Chief Operating Officer – Yuriy Ryzhenkov
- Chief Financial Officer – Vsevolod Starukhin
- Commercial Director – Andrey Favorov
- Coal Production Director – Andrey Smirnov
- Electricity Generation Director – Roman Serdyukov
- Electricity Distribution and Sales Director – Igor Maslov
- Director for External Affairs – Alexander Tolkach
- Large Projects Director – Evgeny Bogomolsky
- HR Director – Aleksandr Kucherenko
- Legal Support Director – Dmitry Sakharuk

Five committees have been established under the Management Board:

1. Strategy Committee

Main tasks:

- To draw up DTEK's long-term development plans, analyze external and internal environment changes to DTEK's position on the market, determine and elaborate new strategic directions for the development of DTEK and its individual subdivisions
- To make recommendations to the Management Board or the strategy & investments committee of the Supervisory Board (depending on the issue) on the approval of M&A projects and starting up new businesses
- To make recommendations to the Management Board on the approval of macroeconomic and market development forecasts
- To make recommendations to the strategy & investments committee of the Supervisory Board on the approval of the development strategy for DTEK Group, individual DTEK assets, DTEK businesses (coal production, electricity generation, electricity distribution and sales, etc.) or other functions (finance, IT, service maintenance, etc.)
- To make recommendations to the strategy & investments committee of the Supervisory Board on the approval of the estimated value of DTEK Group
- To monitor the fulfillment of strategic initiatives from the business plan.

The committee held 17 meetings and considered 79 issues in 2011.

2. Human Resources Committee

Main tasks:

- To make recommendations to the Management Board on the approval of the annual assessment of DTEK's performance (1-2 management levels)
- To approve the list of candidates to the Top-50 program drawn up based on the nomination of candidates by the top management of the Company
- To make recommendations to the nomination & remuneration committee of the Supervisory Board on the approval of the key positions and nominees to the Top-50 program (Rate A)
- To approve list of key positions to the Top-50 program (Rate B) and make recommendations to the Management Board on the approval of nominees to the Top-50 program (Rate B)
- To make recommendations to the Management Board on inclusions to DTEK's talent pool based on the Appraisal Centers' recommendations
- To make recommendations to the Company's HR director on the approval of procedures on personnel recruitment, remuneration, appraisal and development, organizational management, corporate culture and internal communications management
- To make recommendations to the Management Board on the approval of regulations on personnel recruitment, remuneration, appraisal and development, organizational management, corporate culture and internal communications management
- To make recommendations to the Management Board on the appointment of candidates to key positions in DTEK Group
- To issue resolutions on the management of DTEK Academy, acting as the Academic Council of DTEK Academy
- To consider other issues concerning improvements to DTEK's HR system

The committee held 11 meetings and considered 52 issues in 2011.

3. Risk Committee

Main tasks:

- To consider and approve of the policy, methodology and tools required for risk management at DTEK Group
- To consider and approve of material risks at DTEK Group and the Company's risk appetite
- To approve of DTEK Group's counterparties and credit limits with regard to commercial activity
- To monitor the fulfillment of recommendations on reducing risk exposure and improving the internal control system
- To approve of insurance methods and tools as well as DTEK Group's insurance program
- To monitor large insurance events and the process of loss adjustment
- To monitor and approve of initiatives on key compliance risks management
- To monitor internal economic investigations
- To monitor compliance with regulatory requirements
- To consider other issues concerning risk management and internal controls.

The committee held 14 meetings (including four in absentia) and considered 70 issues in 2011.

4. Safety Committee

Main tasks:

- To assess safety risks and approve of measures to minimize them
- To assess progress on projects aimed at improving safety at DTEK Group
- To consider reports and approve of resolutions on the responsibility of DTEK's managers and other employees for violations of safety rules established by legislation and DTEK Group
- To approve of DTEK's safety budget for further inclusion in the investment program of DTEK Group
- To approve of resolutions on carrying out special-purpose inspections, independent audits and research with regard to the assessment of the group's safety management system
- To analyze the findings of DTEK companies' employee behavioral safety audits carried out by DTEK's directors
- To control the process of the implementation of DTEK's safety management system
- To listen to the chairs of DTEK companies' safety committees on work done and approve the final reports on their performance
- To consider other issues regarding safety in DTEK Group

The committee held 10 meetings and 57 issues were considered in 2011.

5. Sustainable Development Committee

Main tasks:

- To ensure the implementation of DTEK's Non-Market Strategy
  - To consider the social development challenges maps of towns and regions where DTEK operates
  - To consider and approve of long-term social cooperation strategies with towns where DTEK operates
  - To approve of reform plans for social assets owned by DTEK
  - To oversee the management of occupational health development
  - To maintain DTEK's reputation and setup a comprehensive system to manage DTEK's regional policy
- To manage DTEK's environmental safety strategy
- To consider other issues not directly connected with DTEK's production and financial activities, but which can significantly affect the fulfillment of the group's business tasks

The committee was established in 2012.

05>04
Dividend policy

DTEK's dividend policy is based on maintaining the balance between the need to invest in further development and to observe the rights of shareholders to receive a portion of the Company's net profit. This approach is the defining factor in the long-term growth of shareholder value.

The expediency and size of dividends are currently determined on a case-by-case basis by the Supervisory Board and is approved by the General meeting of shareholders.

ANNUAL REPORT 2011 GROWTH ERA Corporate Governance

05>05 New management model

Within the scope of its long-term Development Concept, DTEK started to implement a new business management model at the end of 2011. DTEK has been getting ready to do this for a year and a half. The goal is to increase management efficiency at a time of dynamic growth.

In view of the acquisition of new large production assets, DTEK needs to change in order to facilitate efficient cooperation both internally within and externally outside the group. These changes should create conditions to implement employee initiatives, increase production efficiency and provide the Company with additional competitive advantages.

Implementation of the new management model will result in the establishment of an operating holding with well-ordered production and governance processes, clear division of powers and centers of responsibility for the fulfillment of strategic tasks. This will ensure maximum synergy from vertical integration and establish a platform for the implementation of DTEK's long-term goals. At the same time, the group's employees will get the opportunity to more fully realize their initiatives and creativity. The new management model will be implemented by the end of 2013.

Major changes to DTEK's management model

- Transition from a three-level to a two-level management system

Analysis showed that DTEK's current three-level governance system (Corporate center – operating companies' headquarters – production units) lacked flexibility and efficiency, taking into account significant business expansion. As a result, DTEK decided to create three core business units:

— Coal mining

— Electricity generation

— Electricity distribution and sales.

Transition to the two-level management system has broadened powers for technical decision-making vested in the production units (mines and TPPs); now decisions, approvals, and procedures take less time.

- Separation of commercial activities

The group's commercial activities (internal and external electricity and coal trading and other product sales, such as Emission Reduction Units under the Kyoto Protocol) are centralized in the Commercial Division. The first priority of this unit is to optimize the product portfolio and create a flexible system for sales that will allow for passing through margins to the entire company. The new approach will utilize the company's vertical integration to expand the reach of DTEK's products into Europe and Asia to make the company more competitive.

The unit will employ international best practices used for trading, risk management systems and a management model with a clear separation of responsibility between structural units to be responsible for sales (front office), analytics (middle office) and administrative work (back offices). Management changes will allow for fully realizing the commercial potential of the company in accordance with the long-term Development Concept to 2030.

- Establishment of a unit for the management of large projects

Within the structure of DTEK, the Board of Directors created a Large Projects Division. It will deal with the implementation of large-scale investment projects, including capital construction projects, such as retrofitting and constructing new TPP power units, mine shafts and ventilation holes. Centralization of large project management will improve efficiency, investment utilization and project implementation at all stages.

- Establishment of a common procurement center

In 2012, DTEK plans to implement a procurement unification project and introduce a common optimum procurement mechanism, which will meet the Company's current and future needs. The initiative will remain compliant with the transparency principles of DTEK Group's Procurement Policy. Centralization of this function at the business unit level will allow the group to significantly save resources.

- Delegation of occupational safety and environmental protection responsibility to business units

DTEK's occupational safety and environmental protection policy envisages continuously increasing the responsibility for related issues with business unit managers. The functions of occupational safety and environmental protection have been transferred to the coal, electricity generation and electricity distribution divisions. In each division, specialized units have been set up that correspond to industry requirements.

- Introduction of an operational improvement system

Units have been established in each of the three business divisions to raise production efficiency and develop a culture of innovation. Basic infrastructure for the implementation of programs on efficiency, lean manufacturing, etc. has already been established. The operational improvement units will stimulate ensure the implementation of creative and innovative employee ideas. An analysis and implementation of international best practices will continuously raise standards for production processes.

- Split traditional and new businesses management

Kyivenergo, Wind Power and DTEK Oil&Gas are under the direct supervision of DTEK CEO. This will facilitate an improved balance of priorities and investments between DTEK's traditional businesses (coal production and processing, electricity generation and distribution) and new businesses (wind power, gas production, heating supplies), as well as provide for an individual approach to strategies for these companies.

06

DTEK Holdings B.V.

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

31 December 2011

ANNUAL REPORT 2011 GROWTH ERA Consolidated Financial Statements

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of DTEK Holdings B.V.

We have audited the accompanying special purpose consolidated financial statements of DTEK Holdings B.V. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, 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 Special Purpose Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these special purpose consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these special purpose 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 special purpose consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose consolidated 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 special purpose consolidated financial statements in order to design audit procedures that are appropriate in 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 special purpose consolidated 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 accompanying special purpose consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

20 April 2012

Limited Liability Company Audit Firm «PricewaterhouseCoopers (Audit)», 75 Zhylyanska Str. Kyiv, 01032, Ukraine
T: +380 44 490 6777, F:+380 44 490 6738, www.pwc.com/ua

Special Purpose Consolidated Balance Sheet

In millions of Ukrainian Hryvnia	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	8	30,627	11,575
Intangible assets	9	1,299	731
Investments in associates	10	5,574	4,099
Financial investments	11	563	1,279
Deferred income tax assets	31	549	1,041
Other non-current assets		137	38
Total non-current assets		**38,749**	**18,763**
Current assets			
Inventories	12	2,214	1,157
Trade and other receivables	13	4,608	2,984
Financial investments	11	328	1,040
Current income tax		23	-
Cash and cash equivalents	14	10,426	1,693
Total current assets		**17,599**	**6,874**
TOTAL ASSETS		**56,348**	**25,637**

ANNUAL REPORT 2011 GROWTH ERA Consolidated Financial Statements

In millions of Ukrainian Hryvnia	Note	31 December 2011	31 December 2010
EQUITY			
Share capital	15	-	-
Share premium		9,909	9,909
Other reserves	16	5,731	(865)
Retained earnings		8,785	4,166
Equity attributable to owners of the parent		**24,425**	**13,210**
Non-controlling interest in equity		**401**	**70**
TOTAL EQUITY		**24,826**	**13,280**
LIABILITIES			
Non-current liabilities			
Liability to non-controlling participants		4	3
Borrowings	17	12,405	4,509
Other financial liabilities	18	1,961	118
Restructured obligations	19	651	93
Government grants		3	9
Retirement benefit obligations	20	3,519	1,582
Provisions for other liabilities and charges	21	600	311
Deferred income tax liability	31	937	1,540
Total non-current liabilities		**20,080**	**8,165**
Current liabilities			
Borrowings	17	2,677	993
Other financial liabilities	18	604	485
Restructured obligations	19	152	-
Prepayments received		899	320
Trade and other payables	22	5,814	1,961
Current income tax payable		356	273
Other taxes payable	23	940	160
Total current liabilities		**11,442**	**4,192**
TOTAL LIABILITIES		**31,522**	**12,357**
TOTAL LIABILITIES AND EQUITY		**56,348**	**25,637**

Approved for issue and signed on behalf of the Management Board on 17 April 2012.

Special Purpose Consolidated Income Statement

In millions of Ukrainian Hryvnia	Note	2011	2010
Revenue	24	39,594	24,294
Cost of sales	25	(29,976)	(18,936)
Gross profit		**9,618**	**5,358**
Other operating income	26	515	298
Distribution costs	27	(203)	(196)
General and administrative expenses	28	(1,184)	(851)
Other operating expenses	29	(682)	(262)
Net foreign exchange (loss)/gain (other than on borrowings)		124	(21)
Impairment of property, plant and equipment	8	(198)	-
Operating profit		**7,990**	**4,326**
Foreign exchange gains less losses from borrowings		(84)	119
Finance income	30	222	113
Finance costs	30	(1,283)	(920)
Recognition of loss from fair valuation of associate on transfer to subsidiary	10	(334)	-
Recognition of AFS reserve on transfer to associate	16	(349)	(72)
Share of after tax results of associates	10	(48)	406
Impairment of investments in associates	10	(446)	-
Profit before income tax		**5,668**	**3,972**
Income tax expense	31	(2,146)	(1,115)
Profit for the year		**3,522**	**2,857**
Profit/(loss) is attributable to:			
Equity holders of the Company		3,555	2,860
Non-controlling interest		(33)	(3)
Profit for the year		**3,522**	**2,857**

Special Purpose Consolidated Statement of Comprehensive Income

In millions of Ukrainian Hryvnia	Note	2011	2010
Profit for the period		3,522	2,857
Other comprehensive income			
Financial investments:			
– Fair value gain/(loss)	16	(334)	234
– Income tax recorded on available-for-sale financial assets		36	(36)
– Recognition of AFS reserve on transfer to associate	16	349	72
– Reversal of Income tax recorded in equity due to transfer of AFS to associate		(64)	-
Share of other equity movements of associates	16	24	5
Property, plant and equipment:			
– Change in estimate for asset retirement obligation	21	2	(13)
– Revaluation of property plant and equipment	8	6,027	-
– Income tax recorded on revaluation of property plant and equipment	31	(1,052)	-
– Share in revaluation of PPE of associates	16	1,887	-
Reversal of Income tax recorded in equity due to change in tax legislation	31	1,228	-
Total comprehensive income for the period		**11,625**	**3,119**
Total comprehensive income attributable to:			
Equity holders of the Company		11,593	3,122
Non-controlling interest		32	(3)
Total comprehensive income for the period		**11,625**	**3,119**

Special Purpose Consolidated Statement of Changes in Equity

In millions of Ukrainian Hryvnia	Attributable to equity holders of the Company					Non-controlling interest	Total Equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2010	**-**	**9,909**	**(696)**	**1,507**	**10,720**	**73**	**10,793**
Profit for 2010	-	-	-	2,860	2,860	(3)	2,857
Other comprehensive income for 2010	-	-	262	-	262	-	262
Total comprehensive income for 2010	**-**	**-**	**262**	**2,860**	**3,122**	**(3)**	**3,119**
Property, plant and equipment:							
– Realised revaluation reserve (Note 16)	-	-	(572)	572	-	-	-
– Deferred tax related to realised revaluation reserve	-	-	141	(141)	-	-	-
Dividends declared (Note 15)	-	-	-	(632)	(632)	-	(632)
Balance at 31 December 2010	**-**	**9,909**	**(865)**	**4,166**	**13,210**	**70**	**13,280**

ANNUAL REPORT 2011 GROWTH ERA Consolidated Financial Statements

In millions of Ukrainian Hryvnia	Attributable to equity holders of the Company					Non-controlling interest	Total Equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Profit for 2011				3,555	3,555	(33)	3,522
Other comprehensive income for 2011	-	-	8,038	-	8,038	65	8,103
Total comprehensive income for 2011	**-**	**-**	**8,038**	**3,555**	**11,593**	**32**	**11,625**
Property, plant and equipment:							
– Realised revaluation reserve (Note 16)	-	-	(888)	888	-	-	-
– Deferred tax related to realised revaluation reserve	-	-	106	(106)	-	-	-
– Share in realised revaluation reserve of associates (Note 16)	-	-	(127)	127	-	-	-
Transfer of associates to subsidiary – recycling of equity reserves (Note 16)	-	-	(533)	533	-	-	-
Acquisition of subsidiary (Note 33)	-	-	-	-	-	315	315
Acquired non–controlling interest	-	-	-	2	2	(16)	(14)
Dividends declared (Note 15)	-	-	-	(380)	(380)	-	(380)
Balance at 31 December 2011	**-**	**9,909**	**5,731**	**8,785**	**24,425**	**401**	**24,826**

Special Purpose Consolidated Statement of Cash Flows

In millions of Ukrainian Hryvnia	Note	2011	2010
Cash flows from operating activities			
Profit before income tax		5,668	3,972
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles, net of amortisation of government grants		2,334	1,479
Losses less gains on disposals of property, plant and equipment	29	35	(4)
Assets received free of charge	26	(73)	(41)
Net movement in provision for impairment of trade and other receivables and prepayments made	29	48	(149)
Impairment of non-current prepayments for shares		15	-
Change in provisions for other liabilities and charges	21	214	134
Non-cash operating (credit)/charge to retirement benefit obligation	20	(244)	128
Extinguishment of accounts payable	26	(122)	(2)
Share of result and impairment of associates	10	494	(406)
Recognition of AFS reserve on transfer to associate	16	349	72
Loss from fair valuation of associate on transfer to subsidiary	10	334	-
Unrealised result on associate	10	42	37
Unrealised foreign exchange (gain)/loss		133	(8)
Realised foreign exchange (gain)/loss on financing activities		12	(101)
Finance costs, net	30	1,061	807
Operating cash flows before working capital changes		**10,300**	**5,918**
Increase in trade and other receivables		(282)	(881)
Increase in inventories		(499)	(486)
Increase/(decrease) in prepayments received		(195)	237
Increase/(decrease) in trade and other payables		(1,011)	89
Increase/(decrease) in other liabilities		127	(26)
Increase in taxes payable		280	57
Cash generated from operations		**8,720**	**4,908**
Income taxes paid		(2,150)	(1,115)
Defined employee benefits paid	20	(223)	(157)
Interest paid		(486)	(456)
Interest received		157	55
Net cash generated from operating activities		**6,018**	**3,235**

In millions of Ukrainian Hryvnia	Note	2011	2010
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(3,580)	(2,214)
Proceeds from sale of property, plant and equipment		6	19
Purchase of financial investments		(34)	(71)
Purchase of additional interest in associates		(25)	(22)
Acquisition of associates	10	(280)	(267)
Prepayment for acquisition of subsidiaries	11	(355)	-
Withdrawal of restricted cash	14	1	13
Redemption/(acquisition) of deposit certificates		12	175
Dividends received from associates	10	45	2
Deposits placed and financial aid or loan provided		(128)	(675)
Repayment of deposits and loans provided		599	114
Acquisition of subsidiary	33	(451)	-
Acquisition of non–controlling interest		(14)	-
Cash acquired in business combination	33	497	-
Deferred consideration related to Dobropolyeugol acquisition paid		(91)	-
Net cash used in investing activities		**(3,798)**	**(2,926)**
Cash flows from financing activities			
Proceeds from borrowings		12,016	6,139
Repayment of borrowings		(4,550)	(5,057)
Repayment of debts under amicable agreement		(90)	(52)
Repayment of restructured taxes payable		(38)	-
Dividends paid	15	(641)	(371)
Net cash generated from financing activities		**6,697**	**659**
Net increase in cash and cash equivalents		**8,917**	**968**
Cash and cash equivalents at the beginning of the year	**14**	**1,692**	**725**
Exchange gains/(losses) on cash and cash equivalents		(183)	(1)
Cash and cash equivalents at the end of the year	**14**	**10,426**	**1,692**

06>01
The Organisation and its Operations

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

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

The principal subsidiaries are presented below:

Name	% interest held as at 31 December		Country of incorporation
	2011	2010	
Management companies			
DTEK Finance B.V.	100.00	100.00	Netherlands
DTEK Investments B.V.*	100.00	-	Netherlands
DTEK Holdings Limited	100.00	100.00	Cyprus
DTEK LLC	100.00	100.00	Ukraine
DTEK Corporation	98.64	98.64	Ukraine
Coal mining			
DTEK Pavlogradugol PJSC	99.92	99.92	Ukraine
DTEK Mine Komsomolets Donbassa PJSC	94.64	94.64	Ukraine
DTEK Dobropolyeugol LLC	100.00	100.00	Ukraine
DTEK Rovenkiantracyte LLC*	100.00	-	Ukraine
DTEK Sverdlovantracyte LLC*	100.00	-	Ukraine
CCM Kurahovskaya LLC	99.00	99.00	Ukraine
CCM Pavlogradskaya LLC	99.00	99.00	Ukraine
Mospino CPE LLC	99.00	99.00	Ukraine
DTEK Dobropolskaya CEP PJSC	60.06	60.06	Ukraine
DTEK Oktyabrskaya CEP PJSC	60.85	60.85	Ukraine
Pershotravensky RMZ LLC	99.92	99.92	Ukraine
Ekoenergoresurs LLC	99.00	99.00	Ukraine
Power generation			
Eastenergo LLC	100.00	100.00	Ukraine
Tehrempostavka LLC	100.00	100.00	Ukraine
Wind Power LLC	100.00	100.00	Ukraine
Electricity distribution			
Servis-Invest LLC	100.00	100.00	Ukraine
DTEK Energougol ENE PJSC	94.24	91.12	Ukraine
Kyivenergo JSC	72.33	39.98	Ukraine
Other			
Sotsis LLC	99.00	99.00	Ukraine
DTEK Servis LLC	99.00	99.00	Ukraine
DTEK Trading LLC	100.00	100.00	Ukraine
DTEK Trading Limited	100.00	100.00	Cyprus
Power Trade LLC	100.00	100.00	Ukraine
DTEK Neftegaz LLC*	100.00	-	Ukraine
DTEK Hungary Power Trade LLC	100.00	100.00	Hungary

* – entities created by the Group in 2011

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

As at 31 December 2011, the Group employed approximately 104 thousand people (31 December 2010: 42 thousand people).

06>02
Operating Environment of the Group

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

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

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

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

06>03
Summary of Significant Accounting Policies

Basis of preparation. DTEK Holdings B.V. has prepared its first statutory financial statements for the 19 months to 31 December 2010. These consolidated financial statements are considered "special purpose financial statements" until the full statutory financial statements for the year ended 31 December 2011 are prepared.

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

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

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

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

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

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

As at 31 December 2011, the exchange rate used for translating foreign currency balances was USD 1 = UAH 7.99 (31 December 2010: USD 1 = UAH 7.96); EUR 1 = UAH 10.30 (31 December 2010: EUR 1 = UAH 10.57). Exchange restrictions in Ukraine are limited to compulsory receipt of foreign receivables within 180 days of sales. Foreign currency can be easily converted at a rate close to the National Bank of Ukraine rate. At present, the UAH is not freely convertible outside Ukraine.

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

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

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

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

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

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

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

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

Investments in associates. Associates are entities over which the Group has significant influence but not control, generally presumed for shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. The determination of goodwill includes the previously held equity interest to be adjusted to fair value, with any gain or loss recorded in the income statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group has changed its accounting policy for dividends paid out of pre-acquisition profits from 1 January 2010 when the revised IAS 27 Consolidated and separate financial statements, became effective. Previously, dividends paid out of pre-acquisition profits were deducted from the cost of the investment. The new accounting policy is applied prospectively in accordance with the transition provisions. It was therefore not necessary to make any adjustments to any of the amounts previously recognised in the financial statements.

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

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

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

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

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

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

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

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

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

Revenue recognition. The Group sells all electricity produced by its electricity generation plants to Energorynok, a state-owned electricity distribution monopoly, at prices determined based on the competitive pool model adopted by the National Electricity Regulatory Committee of Ukraine. 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.

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

The Group also engages in sale and purchase transactions to manage tax cash flows. Such transactions are not revenue generating to the Group and accordingly such sales and purchases are presented on a net basis in other operating income or expenses. Accounts receivable and payable from such transactions are presented on a gross basis. In 2011 such transactions were not significant.

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

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

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

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

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

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

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

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

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

ANNUAL REPORT 2011 GROWTH ERA Consolidated Financial Statements

06>04
Critical Accounting Estimates and Judgements

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

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price and liquidity in the Ukrainian markets. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would have suffered an additional loss for the year of UAH 148 million (2010: 152 million).

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

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

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

The recoverable amount of goodwill and cash-generating units were estimated based on the fair value less costs to sell. Additional information is disclosed in Note 9.

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

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

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

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

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

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

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

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

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

Heat tariff compensation received by Kyivenergo JSC. In December 2011, DTEK acquired 25% interest in Kyivenergo in a State organised privatisation, increasing its share to 71.82% and thereby gaining control over the company (Note 33). In accordance with existing legislation, Kyivenergo is entitled to claim heat tariff compensation which is computed as the difference between the «economically grounded» heat tariff and that imposed by the National Electricity Regulatory Committee of Ukraine. Such claims are subject to additional Governmental, Budget and City approvals, the timing of which is uncertain. Kyivenergo accounts for such heat tariff compensation as government grants and due to the uncertainty of when the compensation becomes receivables records all amounts as income only when received. During 2011, Kyivenergo received UAH 715 million of heat tariff compensation related to 2010 (2010: UAH 1,902 million related to 2008, 2009 and 2010). The Group recorded share of this gain UAH 286 million. Due to the significance of the heat tariff compensation and the sporadic timing of receipt, Kyivenergo's income/loss for any period will fluctuate significantly based on when this compensation is received.

06>05 Adoption of New or Revised Standards and Interpretations

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial periods beginning on or after 1 January 2011:

- Amendment to IAS 24, Related Party Disclosures. IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).

These new standards, amendments to standards or interpretations did not have any significant effect on the Group's consolidated financial information.

The following new standards and amendments to standards which are relevant to the Group's consolidated financial statements have been issued, but are not effective for the financial periods beginning on or after 1 January 2011 and have not been early adopted by the Group:

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, further amended in October 2010 and effective for annual periods beginning on or after 1 January 2015).
- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amended IAS 28, Investments in Associates and Joint Ventures (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IFRS 13, Fair Value Measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012).
- Amended IAS 19, Employee Benefits (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013).

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

06>06 Segment Information

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

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

The Group is organised on the basis of four main business segments:
- Coal mining
- Power generation
- Electricity distribution
- Heat generation, (following acquisition of Kyivenergo (Note 33).

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

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

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

Segment information for the main reportable business segments of the Group for the year ended 31 December 2010 is as follows:

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Other	Elimination	Total
2010						
Sales – external	9,624	7,876	6,764	30	-	24,294
Sales to other segments	3,441	2	442	586	(4,471)	-
Total revenue	**13,065**	**7,878**	**7,206**	**616**	**(4,471)**	**24,294**
Segment result	2,552	2,281	137	106	(293)	4,783
Unallocated expenses						(457)
Operating profit						**4,326**
Finance costs, net						(807)
Foreign exchange losses less gains from borrowings						119
Recognition of AFS reserve on transfer to associate						(72)
Share of result and impairment of associates						406
Profit before income tax						**3,972**
As at 31 December 2010						
Segment assets	10,873	7,381	1,044	251	(2,831)	16,718
Investments in associates	-	2,666	1,406	27	-	4,099
Available for sale investments	-	1,149	98	-	-	1,247
Current / deferred tax assets						1,041
Other unallocated assets						2,532
Total assets						**25,637**
Capital expenditure	1,243	782	99	96	-	2,220
Depreciation and amortisation	1,067	266	114	32	-	1,479

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

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

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Total
2010				
Energorynok SE	-	7,845	-	7,845
DTEK Dniproenergo OJSC	3,985	-	-	3,985
Entities under common control of SCM	825	-	3,234	4,059
Total	**4,810**	**7,845**	**3,234**	**15,889**

Geographical information

In millions of Ukrainian Hryvnia	2011	2010
Ukraine	33,110	21,927
Western Europe	2,738	906
Eastern Europe	2,179	482
Other	1,567	979
Total revenues	**39,594**	**24,294**

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

06>07
Balances and Transactions with Related Parties

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2011 are detailed below. At 31 December, the outstanding balances with related parties were as follows

In millions of Ukrainian Hryvnia	2011			2010		
	Entities under common control of SCM	Associates of Parent Company	Associates	Entities under common control of SCM	Associates of Parent Company	Associates
Gross amount of trade and other receivables	127	-	451	268	1	285
Promissory notes receivable	-	-	-	3	-	-
Financial aid provided	8	-	-	2	-	-
Deposits placed with a maturity of more than three months	-	-	-	55	-	-
Loans granted and interest accrued (US dollar denominated, 9.8%)	-	-	135	5	-	15
Prepayment for financial investments	-	-	-	107	-	-
Cash and cash equivalents – current account	2,788	-	-	184	-	-
Investment obligation relating to DTEK Dniproenergo (Note 18):						
– Non-current	-	-	-	-	-	(83)
– Current	-	-	(519)	-	-	(414)
Bonds issued:	-	-	-			
– Non-current	-	-	-	(18)	-	-
– Current	-	-	-	(12)	-	-
Trade and other payables	(183)	-	(3)	(44)	-	-
Prepayments received	(3)	-	(1)	(3)	-	-
Dividends payable	-	-	-	(261)	-	-

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

In millions of Ukrainian Hryvnia	2011				2010			
	Entities under common control of SCM	Associates of Parent Company	Associates	Other related parties	Entities under common control of SCM	Associates of parent Company	Associates	Other related parties
Sales of electricity	5,398	14	-	-	3,234	10	-	1
Sales of coking coal	815	-	-	-	825	-	-	-
Sales of steam coal	60	3,368	6,010	-	9	-	4,153	-
Sales of inventory	1	-	6	-	-	-	-	-
Purchase of goods for resale	-	-	-	-	(251)	-	-	-
Purchase of raw materials and equipment	(255)	-	-	-	(9)	-	(5)	(67)
Purchase of services	(47)	-	-	-	(101)	-	-	-
Interest income on bank deposits	29	-	-	-	13	-	-	-
Interest expense on bonds issued	(1)	-	-	-	(1)	-	-	-
Interest expense on long-term payables	-	-	-	-	(27)	-	-	-
Interest income on loans provided	-	-	8	-	-	-	-	-

Revenue, trade and other receivable

The trade receivable balances as at 31 December 2011 due from entities under common control and associates are non-interest bearing. The balances outstanding from related parties as at 31 December 2011 and 2010 are unsecured and settlements are made either in cash, in the form of debt set-off or by means of exchanging promissory notes issued by the settling counterparties or third parties to the transaction. The Group created no provision for impairment of accounts receivable due from related parties as at 31 December 2011 and 2010.

Purchases, trade and other payables

Purchases and outstanding trade and other payables as at 31 December 2011 and 2010 comprised mainly balances due to related parties for supplies of iron shoring for mines, raw materials and steaming coal. Balances payable are non-interest bearing and are repayable in the normal course of business.

Key management personnel compensation

Key management personnel consist of seven top executives (2010: seven top executives). In 2011 total compensation to key management personnel included in administrative expenses amounted to UAH 31 million (2010: UAH 31 million). Compensation to the key management personnel consists of salary, bonus payments and termination benefits.

Effective 1 January 2009, the Group entered into a management incentive program with certain top executives. Under the program, top executives are entitled to 2% of the Group's incremental value (net worth) increase over a benchmark amount. Total available under the program is capped at USD 100 million depending on the increase in the value of the Group, this amount is further capped by individual employee caps which total 39% of the maximum available. The valuation of the Group as of the respective dates would be performed by quoted price, if the Group's shares are publically traded, or by the Supervisory Board decision based on internationally recognised non-public entity valuation practices. All participants deferred interim vesting and accordingly 100% will become payable in 2012. Probable obligation as at 31 December 2011 was assessed using the forecasted internal valuation of the Group's net worth performed by the Group management. As at 31 December 2011, UAH 312 million has been accrued in these financial statements (2010: UAH 129 million), UAH 183 million charge was recognised in administrative expenses (2010: UAH 129 million).

06>08 Property, Plant and Equipment

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

In millions of Ukrainian Hryvnia	Mining assets	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
At 1 January 2010						
Cost or valuation	2,188	3,757	5,995	384	710	13,034
Accumulated depreciation	(214)	(439)	(1,293)	(134)	-	(2,080)
NBV at 1 January 2010	**1,974**	**3,318**	**4,702**	**250**	**710**	**10,954**
Additions	16	73	898	79	1,113	2,179
Disposals	(2)	(8)	(17)	(2)	(4)	(33)
Depreciation charge	(164)	(303)	(984)	(74)	-	(1,525)
Transfer	224	33	197	4	(458)	-
NBV at 31 December 2010	**2,048**	**3,113**	**4,796**	**257**	**1,361**	**11,575**
At 31 December 2010						
Cost or valuation	2,413	3,851	7,023	453	1,361	15,101
Accumulated depreciation	(365)	(738)	(2,227)	(196)	-	(3,526)
NBV at 31 December 2010	**2,048**	**3,113**	**4,796**	**257**	**1,361**	**11,575**
Acquisition of subsidiaries (Note 33)	4,489	2,770	2,417	360	1,110	11,146
Additions	327	190	1,468	192	2,146	4,323
Disposals	(6)	(15)	(26)	(3)	(13)	(63)
Depreciation charge	(268)	(352)	(1,447)	(116)	-	(2,183)
Revaluation recorded in equity	1,384	1,358	3,017	79	189	6,027
Impairment of property, plant and equipment	(29)	-	(141)	(4)	(24)	(198)
Transfer	52	19	166	2	(239)	-
NBV at 31 December 2011	**7,997**	**7,083**	**10,250**	**767**	**4,530**	**30,627**
At 31 December 2011						
Cost or valuation	8,255	7,412	11,569	1,032	4,530	32,798
Accumulated depreciation	(258)	(329)	(1,319)	(265)	-	(2,171)
NBV at 31 December 2011	**7,997**	**7,083**	**10,250**	**767**	**4,530**	**30,627**

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

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

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

As at 31 December 2011, buildings, plant and machinery carried at UAH 1,127 million (31 December 2010: UAH 1,129 million) have been pledged to third parties as collateral for borrowings (Note 32).

In 2011, the depreciation expense of UAH 2,086 million (2010: UAH 1,447 million), net of amortisation of government grants, was included in cost of sales, UAH 43 million (2010: UAH 18 million) in general and administrative expenses, UAH 7 million (2010: UAH 4 million) in distribution expenses.

During 2011 the Group recorded an impairment charge of UAH 198 million as a result of the revaluation of property, plant and equipment.

06>09 Intangible assets

As at 31 December, intangible assets comprise:

In millions of Ukrainian Hryvnia	2011	2010
Goodwill	1,116	633
Other intangible assets	183	98
Total	**1,299**	**731**

The movements of goodwill were as follows:

In millions of Ukrainian Hryvnia	2011	2010
Book amount as at 1 January	**633**	**633**
Acquisition of Kyivenergo (Note 33)	483	-
Book amount as at 31 December	**1,116**	**633**

Goodwill Impairment Test

Goodwill is allocated to cash-generating units ("CGUs") which represent the lowest level within the Group at which goodwill is monitored by management. Management divided the business into two main CGUs to which goodwill was allocated:

In millions of Ukrainian Hryvnia	2011	2010
Coal mining:		
– DTEK Pavlogradugol PJSC	590	590
Energy distribution		
– DTEK Energougol ENE PJSC	43	43
– Kyivenergo JSC	483	-
Total	**1,116**	**633**

The recoverable amount has been determined based on a fair value less costs to sell calculations. Cash flow projections, based on financial budgets approved by senior management covering a five-year period, and third party prices were used to determine projected sales.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The following table summarises key assumptions on which management has based its cash flow projections to undertake the impairment testing of goodwill.

	2011	2010
Coal mining		
Post-tax discount rate	17%-15%	17%-16%
Revenue growth rate for the five-year period	3%-21%	13%-25%
Revenue growth rate after the five-year period	5%-6%	2%-8%
Gross margin	34%-45%	38%
Energy distribution – DTEK Energougol ENE PJSC		
Post-tax discount rate	17%-15%	17%-16%
Revenue growth rate for the five-year period	3%-19%	3%-28%
Revenue growth rate after the five-year period	4%-5%	5%-8%
Gross margin	11%-14%	15%
Energy distribution – Kyivenergo JSC		
Post-tax discount rate	17%-15%	-
Revenue growth rate for the five-year period	9%-28%	-
Revenue growth rate after the five-year period	3%-7%	-
Gross margin	(9%) -15%	-

In assessing goodwill impairment management used a multi-period post-tax discount rate ranging from 16% in 2012 to 17% in 2015, which stabilises at 15% in 2016 and onwards.

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

No impairment was recognised as a result of the assessment.

The movements of other intangible assets, primary software and associated rights, were as follows:

In millions of Ukrainian Hryvnia	Cost	Accumulated amortisation and impairment	Net book value
As at 1 January 2010	**84**	**(17)**	**67**
Additions / (Charge) for the year	41	(10)	31
As at 31 December 2010	**125**	**(27)**	**98**
Acquisition of subsidiaries (Note 33)	81	(8)	73
Additions / (Charge) for the year	28	(16)	12
As at 31 December 2011	**234**	**(51)**	**183**

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06>10 Investments in Associates

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

In millions of Ukrainian Hryvnia	2011	2010
Carrying amount at 1 January	**4,099**	**3,025**
Acquisition of associates	280	612
Purchase of additional interest in associates	149	-
Transfer from AFS investment to associate (Note 11)	885	90
Share of after tax results of associates	(48)	406
Share in revaluation of PPE of associates (Note 16)	1,887	-
Share in other reserves movements of associates (Note 16)	24	5
Unrealised profit on operations with associate	(42)	(37)
Dividends declared by associate	(45)	(2)
Revaluation of previously held Kyivenergo interest to fair value (Note 33)	(334)	-
Reclassification to subsidiary (Note 33)	(835)	-
Impairment of investments in DTEK Donetskoblenergo	(446)	-
Carrying amount at 31 December	**5,574**	**4,099**

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

2011

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

2010

In millions of Ukrainian Hryvnia	Country of incorporation	% of ownership	Carrying value	Total assets	Total liabilities	Revenue	Profit/ (loss)
DTEK Dniproenergo JSC	Ukraine	47.55%	2,666	3,018	1,916	6,228	187
DTEK Donetskoblenergo JSC	Ukraine	30.59%	404	1,612	2,495	3,809	25
Kyivenergo JSC	Ukraine	39.98%	1,002	4,411	2,900	10,217	659
Other	Ukraine	various	27	45	13	-	(20)
Total			**4,099**				

On 13 December 2011, the Group acquired 25% of Kyivenergo JSC in a State organised privatisation auction for a cash consideration of UAH 451 million, taking its cumulative interest to 71.82% (Note 33). The investment in Kyivenergo held prior to the acquisition was accounted for as investment in associate. Share in net loss of Kyivenergo included in the consolidated income statement till the date of acquisition totalled UAH 468 million.

DTEK Dniproenergo

The Group's interest in DTEK Dniproenergo, a majority State owned power generating company located in Zaporizhzhya, was acquired via a) a series of transactions on the over the counter market over a number of years resulting in total interest acquired of 13.31% at a total cost of UAH 1,276 million and b) via a share issue by DTEK Dniproenergo in 2007, as a result of an amicable agreement to bring the entity out of bankruptcy, resulting in a 34.24% interest for a capital contribution of UAH 1,052 million and a commitment to fund DTEK Dniproenergo's investment program totalling UAH 1,010 million for the period 2008 through 2012.

This capital contribution resulted in the dilution of existing shareholders and certain non-controlling shareholders had challenged the validity of this share issue in Court. The Court ruling and appeals have found both for and against the additional share issue, however in 2009, at the annual shareholder meeting, the shareholders voted in accordance with the registered number of shares including the additional share issuance; the shareholder also approved a new share registrar, management and supervisory board members and dividends of UAH 61 million (UAH 10 per ordinary share) were declared.

At the last Highest Commercial Court of Ukraine ruling on 26 May 2010, the Group's interest in DTEK Dniproenergo was upheld. While a new challenge/appeal from the non-controlling shareholders cannot be precluded, management believes they will be able to successfully defend their ownership interest.

Impairment assessment for DTEK Dniproenergo

At 31 December 2011, the quoted market price for the Group's interest in DTEK Dniproenergo was UAH 1,716 million (31 December 2010: UAH 3,689 million). Due to the illiquid local capital markets, management has used the fair value approach involving valuation techniques to assess impairment.

The values assigned to the key assumptions represent management's assessment of future trends in the business if managed and invested properly, and are based on both external and internal sources. The following table summarises key assumptions on which management has based its cash flow projections to undertake the impairment assessment of its investment:

	2011	2010
Post-tax discount rate	17%-15%	17%-16%
Revenue growth rate 2012 - 2015	8%-38%	5%-34%
Revenue growth rate 2016 - onwards	0%-20%	3%-11%
Gross margin	12%-22%	10%-23%

No impairment was recognised as a result of the assessment.

DTEK Donetskoblenergo

DTEK Donetskoblenergo JSC ("DTEK Donetskoblenergo") is an electricity distribution company located in the Donetsk region of Ukraine.

In 2011 the Parliament of Ukraine adopted a law that permitted energy distribution companies to write off tax charges and respective penalties for abnormal losses of electricity that were included to the deductable expenses. During 2011, according to the above law, DTEK Donetskoblenergo has reversed a provision totalling UAH 765 million for tax charges and penalties relating to abnormal electricity losses.The Group's share in the financial results of DTEK Donetskoblenergo for 2011 includes UAH 239 million recognised in the income statement as a result of this reversal.

In 2011 the Parliament of Ukraine adopted a law that permitted energy distribution companies to write off accounts payable to SE Energorynok in the amount of written-off accounts receivable for electricity sold to state entities. During 2011, according to this law, DTEK Donetskoblenergo has written off UAH 457 million of such payables. The Group's share in the financial results of DTEK Donetskoblenergo for 2011 includes UAH 140 million recognised in the income statement as a result of this write off.

Impairment assessment for DTEK Donetskoblenergo

Due to the illiquid local capital markets, management has used the fair value approach involving valuation techniques to assess the possible impairment of DTEK Donetskoblenergo.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources. The following table summarises key assumptions on which management has based its cash flow projections to undertake the impairment testing of its investment in the associate.

	2011	2010
Post-tax discount rate	17%-15%	17%-16%
Revenue growth rate 2012 – 2015	2%-41%	4%-74%
Revenue growth rate 2016 – onwards	0%-15%	7%-8%
Gross margin	10%-15%	9%-12%

As a result of the assessment UAH 446 million impairment loss was recognised.

DTEK Zakhidenergo

DTEK Zakhidenergo JSC ("DTEK Zakhidenergo") is an electricity generation company operating three thermal power plants in western and central regions of Ukraine.

The Group increased its interest in DTEK Zakhidenergo from 19.81% as at 31 December 2010 to 25.83% as at 31 December 2011, which was further increased to 70.83% on 11 January 2012. Total consideration for the incremental 5.99% interest was UAH 319 million. An additional 45% was acquired in January 2012 for UAH 1,932 million. The Group has elected to use the fair value as deemed cost at the date of acquisition to account for the transfer from available for sale securities to the equity method of accounting and recognised UAH 349 million of negative available for sale reserve in profit and loss (Note 16) and UAH 885 million was transferred to investments in associates. Fair value of the previously held interest at the date of transfer to the equity investment was based on recent arm's length transaction prices.

06>11 Financial Investments

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

In millions of Ukrainian Hryvnia	2011	2010
Equity securities:		
– quoted	71	1,247
Prepayment for other shares	355	15
Loans receivable	137	17
Total	**563**	**1,279**

As at 31 December 2011, the Group prepaid UAH 355 million to the State Property Fund of Ukraine to take part in privatisation of State-owned interest in JSC DTEK Dniproenergo, JSC DTEK Donetskoblenergo and JSC DTEK Zakhidenergo (Note 38).

As disclosed in Note 10 the Group increased its interest in DTEK Zakhidenergo and the investment was transferred from available for sale securities to the equity method of accounting.

As at 31 December 2011, loans receivable include UAH 135 million of US dollar denominated loan bearing interest at 9.8% granted to associate (31 December 2010: UAH 5 million).

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

In millions of Ukrainian Hryvnia	2011	2010
Deposits placed	275	756
Loans receivable (net of provision for impairment of UAH 17 million)	53	48
Prepayment for shares	-	236
Total	**328**	**1,040**

As at 31 December 2011, deposits placed with a maturity of more than three months of UAH 245 million were denominated in US dollars (31 December 2010: UAH 711 million).

As at 31 December 2011, UAH 211 million of term deposits were pledged as collateral for borrowings or bank guarantees received (31 December 2010: UAH 713 million).

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

In millions of Ukrainian Hryvnia	2011		2010	
	Other	Deposits	Other	Deposits
Rating by Moody's Investors Service				
– A1 rated	-	6	-	-
– Baa1 rated	-	-	-	-
– Baa2 rated	-	-	-	578
– Ba3 rated	-	23	-	-
– B2 rated	-	188	-	-
– B3 rated	-	-	-	97
Non-rated	53	58	284	81
Total	**53**	**275**	**284**	**756**

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06>12 Inventories

As at 31 December, inventories were as follows:

In millions of Ukrainian Hryvnia	2011	2010
Coal	1,053	643
Spare parts	332	210
Work in progress	303	98
Raw materials	514	196
Goods for resale	12	10
Total inventories	**2,214**	**1,157**

06>13 Trade and Other Receivables

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

In millions of Ukrainian Hryvnia	2011	2010
Trade receivables	5,156	1,405
Less impairment provision	(2,086)	(272)
Trade receivables - net	**3,070**	**1,133**
Other financial receivables	589	151
Less impairment provision	(364)	(95)
Receivables under commission agreements:		
– with third parties	-	372
– with SCM entities	45	45
Receivable for sale of financial instruments	2	80
Total financial assets	**3,342**	**1,686**
Prepayments to suppliers	858	1,223
Less impairment provision	(4)	(4)
VAT recoverable	221	44
Other	199	39
Less impairment provision	(8)	(4)
Total non-financial assets	**1,266**	**1,298**
Total trade and other receivables	**4,608**	**2,984**

As at 31 December 2011, 6% of trade and other receivables are denominated in USD (31 December 2010: 15%).

As at 31 December 2011, prepayments included UAH 671 million of prepayments for coal (31 December 2010: UAH 1,075 million). The remaining prepayments include prepayments for electricity subsequently sold for export, transportation and other services, and inventories.

During 2010 the Group entered commission transactions to purchase and export goods on behalf of SCM entities and various third parties for cash flow management. Since such transactions do not represent revenue generating activity for the Group, they have been presented on a net basis with any gain or loss presented in other operating income/(expenses). Accounts receivable and payable from such transactions are presented gross and are disclosed separately within Trade and other receivables and Trade and other payables. The associated payable balance as at 31 December 2010 totalling UAH 403 million is included in trade and other payables.

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

In millions of Ukrainian Hryvnia	2011	2010
Provision for impairment at 1 January	**375**	**525**
Acquisition of subsidiaries	2,040	-
Provision for impairment during the year	164	119
Reversal of provision	(116)	(268)
Amounts written off during the year as uncollectible	(1)	(1)
Provision for impairment at 31 December	**2,462**	**375**

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

In millions of Ukrainian Hryvnia	2011				2010			
	Trade receivables	Receivables under commission agreements	Receivable for sale of financial instruments	Other financial receivables	Trade receivables	Receivables under commission agreements	Receivable for sale of financial instruments	Other financial receivables
Current and not impaired – exposure to								
– Energorynok SE	1,045	-	-	-	412	-	-	-
– Large Ukrainian corporates	477	-	-	121	132	14	-	-
– Medium sized companies	1,015	-	2	34	226	358	-	29
Total current and not impaired	**2,537**	**-**	**2**	**155**	**770**	**372**	**-**	**29**
Past due but not impaired								
– less than 30 days overdue	-	-	-	-	225	-	-	-
– 30 to 90 days overdue	353	-	-	24	33	-	-	3
– 90 to 180 days overdue	70	-	-	1	100	-	-	-
– 180 to 360 days overdue	99	-	-	30	1	-	80	3
– over 360 days overdue	11	45	-	15	4	45	-	21
Total past due but not impaired	**533**	**45**	**-**	**70**	**363**	**45**	**80**	**27**
Individually determined to be impaired (gross)								
– over 360 days overdue	2,086	-	-	364	272	-	-	95
Total individually impaired	**2,086**	**-**	**-**	**364**	**272**	**-**	**-**	**95**
Less impairment provision	**(2,086)**	**-**	**-**	**(364)**	**(272)**	**-**	**-**	**(95)**
Total	**3,070**	**45**	**2**	**225**	**1,133**	**417**	**80**	**56**

06>14
Cash and Cash Equivalents

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

In millions of Ukrainian Hryvnia	2011	2010
Bank balances payable on demand	4,922	594
Term deposits with original maturity of less than three months	5,504	1,098
Restricted cash	-	1
Total cash and cash equivalents	**10,426**	**1,693**

As at 31 December 2011, cash and cash equivalents of UAH 698 million were denominated in US dollars (31 December 2010: UAH 813 million), UAH 125 million were denominated in EUR (31 December 2010: UAH 43 million), UAH 5,639 million were denominated in RUB (31 December 2010: nil).

As at 31 December 2011, no term deposits with original maturity of less than three months were pledged as collateral for borrowings or bank guarantees received (31 December 2010: UAH 426 million).

As at 31 December 2011, there was no cash restricted in use under letter of credit arrangements (31 December 2010: UAH 1 million). For the purposes of the cash-flow statements this amount is not included in cash and cash equivalents balance.

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

In millions of Ukrainian Hryvnia	2011			2010		
	Bank balances payable on demand	Term deposits	Restricted cash	Bank balances payable on demand	Term deposits	Restricted cash
Rating by Moody's Investors Service						
– A1 rated	169	2,317	-	-	-	-
– Aa3 rated	4	-	-	-	-	-
– A3 rated	3	-	-	-	-	-
– A3.ua rated	236	-	-	-	-	-
– Aa3 rated	-	-	-	3	-	-
– B1 rated	-	-	-	-	-	-
– Ba1 rated	-	-	-	-	-	-
– Ba3 rated	-	3,152	-	-	-	-
– A2.ua rated	2,788	-	-	-	-	-
– Baa2 rated	-	-	-	86	-	1
– B2 rated	73	1	-	-	-	-
– Ba2 rated	80	-	-	-	-	-
– B3 rated	-	-	-	474	984	-
– Caa1 rated	-	-	-	-	103	-
Non-rated	1,569	34	-	31	11	-
Total	**4,922**	**5,504**	**-**	**594**	**1,098**	**1**

06>15
Share Capital

The authorised share capital of DTEK Holdings B.V. comprises 15,000 ordinary shares with a nominal value of Euro 10 per share. All shares carry one vote. At 31 December 2011 and 2010, the issued and fully paid share capital comprised 3,000 ordinary shares.

On 2 September 2010 DTEK Holdings B.V. declared a dividend of USD 80 million (UAH 632 million), that was partially paid by 31 December 2010. Dividends payable as at 31 December 2010 of USD 33 million (UAH 261 million) were included in trade and other payables (Note 22) and were paid in full by 31 December 2011. During March-November 2011 DTEK Holdings B.V. declared a dividend of USD 48 million (UAH 380 million), that was fully paid by 31 December 2011.

06>16
Other Reserves

In millions of Ukrainian Hryvnia	Additional paid in capital	Revaluation reserve	AFS reserve	Total
Balance at 1 January 2010	**(4,199)**	**3,905**	**(402)**	**(696)**
Financial investments:				
— Fair value gains less losses	-	-	234	234
— Recognition of AFS reserve on transfer to associate	-	-	72	72
— Share of other equity movements of associate	5	-	-	5
Property, plant and equipment:				
— Change in estimate relating to asset retirement provision recorded in equity	-	(13)	-	(13)
— Realised revaluation reserve	-	(572)	-	(572)
Income tax recorded in equity	-	140	(35)	105
Balance at 31 December 2010	**(4,194)**	**3,460**	**(131)**	**(865)**
Financial investments:				
— Fair value gains less losses	-	-	(334)	(334)
— Recognition of AFS reserve on transfer to associate	-	-	349	349
Share of other equity movements of associate	24	-	-	24
Property, plant and equipment:				
— Revaluation of PPE	-	5,962	-	5,962
— Change in estimate relating to asset retirement provision recorded in equity	-	2	-	2
— Realised revaluation reserve	-	(888)	-	(888)
— Share in revaluation of PPE of associates	-	1,887	-	1,887
— Share in realised revaluation reserve of associates	-	(127)	-	(127)
Income tax recorded in equity	-	282	(28)	254
Transfer from associates to subsidiary - recycling of revaluation reserve of Kyivenergo to retained earnings	(29)	(504)	-	(533)
Balance at 31 December 2011	**(4,199)**	**10,074**	**(144)**	**5,731**

During 2011, unrealised fair value losses on available-for-sale investments totalling UAH 334 million (2010: UAH 234 million gain) were recorded directly in other reserves.

During 2011, accumulated fair value losses totalling UAH 349 million related to DTEK Zakhidenergo, recognised while this asset was recorded as an available-for-sale investment, have been recycled to profit and loss, following its transfer to equity accounting (2010: UAH 72 million related to Kyivenergo).

The revaluation reserve is not distributable to the shareholders until it is transferred to retained earnings.

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

06>17
Borrowings

In millions of Ukrainian Hryvnia	2011	2010
Non-current		
Eurobonds	3,920	3,889
Bank borrowings	8,485	620
	12,405	**4,509**
Current		
Bank borrowings	2,453	919
Interest accrual	224	74
	2,677	**993**
Total borrowings	**15,082**	**5,502**

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

In October 2011, the Group entered into 5-year loan agreements with Russian Commercial Bank (Cyprus) for RUB 10,000 million (UAH 2,495 million) and Sberbank (Russia) for RUB 15,714 million (UAH 3,986 million) bearing interest at Mosprime 3m + 3.45% and Mosprime 3m + 3.4% respectively. The Group planned to use the proceeds from both loans to finance the Group's participation in the privatisation of energy sector entities in Ukraine and to finance investment programme. The loans are unsecured. The loan agreements contain specific covenants, including restrictions on permissible business activities, financial disclosure requirements and maximum permissible level of leverage. Events of default are comprehensive and include cross-default to other DTEK debt.

As discussed in Note 33, the Group acquired JSC Kyivenergo in December 2011. Kyivenergo has loan from IBRD totalling UAH 678 million as at 31 December 2011, for which it was not in compliance with certain loan covenants and for which waivers had been obtained.

The Group's borrowings were denominated in the following currencies:

In millions of Ukrainian Hryvnia	2011	2010
Borrowings denominated in:		
– UAH	1,446	474
– US Dollars	5,796	4,545
– Euros	1,351	483
– Roubles	6,489	-
Total borrowings	**15,082**	**5,502**

The Group's loans and borrowings maturity and re-pricing was as follows:

In millions of Ukrainian Hryvnia	Maturity		Interest re-pricing	
	2011	2010	2011	2010
Loans and borrowings due:				
– within 1 year	2,677	993	11,059	1,477
– between 1 and 5 years	12,405	4,509	4,023	4,025
Total borrowings	**15,082**	**5,502**	**15,082**	**5,502**

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

In % per annum	2011				2010			
	UAH	USD	EUR	RUB	UAH	USD	EUR	RUB
Bank borrowings	13%-19,5%	LIBOR(6m)+ 0,5% - LIBOR(3m)+9%;	EURIBOR(6m)+ 1.7% - EURIBOR(1m)+ 5.25%,	Mosprime 3m + 3.4% - 3.45%	14%-22%	LIBOR 1m+6% - 9.5%	EURIBOR 6m+1.7%- EURIBOR 6m+5.15%	-
Total borrowings	**1,446**	**5,796**	**1,351**	**6,489**	**474**	**4,545**	**483**	**-**

As at 31 December 2011, borrowings totalling UAH 465 million (31 December 2010: UAH 1,409 million) were secured with property, plant and equipment, financial investments, cash and cash equivalents (Note 32).

On 21 December 2011 DTEK concluded an agreement with Sberbank of Russia for a swap of RUB 3,155 million loan with a floating rate Mosprime (3m)+3.4% for a USD 100 mln loan with fixed rate 6.85% p.a. (Note 34).

06>18
Other Financial Liabilities

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

In millions of Ukrainian Hryvnia	2011	2010
Investment obligation relating to DTEK Dniproenergo	-	83
Deferred consideration for acquisition (Note 33)	1,777	-
Restructured trade payables	170	21
Other payables	14	14
Total non-current other financial liabilities	**1,961**	**118**

As discussed in Note 10, upon recognition of the Group's additional 34.24% interest in DTEK Dniproenergo, the Group recorded 52,5% of its obligation to fund DTEK Dniproenergo's investment program at a fair value of UAH 399 million (UAH 1,010 million at nominal value of 100%).

As at 31 December 2011 UAH 519 million is recorded as short-term (31 December 2010: UAH 414 million). An expense associated with the unwinding of the discount on the investment obligation totalling UAH 22 million (31 December 2010: UAH 34 million) was included in finance costs (Note 30).

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

In millions of Ukrainian Hryvnia	2011	2010
Investment obligation relating to DTEK Dniproenergo	519	414
Current part of deferred consideration	85	-
Bonds issued	-	71
Total current other financial liabilities	**604**	**485**

06>19
Restructured obligations

A summary of the restructured obligations is presented below:

In millions of Ukrainian Hryvnia	2011		2010	
	Nominal value	Carrying value	Nominal value	Carrying value
Promissory notes issued by Pavlogradugol	12	9	140	93
Restructured taxes payable	1,222	642	-	-
Total restructured obligations	**1,234**	**651**	**140**	**93**

In 2005, Pavlogradugol renegotiated the payment terms of its obligation totalling UAH 386 million over the period 2007 through 2019. The renegotiation was accounted for as an extinguishment of the original obligation and the recognition of a new obligation. The obligation was recorded at fair value using an effective interest rate of 16%.

As part of acquisition of Dobropolyeugol, Rovenkiantracyte and Sverdlovantracyte (Note 33), the Group assumed certain restructured tax obligations that are due between 2012 and 2030. The obligations have been discounted at an implied rate of 17% per annum.

As at 31 December, current restructured obligations of the Group comprise:

In millions of Ukrainian Hryvnia	2011	2010
Restructured taxes payable	152	-
Total restructured obligations	**152**	**-**

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06>20
Retirement Benefit Obligations

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

In 2011 the defined benefit plan covers 114,110 people, including 13,985 ex-employees (2010: approximately 45,500 and 8,030 respectively).

None of the employee benefits plans stated below are funded.

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

In millions of Ukrainian Hryvnia	2011	2010
Present value of unfunded defined benefit obligations	3,894	1,912
Unrecognised net actuarial loss	(517)	(118)
Unrecognised past service cost	142	(212)
Liability in the consolidated balance sheet	**3,519**	**1,582**

In millions of Ukrainian Hryvnia	2011	2010
Retirement benefits	2,798	1,567
Retirement benefits - coal support	820	248
Lump sum payments	276	97
Total balance sheet obligations	**3,894**	**1,912**

The amounts recognised in the income statement were as follows:

In millions of Ukrainian Hryvnia	2011	2010
Current service cost	125	91
Interest cost	347	232
Recognised past service cost	(371)	41
Recognised actuarial (gains) losses	2	(4)
Total	**103**	**360**

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

In millions of Ukrainian Hryvnia	2011	2010
Defined benefit obligation as at 1 January	**1,912**	**1,655**
Acquisition of subsidiaries (Note 33)	2,057	-
Current service cost	125	91
Actuarial losses/(gains)	401	91
Interest cost	347	232
Past service cost	(725)	-
Benefits paid	(223)	(157)
Defined benefit obligation as at 31 December	**3,894**	**1,912**

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

In millions of Ukrainian Hryvnia	2011	2010
As at 1 January	**1,582**	**1,379**
Acquisition of subsidiaries (Note 33)	2,057	-
Benefits paid	(223)	(157)
Net expense recognised in the income statement	103	360
На 31 декабря	**3 519**	**1 582**

Part of past service cost arose as a result of changes in the pension legislation introduced in 2011, which decreased the benefits payable. To the extent that the benefits were already vested immediately following the changes to a defined benefit plan, past service cost was recognised in 2011 financial statements as credit to income statement in the amount of UAH 371 million with the remaining UAH 142 million past service cost being recognised as an income on a straight-line basis over the average period until the benefits become vested.

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

	2011	2010
Nominal discount rate	14%	14%
Nominal salary increase	9%	9%
Nominal pension entitlement increase	9%	9%

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

	2011	2010
Nominal discount rate increase/ decrease by 1%	(6.69%)/7.61%	(6.35%)/7.14%
Nominal salary increase/ decrease by 1%	2.63%/(2.57%)	5.31%/(4.82%)
Nominal pension entitlement increase/ decrease by 1%	2.63%/(2.57%)	5.31%/(4.82%)

Experience adjustments for 2011 do not exceed UAH 400 million (2010: UAH 91 million; 2009: UAH 599 million; 2008: UAH 402 million; 2007: UAH 543 million).

Present value of unfunded defined benefit obligations totaled to UAH 1,655 million as at 31 December 2009 (31 December 2008: UAH 2,041 million, 31 December 2007: UAH 1,320 million).

Payments in respect of post-employment benefit plan obligations expected to be made during the year ending 31 December 2012 are UAH 480 million (2011: UAH 209 million).

06>21 Provisions for Other Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In millions of Ukrainian Hryvnia	Assets retirement provision	Provision for legal claims	Long-term incentive plan (Note 7)	Total
At 1 January 2010	**147**	**13**	**-**	**160**
Change in estimates	13	-	-	13
Arising during the year	2	4	129	135
Unwinding of discount	8	-	-	8
Reversal of provision	-	(1)	-	(1)
Utilised	(4)	-	-	(4)
At 31 December 2010	**166**	**16**	**129**	**311**
Change in estimates	(2)	-	-	(2)
Arising during the year	11	23	183	217
Acquisition of subsidiaries (Note 33)	244	132	-	376
Unwinding of discount	21	-	-	21
Reversal of provision	-	(3)	-	(3)
Utilised	(5)	(3)	-	(8)
Transfer to current (Note 22)	-	-	(312)	(312)
At 31 December 2011	**435**	**165**	**-**	**600**

The assets retirement provision is attributable to the mining and energy generating activities of the Group resulting from the obligation to dismantle and remove the mines and remediate soils disturbed by the underground works and ash dumps. The increase of the asset retirement obligation was recorded in other reserves as the Group uses the fair value model to measure property, plant and equipment (Note 16).

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

	2011	2010
Pre-tax discount rate	17%	17%
Inflation long-term	5%	5%
Inflation middle-term	7%	7%

06>22
Trade and Other Payables

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

In millions of Ukrainian Hryvnia	2011	2010
Trade payables	3,579	735
Payables under commission agreements		
– to third parties	-	375
Liabilities for purchased securities	20	27
Liabilities for purchased property, plant and equipment	829	135
Dividends payable	5	261
Current part of long term liabilities	22	-
Other creditors	245	39
Total financial payables	**4,700**	**1,572**
Wages and salaries payable	281	149
Accruals for employees' unused vacations	453	218
Long-term incentive bonus program for top executives (Note 7 and 21)	312	-
Other payables	68	22
Total non-financial payables	**1,114**	**389**
Total	**5,814**	**1,961**

As discussed in Note 33, the Group acquired JSC Kyivenergo in December 2011. Trade accounts payable of Kyivenergo amounting to UAH 1,618 million, mainly for supply of gas to NAK "Naftogas of Ukraine" and its subsidiaries, are overdue as at 31 December 2011.

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

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

2010							
In millions of Ukrainian Hryvnia	**Trade payables**	**Payables under commission agreements**	**Liabilities for purchased securities**	**Liabilities for purchased property, plant and equipment**	**Current part of long term liabilities**	**Dividends payable**	**Other creditors**
Currency analysis:							
UAH denominated	719	375	27	126	-	-	36
USD denominated	16	-	-	-	-	261	2
EUR denominated	-	-	-	-	-	-	1
RUB denominated	-	-	-	9	-	-	-
Total	**735**	**375**	**27**	**135**	**-**	**261**	**39**
Future undiscounted cash flow analysis:							
Up to 3 months	708	375	1	113	-	-	38
From 3 to 6 months	27	-	-	4	-	261	1
From 6 to 12 months	-	-	26	18	-	-	-
Total	**735**	**375**	**27**	**135**	**-**	**261**	**39**

06>23
Other Taxes Payable

As at 31 December other taxes payable were as follows:

In millions of Ukrainian Hryvnia	2011	2010
Payroll taxes	287	60
Value-added tax	490	33
Other taxes	163	67
Total other taxes payable	**940**	**160**

06>24
Revenue

Analysis of revenue by category is as follows:

In millions of Ukrainian Hryvnia	2011	2010
Sale of steaming and coking coal	17,344	9,612
Sale of electricity to electricity pool	10,356	7,845
Sale of electricity to final customers	8,573	6,208
Sale of electricity abroad	2,917	571
Other sales	404	58
Total	**39,594**	**24,294**

Analysis of revenue by regions is as follows:

In millions of Ukrainian Hryvnia	2011	2010
Domestic sales	33,110	21,927
Export sales	6,484	2,367
Total	**39,594**	**24,294**

06>25
Cost of Sales

In millions of Ukrainian Hryvnia	2011	2010
Cost of electricity purchased for resale	10,619	6,419
Raw materials	5,166	3,787
Operating costs at Dobropolyeugol, Rovenkiantracyte, Sverdlovantracyte*	1,174	-
Cost of coal purchased for resale	6,061	3,209
Staff cost, including payroll taxes	3,370	2,955
Depreciation of property, plant and equipment and amortisation of intangible assets net of amortisation of government grants	2,086	1,451
Transportation services and utilities	1,045	715
Taxes, other than income tax	316	206
Equipment maintenance and repairs	162	144
Production overheads	261	168
Change in finished goods and work in progress	(319)	(134)
Other costs	35	16
Total	**29,976**	**18,936**

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

06>26
Other Operating Income

In millions of Ukrainian Hryvnia	2011	2010
Income from sale of certified emission rights	222	-
Income from write-off of accounts payable	122	2
Assets received free of charge	73	41
Income from recovery on previously written off trade receivables	20	7
Net movement in provision for impairment of trade and other receivables and prepayments made	-	142
Gain on sales of inventory	-	74
Other	78	32
Total	**515**	**298**

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

06>27
Distribution Costs

In millions of Ukrainian Hryvnia	2011	2010
Transportation	114	60
Consulting services	15	67
Staff cost, including payroll taxes	19	16
Depreciation	7	4
Other costs	48	49
Total	**203**	**196**

06>28
General and Administrative Expenses

In millions of Ukrainian Hryvnia	2011	2010
Staff cost, including payroll taxes	779	589
Professional fees	229	124
Office costs	45	57
Depreciation of property, plant and equipment and amortisation of intangible assets	43	24
Taxes, other than income tax	30	17
Transportation	23	18
Other costs	35	22
Total	**1,184**	**851**

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06>29
Other operating expenses

In millions of Ukrainian Hryvnia	2011	2010
Social payments	167	115
Expenses on idle capacity	137	-
Loss on sales of services	102	33
Net movement in provision for impairment of trade and other receivables and prepayments made	48	-
Loss from disposal of non-current assets	35	-
Charitable donations and sponsorship	27	15
Non-recoverable VAT	25	13
Loss from sales of inventory	14	-
Maintenance of social infrastructure	9	7
Other	118	79
Total	**682**	**262**

06>30
Finance Income and Finance Cost

In millions of Ukrainian Hryvnia	2011	2010
Interest income on bank deposits	164	55
Gain on initial recognition of long term accounts payable	24	32
Unwinding of discount on long-term restructured accounts receivable	19	26
Other finance income	15	-
Total finance income	**222**	**113**
Interest expense		
– bank borrowings	247	255
– promissory notes payable	7	19
– bonds issued	400	274
– long-term payables	-	5
Unwinding of discounts on investment obligation relating to DTEK Dniproenergo (Note 18)	22	34
Unwinding of discounts on pension obligations	347	232
Unwinding of discounts on assets retirement provision	21	8
Unwinding of discounts on deferred consideration related to acquisition	130	-
Unwinding of discounts on long term accounts payable	46	-
Loss on initial recognition of long-term restructured accounts receivable	43	86
Loss on early repayment of long-term payables	-	7
Other finance costs	20	-
Total finance costs	**1,283**	**920**

06>31
Income Taxes

Income tax expense comprises the following:

In millions of Ukrainian Hryvnia	2011	2010
Current tax	2,226	1,183
Deferred tax	(80)	(68)
Income tax expense	**2,146**	**1,115**

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

In millions of Ukrainian Hryvnia	2011	2010
Property, plant and equipment		
– revaluation of property plant and equipment	(1,052)	-
– reversal of deferred tax following April 2011 change in Tax Code	1,228	-
Change in asset retirement obligation	-	(1)
Unrealised gain on available-for-sale financial assets	(28)	(35)
Income tax reported in equity	**148**	**(36)**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine). In 2011 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% during January-March 2011, and 23% starting from 1 April 2011 (2010: 25%). In 2011, the tax rate for Cyprus operations was 10% (2010: 10%).

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

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

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

In millions of Ukrainian Hryvnia	2011	2010
Profit before income tax, including	**5,668**	**3,972**
Profit before income tax of Ukrainian companies	4,806	3,652
Profit/(loss) before income tax of non-Ukrainian companies	862	320
Income tax at statutory rates of 23%-25% (Ukrainian operations)	1,147	913
Profit taxed at different rates 25% (Dutch operations)	(4)	(4)
Profit taxed at different rates 10% (Cyprus operations)	89	34
Effect of changes in income tax rates in Ukraine	(9)	134
Effect of changes in Tax legislation in Ukraine	427	-
Tax effect of items not deductible or assessable for taxation purposes:		
— non-deductible expenses	278	133
— non-taxable income	(101)	(31)
Share of result and impairment of associates	114	(64)
Share of result on transfer of associates to subsidiary and AFS to associates	143	-
Unrecognised deferred tax on tax losses carried forward	62	-
Income tax expense	**2,146**	**1,115**

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

In millions of Ukrainian Hryvnia	2011	2010
Deferred tax liability	(937)	(1,540)
Deferred tax asset	549	1,041
Net deferred tax liability	**(388)**	**(499)**

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

In millions of Ukrainian Hryvnia	1 January 2010	Credited/(charged) to income	Charged to equity	31 December 2010
Tax effect of deductible temporary differences				
Trade and other payables	82	(48)	-	34
Other provisions for liabilities and charges	38	6	-	44
Retirement benefit obligations	312	(78)	-	234
Prepayments received	377	72	-	449
Inventories	2	(2)	-	-
Financial investments	100	(13)	(35)	52
Gross deferred tax asset	**911**	**(63)**	**(35)**	**813**
Tax effect of taxable temporary differences				
Property, plant and equipment	(821)	92	(1)	(730)
Inventories	-	(23)	-	(23)
Other financial liabilities	(99)	72	-	(27)
Prepayments made	(478)	(53)	-	(531)
Trade and other receivables	(44)	43	-	(1)
Gross deferred tax liability	**(1,442)**	**131**	**(1)**	**(1,312)**
Recognised deferred tax asset/(liability)	**(531)**	**68**	**(36)**	**(499)**

As at 31 December 2011, the Group has not recorded a deferred tax liability in respect of taxable temporary differences of UAH 747 million (31 December 2010: UAH 502 million) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

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

06>32 Contingencies, Commitments and Operating Risks

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

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

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

Capital expenditure commitments. As at 31 December 2011 and 2010, the Group does not have contractual capital expenditure commitments in respect of property, plant and equipment.

As discussed in Note 10, the Group is committed to fund DTEK Dniproenergo's investment program totalling UAH 1,010 million till 2012.

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

Purchase commitments. As at 31 December 2011 and 2010, the Group did not have contractual purchase commitments.

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

In millions of Ukrainian Hryvnia	2011		2010	
	Asset pledged	Related liability	Asset pledged	Related liability
Cash and cash equivalents (Note 14)	-	-	423	400
Financial investments (Note 11)	211	19	673	84
Property, plant and equipment (Note 8)	1,127	446	1,129	925
Total	**1,338**	**465**	**2,225**	**1,409**

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

Compliance with covenants. The Group is subject to certain covenants related primarily to its Eurobonds and bank borrowings. Non-compliance with such covenants may result in negative consequences for the Group, including increase in the cost of borrowings, declaration of default and demand for immediate repayment of borrowings. As discussed in Note 17, the Group subsidiary Kyivenergo, which was acquired in December 2011, was not in compliance with certain loan covenants for which waivers had been obtained. The Group is in compliance with other covenants as at 31 December 2011 and 2010.

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

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

In millions of Ukrainian Hryvnia	2011	2010
Not later than 1 year	16	-
Later than 1 year and not later than 5 years	3	12
Total operating lease commitments	**19**	**12**

Lease of land. The Group leases the land on which its assets are located. The annual lease payment in 2011 amounted to UAH 21 million (2010: UAH 17 million). Those payments are cancellable lease commitments.

06>33 Business Combinations

Dobropolyeugol

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

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

The lease agreement required the Group to pay a monthly rental fee of UAH 7 million for the first month with all subsequent monthly payments being adjusted for the consumer price index ("CPI") in Ukraine. DTEK recognised the net present value of future rental payments as deferred consideration totalling UAH 909 million using CPI assumption of 7% per annum for the next five years and 5% per annum there after and a discount rate of 16.56%. Further, the lease agreement required the Group to commit to funding Dobropolyeugol's investment program totalling UAH 2,000 million during the period 2011 through 2015. As at 31 December 2011 the commitment totals UAH 1,548 million.

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

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

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

Rovenkiantracyte and Sverdlovantracyte

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

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

The agreement requires the Group to pay a quarterly rental fee of UAH 19 million and UAH 14 million, respectively for the first quarter with all subsequent quarterly payments being adjusted for CPI in Ukraine and decreasing by quarterly depreciation charge that should be reinvested to capital expenditures during the next 5 years. DTEK recognised the net present value of future rental payments as a deferred consideration totalling UAH 557 million and UAH 359 million, respectively using CPI assumption of 7% per annum for the next five years and 5% per annum thereafter and a discount rate of 16.85%. Further, the agreement required the Group to commit to funding Rovenkiantracyte's and Sverdlovantracyte's investment program totalling UAH 2,998 million and UAH 2,729 million, respectively during the period 2012 through 2016. As at 31 December 2011 the commitment totals UAH 2,845 million and UAH 2,700 million respectively. In accordance with the agreements for concession, all movable and immovable properties and property rights of the above companies are encumbered with a tax lien.

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

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

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

Kyivenergo

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

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

The investment in Kyivenergo held prior to the acquisition was accounted for as investment in associate and as a result of revaluation of previously held interest to fair value UAH 334 million loss was recognised in the income statement (Note 10).

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

In millions of Ukrainian Hryvnia	
Property, plant and equipment	3,130
Intangible assets	3
Deferred income tax asset	132
Available for sale investments	15
Inventories	173
Trade and other receivables (gross UAH 3,632 million)	1,897
Cash and cash equivalents	497
Borrowings	(680)
Retirement benefit obligations	(97)
Long-term accounts payable	(170)
Trade and other payables	(3,122)
Prepayments received	(497)
Provisions for other liabilities and charges	(163)
Fair value of 100% of net assets acquired	**1,118**
28.18% non-controlling interest	**315**
Share of net assets acquired	**803**
Goodwill	483
Fair value of consideration paid	**451**
Fair value of previously held interest (Note 10)	**835**

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

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

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

06>34 Financial Risk Management

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

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

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

Credit risk is managed on an entity by entity basis with oversight by the Group. Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions. For Banks only SCM related banks or upper tier Ukrainian banks are accepted, which are considered at time of deposit to have minimal risk of default. Customers can be analysed between Energorynok SE, which buys 100% of electricity generated, Industrial consumers and other. Due to the monopolistic nature of electricity supply by region, the Group cannot choose its customers, and instead must supply all customers within its distribution network. Sales are metered and management monitors ageing of receivables for industrial customers on a regular basis and ultimately may cut-off supply for delinquent customers. For supply to municipal and general populous, due to the insignificant tariff structure and the political nature of disrupting supply management will continue supply and use non payment as justification for higher tariff increases for Industrial customers. With respect to coal sales, these are primarily to related parties, DTEK Dniproenergo JSC and DTEK Zakhidenergo JSC (Note 7) and credit exposure is considered to be minimal. Management has no formal credit policy in place for other customers and the exposure to credit risk is approved and monitored on an ongoing basis individually for all significant customers. The Group does not require collateral in respect of trade and other receivables.

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

The maximum exposure to credit risk at the reporting date is UAH 14,725 million (2010: UAH 4,489 million) being carrying value of financial investments, trade and other receivables and cash. The Group does not hold any collateral as security.

Credit risks concentration. The Group is exposed to concentrations of credit risk. The table below shows the balance of the major counterparties at the balance sheet date.

Counterparty	Classification in statement of financial position	31 December 2011	31 December 2010
Russian Commercial Bank (CYPRUS) Limited	Cash and cash equivalents	3,152	-
First Ukrainian International Bank (FUIB)**	Cash and cash equivalents	2,788	62
Erste Group Bank AG	Cash and cash equivalents	2,493	-
VTB Bank OJSC*	Cash and cash equivalents	1,224	2
VTB Bank OJSC*	Financial investment	57	81
State Savings Bank of Ukraine JSCB*	Cash and cash equivalents	236	133
Ukrsibbank OJSC	Cash and cash equivalents	233	-
Universalbank OJSC	Cash and cash equivalents	140	
Prominvest Bank OJSC*	Cash and cash equivalents	2	977
Prominvest Bank OJSC*	Financial investment	23	43
Marfin Popular Bank	Financial investment	188	577
Marfin Popular Bank	Cash and cash equivalents	73	87
OTP Bank CJSC*	Cash and cash equivalents	59	164
Dongorbank CJSC**	Cash and cash equivalents	-	122
Dongorbank CJSC**	Financial investment	-	54
VAB Bank OJSC	Cash and cash equivalents	-	103
State Company Energorynok	Trade and other receivables	1,045	412
DTEK Dniproenergo OJSC (Note 10)	Trade and other receivables	375	385
State Company Belenergo	Trade and other receivables	83	-
Scanwell Commodities	Trade and other receivables	0	342
Metinvest Holding LLC**	Trade and other receivables	45	71
Azovstal Steel Works PJSC**	Trade and other receivables	9	13

* These banks rank top 30 Ukrainian banks by size of total assets and capital.

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

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

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

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

In millions of Ukrainian Hryvnia	At 31 December 2011		At 31 December 2010	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 25% (2010: 25%)	(1,354)	(1,354)	(729)	(729)
USD weakening by 25% (2010: 25%)	1,354	1,354	729	729
Euro strengthening by 25% (2010: 25%)	(339)	(339)	(117)	(117)
Euro weakening by 25% (2010: 25%)	339	339	117	117
RUB strengthening by 25% (2010: 25%)	(56)	(56)	-	-
RUB weakening by 25% (2010: 25%)	56	56	-	-

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

Interest rate risk. As the Group normally has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rate. However, during 2011, due to the delayed privatisation, the Company has accumulated significant cash and cash equivalents balance. The Group's interest rate risk rises from long-term borrowings. Borrowings issued at variable interest rates expose the Group to interest rate risk. Borrowings at fixed rate expose the Group to fair value interest rate risk.

At 31 December 2011 and 2010, the majority of the Group's variable interest debt is USD, RUB and EUR denominated. As at 31 December 2011, 64% of the total borrowings was provided to the Group at floating rates (31 December 2010: 20%).

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether fixed or variable rate would be more favourable to the Group over the expected period until maturity. The risk of increase in market interest rates is monitored by the Corporate Finance Department of the Company together with the Treasury Department. The Corporate Finance Department is responsible for planning the financing structure (levels of leverage) and borrowing activities. The key objective to financing is reduction of borrowing costs. As disclosed in Note 17 in December 2011 DTEK concluded an agreement with Sberbank of Russia for a swap of RUB floating rate loan for USD loan with fixed rate.

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

The maturity dates and effective interest rates of financial instruments are disclosed in Note17. Re-pricing for fixed rate financial instruments occurs at maturity of fixed rate financial instruments. Re-pricing of floating rate financial instruments occurs continually.

At 31 December 2011, if interest rates on USD and EUR denominated borrowings had been 200 basis points higher with all other variables held constant, post-tax profit for the year would have been UAH 118 million lower (2010: UAH 85 million lower).

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

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

If the equity quotations of the Group's investments had increased by 10% as at 31 December 2011 and 2010, with all other factors being equal, the Group's equity at 31 December 2011 would have increased by UAH 5 million (31 December 2010: UAH 125 million).

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

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are undiscounted cash flows. The maturity analysis of financial liabilities at 31 December 2011 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 17)	2,228	724	1,415	9,350	182	13,899
Eurobonds (Note 17)	257	194	385	4,506	-	5,342
Gross settled derivative financial instruments – outflows	28	28	55	906	-	1,017
Gross settled derivative financial instruments – inflows	(42)	(43)	(85)	(951)	-	(1,121)
Other financial liabilities (Note 18)	483	156	162	522	53,469	54,792
– external	59	50	162	522	53,469	54,262
– DTEK Dniproenergo	424	106	-	-	-	530
Indebtedness under amicable agreement (Note 19)	-	-	12	-	-	12
Trade and other payables (Note 22)	4,640	60	-	-	-	4,700
Total future payments, including future principal and interest payments	**7,594**	**1,119**	**1,944**	**14,333**	**53,651**	**78,641**

The maturity analysis of financial liabilities at 31 December 2010 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total
Liabilities						
Borrowings (Note17)	720	215	384	254	-	1,573
Eurobonds (Note 17)	65	-	-	3,981	-	4,046
Other financial liabilities (Note 18)	-	494	106	-	53	653
– related party	-	12	-	-	-	12
– external	-	58	-	-	53	111
– DTEK Dniproenergo	-	424	106	-	-	530
Indebtedness under amicable agreement (Note 19)	-	-	-	140	-	140
Trade and other payables (Note 22)	1,528	44	-	-	-	1,572
Total future payments, including future principal and interest payments	**2,313**	**753**	**490**	**4,375**	**53**	**7,984**

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Management of Capital

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

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

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

	31 December 2011	31 December 2010
Total net debt	4,656	3,809
Total equity	24,826	13,280
Debt to equity ratio	18.8%	28.7%

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Fair Value of Financial Instruments

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

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

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

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

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

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

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

In millions of Ukrainian Hryvnia	Measurement method:		Total fair value	Carrying value
	Quoted price in active market	Valuation using observable market inputs		
FINANCIAL ASSETS				
Cash and cash equivalents (Note 14)				
— Bank balances payable on demand	-	4,922	4,922	4,922
— Term deposits	-	5,504	5,504	5,504
— Restricted cash	-	-	-	-
Trade and other receivables (Note 13)				
— Trade receivables	-	3,070	3,070	3,070
— Receivables under commission agreements	-	45	45	45
— Receivable for sale of financial instruments	-	2	2	2
— Other financial receivables	-	225	225	225
Other non current assets				
— Trade and other receivables - non-current	-	137	137	137
Financial investments (Note 11)				
— Securities quoted on Ukrainian stock market	71	-	71	71
— Prepayment for shares	-	355	355	355
— Deposits placed with the maturity more than three months	-	275	275	275
— Loans receivable	-	190	190	190
TOTAL FINANCIAL ASSETS	**71**	**14,725**	**14,796**	**14,796**
FINANCIAL LIABILITIES				
Liability to non-controlling participants	-	4	4	4
Borrowings (Note 17)	-	10,977	10,977	11,162
Eurobonds (Note 17)	3,670	-	3,670	3,920
Other liabilities – non-current (Note 18)	-	1,961	1,961	1,961
Indebtedness under amicable agreement (Note 19)	-	9	9	9
Investment obligation relating to DTEK Dniproenergo – current	-	519	519	519
Current part of deferred consideration	-	85	85	85
Trade and other payables (Note 22)	-	4,700	4,700	4,700
TOTAL FINANCIAL LIABILITIES	**3,670**	**18,255**	**21,925**	**22,360**

Fair values of financial instruments at 31 December 2010 were as follows:

In millions of Ukrainian Hryvnia	Measurement method:		Total fair value	Carrying value
	Quoted price in active market	Valuation using observable market inputs		
FINANCIAL ASSETS				
Cash and cash equivalents (Note 14)				
— Bank balances payable on demand	-	594	594	594
— Term deposits	-	1,098	1,098	1,098
— Restricted cash	-	1	1	1
Trade and other receivables (Note 13)				
— Trade receivables	-	1,133	1,133	1,133
— Receivables under commission agreements	-	417	417	417
— Receivable for sale of financial instruments	-	80	80	80
— Other financial receivables	-	56	56	56
Other non current assets				
— Trade and other receivables - non-current	-	38	38	38
Financial investments (Note 11)				
— Securities quoted on Ukrainian stock market	1,247	-	1,247	1,247
— Prepayment for shares	-	251	251	251
— Deposits placed with the maturity more than three months	-	756	756	756
— Loans receivable	-	65	65	65
TOTAL FINANCIAL ASSETS	**1,247**	**4,489**	**5,736**	**5,736**
FINANCIAL LIABILITIES				
Liability to non-controlling participants	-	3	3	3
Borrowings (Note17)	-	1,787	1,787	1,613
Eurobonds (Note 17)	-	3,889	3,889	3,889
Investment obligation relating to DTEK Dniproenergo – non-current (Note 18)	-	76	76	83
Other liabilities – non-current (Note 18)	-	35	35	35
Indebtedness under amicable agreement (Note 19)	-	87	87	93
Investment obligation relating to DTEK Dniproenergo – current (Note18)	-	410	410	414
Bonds issued (Note 18)	-	71	71	71
Trade and other payables (Note 22)	-	1,572	1,572	1,572
TOTAL FINANCIAL LIABILITIES	**-**	**7,930**	**7,930**	**7,773**

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Reconciliation of Classes of Financial Instruments with Measurement Categories

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

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Total
ASSETS			
Cash and cash equivalents (Note 14)			
– Bank balances payable on demand	4,922	-	4,922
– Term deposits	5,504	-	5,504
– Restricted cash	-	-	-
Trade and other receivables (Note 13)			
– Trade receivables	3,070	-	3,070
– Receivables under commission agreements	45	-	45
– Receivable for sale of financial instruments	2	-	2
– Other financial receivables	225	-	225
Other non current assets			
– Trade and other receivables – non-current	137	-	137
Financial investments (Note 11)			
– Equity securities	-	71	71
– Prepayment for shares	355	-	355
– Deposits placed with the maturity more than three months	275	-	275
– Loans receivable	190	-	190
TOTAL FINANCIAL ASSETS	**14,725**	**71**	**14,796**
NON-FINANCIAL ASSETS	**-**	**-**	**41,552**
TOTAL ASSETS			**56,348**

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2010:

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Total
ASSETS			
Cash and cash equivalents (Note 14)			
– Bank balances payable on demand	594	-	594
– Term deposits	1,098	-	1,098
– Restricted cash	1	-	1
Trade and other receivables (Note 13)			
– Trade receivables	1,133	-	1,133
– Receivables under commission agreements	417	-	417
– Receivable for sale of financial instruments	80	-	80
– Other financial receivables	56	-	56
Other non current assets			
– Trade and other receivables – non-current	38	-	38
Financial investments (Note 11)			
– Equity securities	-	1,247	1,247
– Prepayment for shares	251	-	251
– Deposits placed with the maturity more than three months	756	-	756
– Loans receivable	65	-	65
TOTAL FINANCIAL ASSETS	**4,489**	**1,247**	**5,736**
NON-FINANCIAL ASSETS	**-**	**-**	**19,901**
TOTAL ASSETS			**25,637**

All of the Group's financial liabilities at 31 December 2011 and 2010 are carried at amortised cost.

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Subsequent events

On 11 January 2012 the Group acquired 45% shares of DTEK Zakhidenergo JSC for a cash consideration of UAH 1,932 million thus taking its total share to 70.94%. IFRS and fair value information at the acquisition does not exist. Management are currently assessing the purchase price allocation and reporting implications.

On 13 March 2012 the Group acquired 25% of JSC DTEK Dniproenergo for a cash consideration of UAH 1,180 million thus taking its total share to 72.93%. Summarised IFRS financial information for DTEK Dniproenergo as at 31 December 2011 is presented in Note 10. IFRS and fair value information at the acquisition does not exist. Management are currently assessing the fair values and purchase price allocation and reporting implications.

On 11 January 2012 the Group acquired 40% shares of JSC DTEK Donetskoblenergo for a cash consideration of UAH 467 million thus taking its total share to 71.34%. IFRS and fair value information at the acquisition does not exist. Management are currently assessing the purchase price allocation and reporting implications.

On 17 and 24 February 2012 the Group acquired 74.7% and 20.7% shares of JSC Belozerskaya mine respectively for a total cash consideration of UAH 202 million. Belozerskaya mine comprises one coal mine located in the Donetsk region of Ukraine producing 0.6 million tons of coal per annum. IFRS and fair value information at the acquisition does not exist. Management are currently assessing the purchase price allocation and reporting implications.

On 17 April 2012 the Group acquired 50% shares of DTEK Dniprooblenergo JSC, an electricity distribution company located in the Dnipropetrovsk region of Ukraine, for a cash consideration of UAH 660 million thus taking its total share to 51.5%. IFRS and fair value information at the acquisition does not exist. Management are currently assessing the purchase price allocation and reporting implications.

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