Powering growth

annual report 2007

Mission, Vision, Values

MISSION

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

VISION

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

VALUES

Professionalism

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

Responsibility

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

Pursuit of Excellence

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

Unity

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

Openness

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

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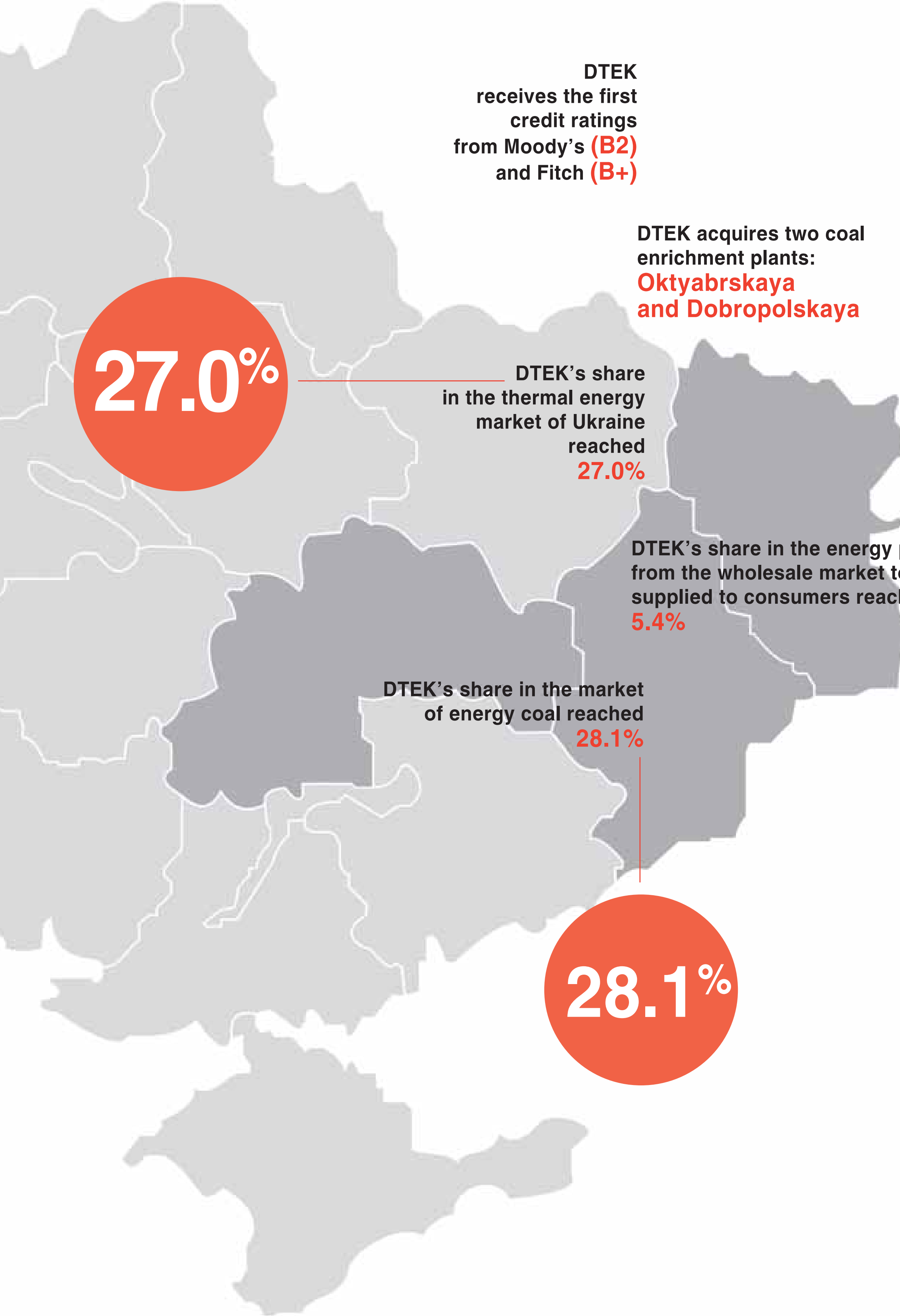
2007 at a glance

Key Financial Indicators in 2007 (compared to 2006)*

Indicators	2006	2007	Variance (±)	Variance (%)
Sales revenues, USD mln	1,000	1,776	+776	77.6
Net profit, USD mln	98	236	+138	142.0
Net profit margin, %	9.8	13.3	3.5	–
EBITDA, USD mln	249	477	+228	91.7
EBITDA margin, %	24.9	26.9	2	–
Investment, USD mln	106	194	+88	82.3
Tax payments, USD mln	209	221	+12	5.7

* Statements according to IFRS


DTEK
receives the first
credit ratings
from Moody's (B2)
and Fitch (B+)
DTEK acquires two coal
enrichment plants:
Oktyabrskaya
and Dobropolskaya
27.0%
DTEK's share
in the thermal energy
market of Ukraine
reached
27.0%
DTEK's share in the energy purchased
from the wholesale market to be
supplied to consumers reached
5.4%
5.4%
DTEK's share in the market
of energy coal reached
28.1%
28.1%

Statement of the Supervisory Board Chairman

Dear colleagues and partners,

I am pleased to present to you the Donbass Fuel-Energy Company (DTEK)'s 2007 Annual Report. 2007 has been a year of rapid growth: the Company was entering new market segments and regions, making meaningful steps towards our goal of becoming Ukraine's largest energy company and establishing a peer position in the global energy community.

In 2007, we demonstrated yet again that DTEK was one of the most dynamically growing and efficient companies in Ukraine's energy sector. DTEK enterprises outperformed the industry by 5% in terms of output growth. Our growth rate, strong market position and introduction of global best business practices and technologies have made DTEK the Ukrainian energy sector leader.

DTEK's success comes from a new 5 year development strategy, which the Company began to implement in 2007. The strategy envisions business growth through strengthened positions in electricity generation and distribution, diversification and entry into new energy market segments.

In 2007, we saw good progress on each front, a sign that we are on the right track.

Throughout 2007, DTEK considerably improved its traditionally strong positions in the electricity segment. We achieved success by improving efficiency at each enterprise and taking advantage of the vertical integration of DTEK's business. The Company's M&A activity in this sector also significantly contributed to its success.

Last year, DTEK took its first steps towards energy business diversification. The Company became an institutional investor in an international Black Sea shelf development project.

In 2007, we remained geographically focused on Ukraine. We are confident that Ukraine's energy sector has considerable growth potential. We have a deep understanding of and extensive experience in this market, and we seek to use each and every opportunity available in it. We look to global best practices and are trendsetters in the Ukrainian energy sector. DTEK was the first and remains the only vertically-integrated Company in the sector. DTEK was the first to adopt IFRS and introduce management practices and production technologies that are new to Ukraine. We are confident that DTEK's success will facilitate the development of Ukraine's energy sector as a whole. We also feel that we have made an important contribution to the successful and sustainable development of the Ukrainian economy.

Our contribution to societal development is not limited to business performance. We understand that a large business bears responsibility for its employees, local communities and society as a whole. This understanding is at the heart of DTEK's corporate social responsibility policy. In 2007, the Company launched a number of very important initiatives to support the development of local communities, partnering with USAID, a leading international development assistance institutions.

We are fully aware that it takes a team of professionals to implement plans, deliver growth and ensure sustainable development. Therefore, in 2007, as in previous years, we sought to hire top experts that bring to the table international experience, know-how and a deep understanding of Ukraine's energy sector. On behalf of the Supervisory Board, I would like to thank everyone working at DTEK's headquarters and its many enterprises for their contribution to the success of the Company, and share both our success in 2007 and future achievements with each member of DTEK's large team.

Last year, we laid a strong foundation to make the Company more attractive to the investment community. Our ability to deliver on goals and objectives, as well

as constant qualitative improvements, have won us praise from leading international ratings agencies – Moody's Investors Service and Fitch Ratings. We were proud to receive B2 and B+ ratings with stable outlook in 2007. I am confident that the successes of 2007 will lead to even greater and more dynamic development in the future.

In 2008, we intend to take steps to build a strong, effective and competitive business, with a leading position in Ukraine, integrated into the global energy market. We remain focused on achieving sustainable organic growth at existing assets, expanding our geographic presence and entering new market segments. We are fully committed to making DTEK one of the strongest players in Ukraine's fast-developing energy sector and a world-class company operating in the international energy markets.

Oleg Popov
Chairman of DTEK's Supervisory Board

CEO's Statement

Achieving success and becoming a market leader is only half of our journey. Our real challenge will be maintaining and building on that success to become a high performance standard bearer in the Ukrainian business community, and fostering trust among our partners and society.

We are proud to present the DTEK Annual Report for 2007, a year of active growth and development and another successful milestone in the Company's history. Last year, we again proved that DTEK was one of Ukraine's most efficient companies. We strengthened our positions in the domestic market by implementing a number of key projects and focusing on growth across all business lines. Overall, DTEK's organic growth was reflected in its annual operational and financial performance, which outpaced the market.

In a y-o-y comparison of 2007 to 2006, DTEK saw 77.6% revenue growth, EBITDA growth of 91.7% and net profit increases of 142%. DTEK's consolidated IFRS revenues for 2007 were $1.776 million, EBITDA was $447 million, and net profits reached $236 million reflecting a consistent growth in value for our shareholders.

Our coal production and energy generation businesses made the greatest contribution to revenue growth. DTEK enterprises' share in the total volume of coal production in Ukraine increased by 1.8% - to a 20.9% overall market share. Our energy coal output grew by 3.5% to 13.2 million tons. Komsomolets Donbassa hit a record high output of 3.4 million tons of coal, making it the second largest Ukrainian mine both in terms of output and labour productivity.

As in 2006, Eastenergo, DTEK's electricity generation business, maintained a leading position in the thermal electric power market in 2007, increasing its market share by 1.3%. Last year, the Company generated 18.1 billion kWh, a record level in the sector and almost 1/3 of the total volume of thermal generation in Ukraine. Eastenergo's power plants had the highest Installed Capacity Utilization Rate (ICUR) in the country: in Q4 2007 the ICUR reached 64.2%; it was 56% for the whole year.

In 2007, we increased electricity transmission to 12.2 million MWh. The share of electric power purchased from the Wholesale Electricity Market increased by 0.7% to 5.4%. Servis-Invest expanded its network in the Dnepropetrovsk region by acquiring 580.5 kilometers of power lines. The Company began to supply power to DTEK's enterprises and increased supplies to customers by 17%.

The Company has continued to implement large-scale investment projects to increase productivity and foster organic growth. In 2007, DTEK invested about $200 million in development. In line with our five year investment programme, we developed combined arch support and roof bolting technologies, introduced efficient mining equipment and began reconstruction of power generating units (unit #2 of Zuevskaya TPP and unit #5 of Kurahovskaya TPP). We are confident that our investments into development of production capacity, new technologies and human resources will allow us to further expand DTEK's business and geographic horizons in 2008.

The growth of internal and external investments requires considerable financial resources. In 2007, DTEK received its first international ratings – from Moody's (B2) and Fitch (B+). We also took our first international loan of $100 million from Deutsche Bank. These were important steps towards raising international capital and winning recognition from the international investment community.

Last year, DTEK saw important developments not only in operational and financial areas, but also in management. The Company's ambitions require a new management approach and the development of new functions. In 2007, we set up new subdivisions and began the initial stages of setting up an internal control and risk management system. In cooperation with the DTEK Supervisory Board Audit Committee,

we initiated an internal audit function at DTEK, which will enable the Company to operate in line with the global standards of corporate governance.

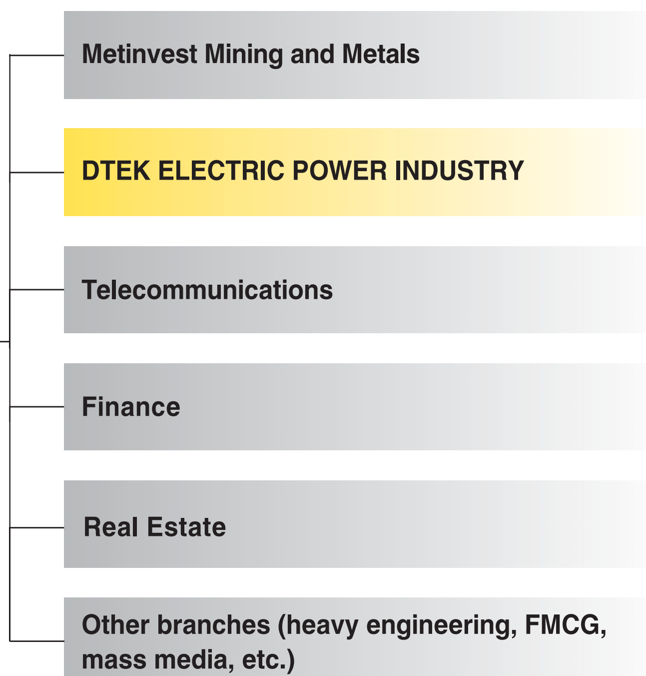
Our most valuable asset continues to be our employees, and we continue to enable them to develop and grow professionally. Last year, HR policy was focused on searching for and development of in-house talent, which fostered very positive organizational and personnel changes. In 2007, we made the first steps toward the creation of an internal top management talent pool at both our corporate headquarters and our operational assets. We designed individual development plans for all succession pool candidates and considerably increased budgets for training programmes and support to young employees. We have continued to develop horizontal and vertical rotation at DTEK.

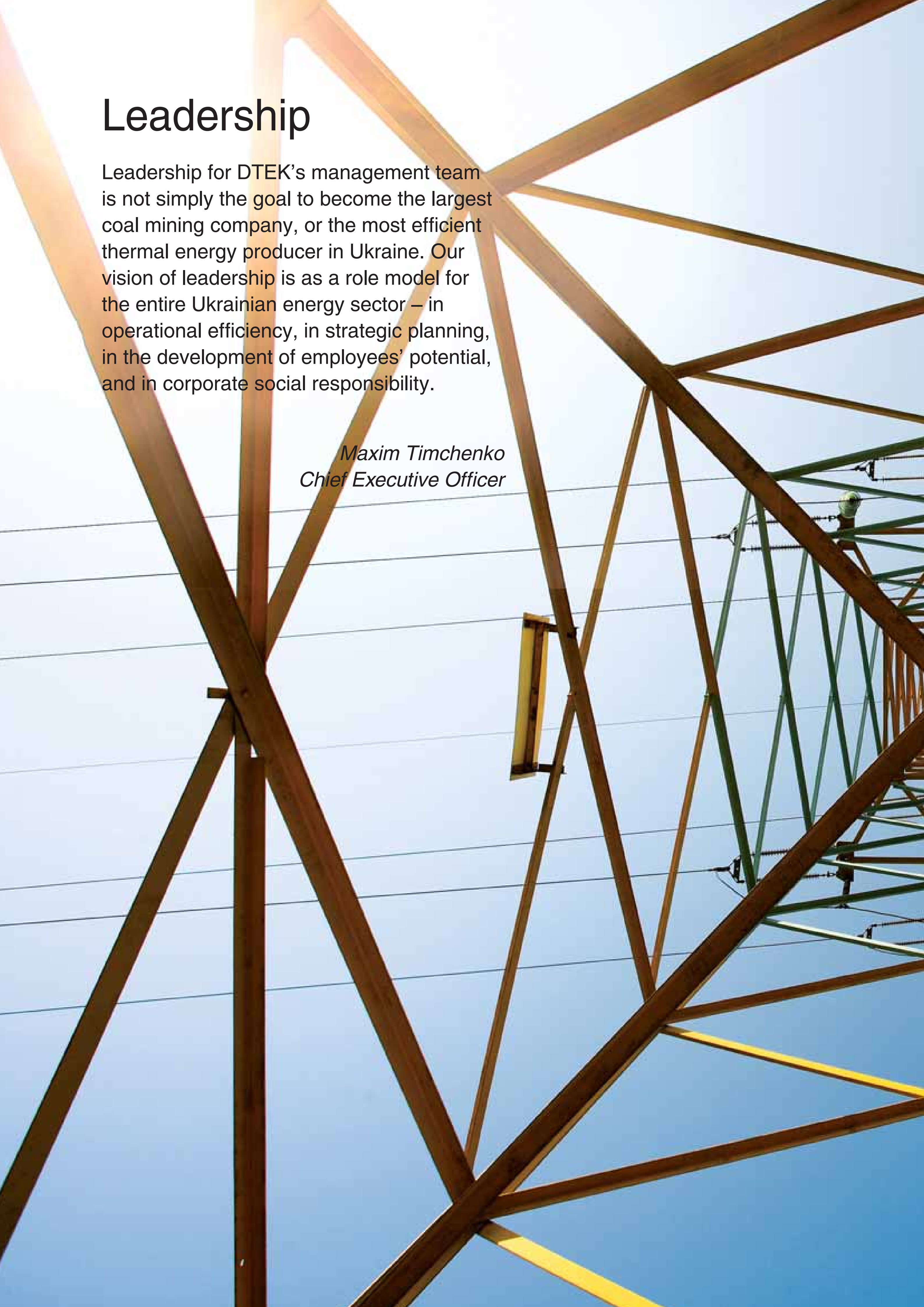
Finally, DTEK's business is not only about the bottom line. We are ever conscious of the responsibility we have to our employees, and we annually renew our commitment to environmental protection and the development of infrastructure in our communities. Last year, in addition to our traditional CSR efforts, we launched a flagship social partnership project, promoting cooperation among the private sector, government and people in the 7 municipalities presenting which we operate. It is of primary importance to DTEK that our success contributes not only to the energy security of the country, but also to development in our home communities. We view our achievements in 2007 as the beginning of a long journey. We are actively developing in all strategic directions, and, not content to rest on our laurels we seek to continuously grow and perfect ourselves, meeting new market challenges and staying ahead of the competition. We hope that DTEK will continue to be a symbol for high performance in the industry and a significant contributor to the development of Ukraine's energy sector.

Maxim Timchenko
Chief Executive Officer

DTEK Profile

Donbass Fuel-Energy Company (DTEK) is an integration of energy assets of SCM Group, and is the only private Ukrainian company to create an effective production chain, from coal production (Pavlogradugol, Komsomolets Donbassa) to electric power generation (Eastenergo) and distribution (Servis-Invest, PES-Energougol). Synergy effects and mutually beneficial cooperation of the coal enterprises with the generating company as well as implementation of new technologies, professional management and balanced social policy make DTEK the leader of the fuel-energy market of Ukraine. In 2007, DTEK's coal block accounts for 28.1% in the total output of energy coal in Ukraine while the share of the generation block in the Ukrainian thermal energy market is 27.0%. In the reporting year, the distribution block of DTEK accounts for 5.4% of energy supplies to Ukrainian consumers. The Company's main strategic initiatives for the next 5 years include further optimization of operations, increase in the effectiveness of corporate governance, and DTEK's participation in the initiatives on reforming coal and energy markets.





Leadership

Leadership for DTEK's management team is not simply the goal to become the largest coal mining company, or the most efficient thermal energy producer in Ukraine. Our vision of leadership is as a role model for the entire Ukrainian energy sector – in operational efficiency, in strategic planning, in the development of employees' potential, and in corporate social responsibility.

Maxim Timchenko
Chief Executive Officer

Management

Maxim V. Timchenko
Chief Executive Officer

Maxim Timchenko graduated with honours from Donetsk State Academy of Management in 1997, qualified in ‘Management of Production Sphere’. He continued his education at the University of Manchester where he was awarded Bachelor of Arts with honours in Economic and Social Studies.

Maxim Timchenko is a member of the Association of Chartered Certified Accountants.

Starting with PricewaterhouseCoopers (1998-2002), Mr.Timchenko rose from advisor to senior auditor.

In 2002–2005, he worked as senior manager at System Capital Management.

Since July 2005, Maxim Timchenko has been Chief Executive Officer of DTEK.

In march 2008, was named the best top manager in Ukraine by the TOP-100 rating.

Yuriy A. Ryzhenkov
Chief Financial Officer

In 2000, Mr.Ryzhenkov graduated from King’s College London (UK) with a Bachelor of Science with honours in Business Management. The same year, he graduated from Donetsk State Technical University (Ukraine) with a degree in International Economics.

In 2006, he was awarded MBA with distinction from London Business School (UK).

In 1996–2000, he worked as assistant to Chief Financial Officer of Donetsk Iron and Steel Works.

In 2000, Mr. Ryzhenkov joined CJSC “Mini-steel mill “ISTIL (Ukraine)” as Economic analysis and IT department manager. In 2002–2007, he was promoted first to Deputy CFO and later to the Group’s CFO of International Steel and Tube Industries Limited (ISTIL) (Donetsk-London)

In September 2007, Mr. Ryzhenkov joined DTEK as Chief Financial Officer.

Guerman A. Ainbinder
Business Development Director

In 1991, Mr. Ainbinder graduated from Moscow Machine-Tool Institute.

In 1993, Guerman Ainbinder was awarded MBA from the School of Business and Economics at the Academy of National Economy under the Government of the Russian Federation and California State University (Hayward).

From September 1993 to January 1995, he worked as Finance Manager at the NERO Company (Russia). At the same time he was Advisor to the Rector of the School of Business and Economics at the Academy of National Economy under the Government of the Russian Federation.
In October 1995, he moved to the management consulting group of Deloitte and Touche CIS.

In February 1997, he joined the Russian division of Merk Sharp & Dohme Idea Company.

In June 1999, Mr. Ainbinder moved to KPMG's Strategy and Organizational Planning Group, where he advanced from manager to senior manager.

In 2005–2007, he headed the Strategy and Corporate Development Division of DTEK.
In 2008, Mr. Ainbinder was appointed Business Development Director of DTEK.

Vitaly G. Butenko
Chief Strategy Officer

In 1993, Vitaly Butenko graduated with honours from the University of Chernovtsy (Ukraine) with a degree in foreign languages. He was awarded an MBA from the Asper School of Business, University of Manitoba (Canada), in 1996. At the same time, he worked as associate at the European Bank for Reconstruction and Development in London (1995).

From 1996 to 2004, he held executive positions at several leading investment banks in the USA, Canada and Russia, among them Bank of Nova Scotia (Toronto), Credit Suisse First Boston (New York), and IB TRUST (Kyiv / Moscow).

From January 2005, Mr. Butenko worked as Chief Investment Officer of Inter RAO UES (Moscow), where he was responsible for the company's global investment strategy with a focus on the CIS, Central and Eastern Europe, Turkey, Central Asia, the Middle East and China.

In April 2007, Vitaly Butenko became Chief Strategy Officer of DTEK.

Evgeniy V. Romaschin
Coal Production and Enrichment Director

In 1996, Evgeniy Romaschin graduated from Tula State University with a degree in Business Economics and Management.

In 1999, he completed the postgraduate course in National Economy Management at Tula State University.

In 2000, Evgeniy Romaschin participated in the Presidential Training Programme for Executives, completing the courses 'Management' and 'Financial Management' arranged by the International Institute of Management LINK and the Open University (UK).

In September 1995, he became economist at the Planning & Economy Unit of Stroymaterialy Tulachermet. In February 1999, he headed the Cost Accounting Unit of the company.

From September 2000 to April 2001, Evgeniy Romaschin worked as expert at the External Investments Directorate of Severstal.

In April 2001, he became Economy and Finance Director of Karelsky Okatysh.

In August 2005, he was appointed Director of Finance of DTEK.

Since August 2007, Mr. Romaschin has been Coal Production and Enrichment Director.

Sergey A. Kordashenko
Human Resources and Corporate Communications Director

In 1994, Sergey Kordashenko graduated from Moscow Aviation Institute with a degree in Applied Mathematics.

In 2005, he received an International Executive MBA from Stockholm School of Economics.

Sergey Kordashenko started his career in 1993 at Ernst & Young.

His HR career started in 1994 with Procter & Gamble.

In November 1995, he moved to telecom company Vesso-Link (Russia) as Deputy General Director of Human Resources.

From January 1997 to April 1999, Mr. Kordashenko worked as HR Manager at AGA Industrial and Medical Gases (Sweden), a company which specializes in production of industrial and medical gases.

In May 1999, he took up position of HR Manager at Efes brewery (Moscow).

Since August 2005, Sergey Kordashenko has been Human Resources and Corporate Communications Director of DTEK.

Sergey V. Polianskiy
Security Director

Sergey Polianskiy graduated from the National Academy of Internal Affairs of Ukraine with a degree in law.

He worked for various home affairs agencies from 1986, specializing in Operations. Sergey Polianskiy gradually advanced from the position of Authorized Operations Officer to Head of Anti-Drug Trafficking Division of the IAMD of Ukraine (Donetsk Region).

From 1994, he held executive positions within the IAMD. While working at IAMD, he was specially trained according to the international training systems on anti-terrorism and disclosure of crimes that involve explosives and fire-arms in the US, Great Britain and Turkey.

In 2005, Mr. Polianskiy became Deputy Head on Economic Security of Security Service of DTEK.

In 2006, he headed the Economic Security Department of DTEK.

Since April 2007, Sergey Polianskiy has been Security Director of DTEK.

Strategic priorities

DTEK is the leader of the fuel-energy industry in Ukraine, and the largest private sector player. Our business is built upon the vertical integration principle: we use our mining facilities to supply our thermal generation with coal. We work to secure stable and sustainable growth with a constant focus on modernization of coal mining and power generation technologies, investments in our human resources, clear vision of our strategic priorities, and consistent achievement of our strategic plans.

Our development is defined by a philosophy of constant pursuit of new leadership goals in production, governance, and DTEK's social role in the Ukrainian economy.

Leadership

DTEK is aiming to improve effective development of the national energy sector of Ukraine. We believe that simply being the private sector leader of energy coal and thermal generation markets is not enough. DTEK's ambitious team and resources of the whole Company are directed to increase performance of coal production and power generation, develop the Company's human resources, strengthen and improve corporate governance and social responsibility.

Stability

DTEK was founded in 2002. From the very outset it was focused on long-term increase of the value of business by securing stable and sustainable growth of all its business units, including coal production, thermal generation and distribution. In such a way, in the last three years alone the average annual growth of net profit reached 27% for coal business, 48% for generation, and 41% for distribution.

Key to DTEK's success is the fortunate choice of a vertically integrated business model which unites our coal business with our thermal generation in a single production cycle. This makes us the most stable and firm player in the complex and unsteady fuel-energy market of Ukraine.

Our further development will be based on the potential to grow to a transnational business model, and is to include expansion beyond the borders of Ukrainian energy market space.

Effectiveness

DTEK keeps demonstrating new levels of effectiveness in managing enterprises of the Ukrainian fuel-energy sector.

We achieved the lowest production cost of coal mined in Ukraine. Our next goal is to reach production cost competitive to imported product, including Russian, by enhancing labour productivity at our coal mining assets by 40% on average.

In thermal generation, our aim is to increase efficiency factor from 31% to 34% by modernizing our facilities.

In electricity distribution, we remain leaders by level of networks losses. Today, our losses make up 2% which is the lowest result in Ukraine.

Growth

In the next five years DTEK aims to become one of the key players in the energy market space of Ukraine, Eastern Europe, and Russia.

We plan to achieve this by increasing volumes of coal extraction in Ukraine for use at our thermal power plants. This would lead to growth of volumes of power generation and its sales in Ukrainian and neighbour energy markets.

We will continue active development of our current assets by building up production potential and operational effectiveness. Prospected amount of

investment in modernization and development of our current assets is $2 bln for the next five years.

Acquisition of target assets in Ukraine (through participation in privatization of power generation and supply state enterprises) as well as in Europe and Russia will play an important role in DTEK's growth strategy.

Operational objectives

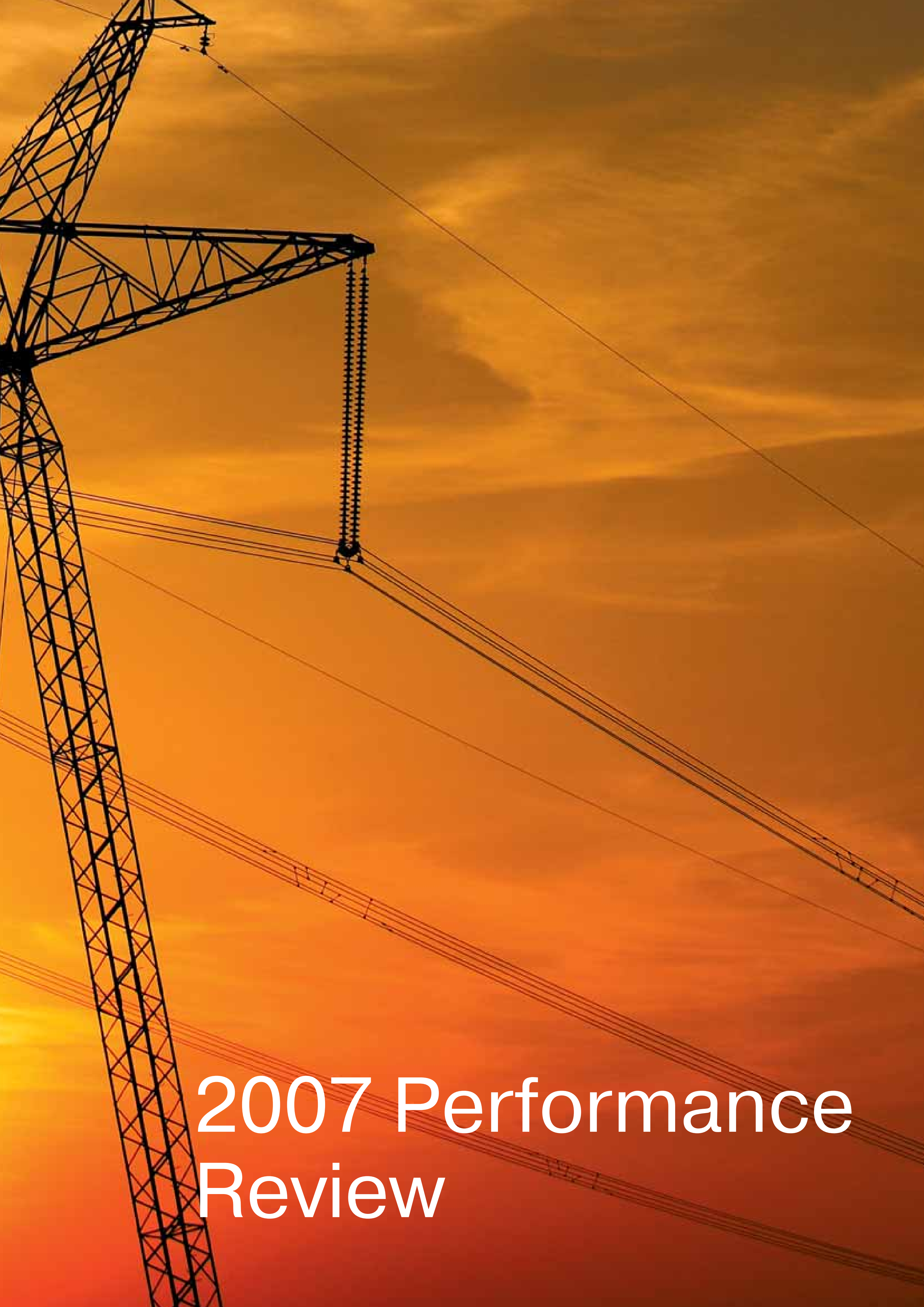
In the coal sector, we are set to ensure regular coal supplies to DTEK's generation facilities as well as to meet the Ukrainian market demand. To raise productivity of the current capacities, we will be introducing new technologies, in the first place, ploughs and roof bolting systems. We are going to cut down spending by optimizing long-term mining plans, reducing downtime, automating production process, and reducing share of manual labour. We go on developing and implementing safety and environmental functions. We plan a substantial increase of investment in our coal business, about $1.2 bln for the next five years.

Initiatives of reforming Ukrainian coal market regulations are an important aspect of our work. Among them is the elimination of cross subsidizing in the sector, and transition to a monopoly of direct contracts.

The priority task for thermal generation block is the preparation of such volume of generation capacities that is optimal to respond to market demand. In this respect, we are going to conduct large-scale reconstruction of 14 out of 17 of our power units which will increase efficiency, reliability and maneuverability of equipment, and extend its service life. Taking account of expenses on overhaul, planned investments amount to over $740 mln. Also, we are greatly concerned with liberalization of the Ukrainian energy market. In particular, we strive for transition to bilateral contracts in the sector as well as for including the investment component in the energy tariffs.

With regards to our distribution business we are committed to expanding the region of our activity, and to winning new customers. In this respect, we are going to carry out reconstructions of networks, operational improvements, and actions to reduce expenses and improve our accounting systems. We aim to keep a 100% level of payments for electric energy we supply, and by 2012 to be transmitting via our networks at least 14.5 TWh. In the course of the next five years we are going to invest around $72 mln in this sector. Moreover, we are taking an active part in elaboration of initiatives of reforming this market segment. We strive for transition to a system of incentive 'price cap' tariffs, and for elimination of cross-subsidizing.

An important aspect of our strategy is safety objectives. By the end of 2008, we plan to elaborate and introduce a modern safety management system at Pavlogradugol, Komsomolets Donbassa and Eastenergo, and by the 1st quarter of 2009 the programme would be certified according to international standard OHSAS 18001. The programme will be implemented and certified at other DTEK enterprises in 2009-2010. We consistently work on improving work conditions and lowering down frequency of accidents.



2007 Performance Review

Ukrainian Market: Opportunities for Growth

Macroeconomic Indicators*

In 2007, the Ukrainian economy continued to demonstrate fast growth. The GDP (in actual prices) made up $141.2 bln, the growth compared to the year 2006 (comparative prices) – made up 7.6%. Such an increase took place mostly due to positive dynamics in the following industries:

- processing (12.8%),
- construction (13.2%),
- trading (20.6%),
- financial (13.7%).

The Ukrainian industrial production growth has been 10.2% by the year 2007 results. The increased capital investment totaling $44.1 bln against $29.5 bln in 2007 has been the key output growth factor.

In 2008, the authorities' striving to control high inflation and US mortgage crisis to have caused reduced credit capacity in the global capital markets, may result in the economy growth slowdown from 7.6% to 6.0–6.5%.

The trend towards the growth slowdown may be partly compensated by the continuing increase of consumption in the internal market, Ukraine's being relatively isolated from external financial markets and the taking-off investment inflow. Ukraine's joining the WTO and Euro-2012 will make the Ukrainian economy more open and will influence the business environment positively in general. The planned annual real mid-term GDP growth is about 6.0%, electricity consumption growth – about 4.0%.

In 2008, industrial production will somewhat slow down and will increase by 6.0%. The increased price for raw materials and energy, as well as the governmental measures aimed at 'cool-down' of the economy under the high inflation circumstances have been the reasons for slower industrial production growth.

The tendency towards the real wage increase in the country (about 12.0% in 2008) continues, to have been cased by the high demand for experts in many sectors, as well as by increased labour productivity. The continuing population reduction trend is a negative side.

Hryvna strengthening combined with the high inflation rate endangers export-orientated industries, also bearing the risks of increase in the negative commodities and services export-import balance.

FEC Development Dynamics

In 2007, the ROM coal output reduced by 6% making up 75.5 mln tons to have been caused by inefficient the state-owned sector of coal industry and the underfinanced mine development programmes during the recent years.

It is important to note that the share of DTEK's enterprises in the total Ukrainian coal output in 2007 has increased up to 20.9%. The output growth at DTEK's enterprises has been mainly conditioned by fulfillment of the aggressive programmes of operational improvements, comprising the programme for investing into purchase of new equipment, optimization of mining activities and in the core production processes.

The downturn output and a concurrent coal demand increase by both metallurgic and generation companies cause pressure towards product price increase. Further increase in the thermal coal demand is expected, including due to continuing growth of the prices for natural gas and oil products, as well as due to increase in the demand for coking coal because of subsequent output growth in metallurgy sector. Under such conditions the further coal price increase of 30–40% is expected in 2008.

In 2007, the volumes of electricity generation and consumption have increased insignificantly. In 2007, the volume of the electric power generated by Ukrainian power plants have reached 192.1 TWh which is 3.0 TWh or 1.6% more compared to 2006.

Eastenergo, DTEK's electricity generation business, continues to retain the leading position in the electricity

* According to the International Center for Policy Studies

market. In 2007, the Company accounts for 27% of the total generation by thermal power plants (11% of the total Ukrainian generation). DTEK's share in the installed capacity of Ukrainian TPPs has remained unchanged on the level of 15%. Share of DTEK's distribution in the Ukrainian market also increased by 0.7% having reached 5.4% in 2007.

Electricity consumption by Ukrainian enterprises and population increased by 3.3% mainly due to increased electricity consumption by the metallurgic (5.0%) and food and processing (5.1%) industries, as well as by other non-industrial customers (8.2%).

In 2007, the growth in the electricity price will continue for all types of generation. In particular, the tariff for electricity supplied by thermal generation increased by 4.0 kop/KWh in 2007 y-o-y. The cost of electricity to have been supplied by generation companies to SE Energorynok increased by $1,132.1 mln (or by 24.5%).

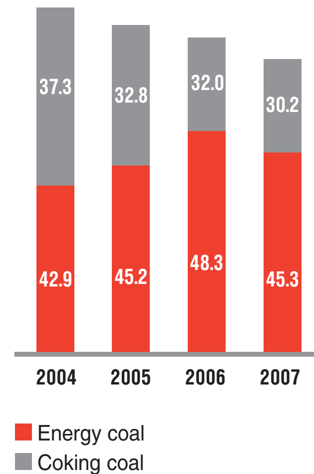
Coal Market and Restructuring Prospects

As of today the Ukrainian thermal coal market is provisionally divided into the state and private sectors. Private mining companies, the share of which is about 30%, sell the produced coal directly to the customers, while all products of the state-owned companies are purchased by the operator SE Coal of Ukraine.

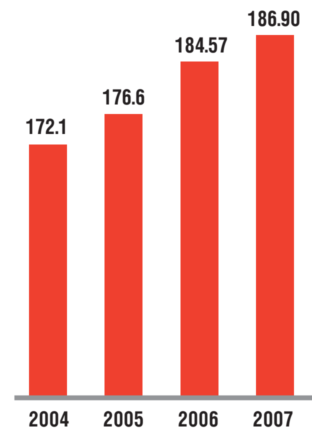
The price of coal purchased from state-owned mines is formed on the basis of the need for covering the companies' costs. After that the market operator sells this coal to customers at an average weighted price. Thus, it becomes possible to subsidize the loss-making state-owned companies at the expense of those potentially profitable ones and, cost-saving motivation of such companies does not work.

Creation of the competitive market environment by transition to the system of direct contracts between production companies and consumers could resolve a number of current problems. The essential condition of reforming is privatization of the coal industry, boosting formation of competition in the market. The measure will allow reducing the subsidy pressure upon the state, improving efficiency of Ukrainian coal-mining companies and increasing coal output.

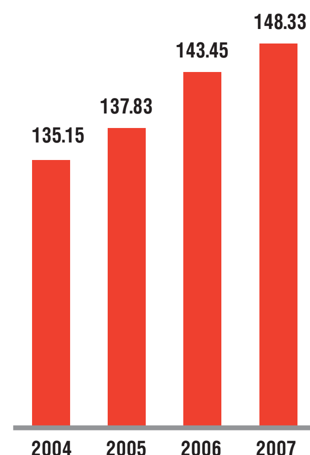
Dynamic of coal extraction in Ukraine in 2004–2007, mln tons



Dynamic of electric energy generation in Ukraine in 2004–2007, TWh



Dynamic of energy consumption in Ukraine in 2004–2007, TWh



Electricity Market Reforming Initiatives

As of today, according to the Law of Ukraine 'On Power Sector', electricity is distributed in accordance with the concept of the Wholesale Electricity Market (WEM), which operator is SE Energorynok. Under the current pattern, all electricity to have been generated by power plants is purchased by the operator followed by further re-sale to supply companies, which, in their turn, sell electricity to consumers. Funds are distributed in reverse order (see Diagram 1). In terms of arrangement efficiency, price-setting and market management such a pattern is the simplest: it provides for electricity purchase from generators by a single wholesale supplier, it also prevents from significant fluctuations in the product price (Diagram 1).

Nevertheless, the model has a number of serious drawbacks:

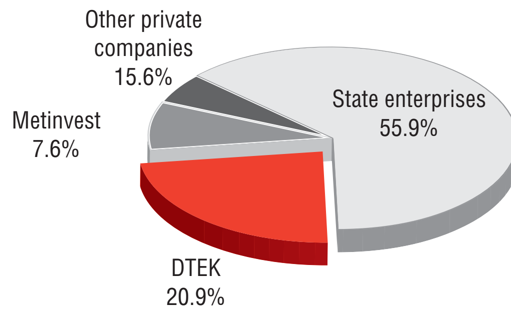
- high political risks of administrative interference with cash flow management and distribution of generated electricity;
- electricity being underpaid;
- imperfect system of contractual relationship and price setting;
- no market for ancillary system services;
- cross subsidizing;
- insufficient regulation and non-transparency of electricity export, import and transit;
- no incentive to reduce the Company's costs.

In 2007, state authorities in the energy sector continued cooperation with external advisors to develop a new electricity market model. In November 2007, the Cabinet of Ministers issued the Resolution 'On Approval of the Action Plan Aimed at Implementation of Provisions of the Concept for Operation and Development of Ukrainian Wholesale Electricity Market'. In accordance with the Resolution it is planned to carry out transition to the new market model stipulating conclusion of direct contracts between generators and electricity consumers/suppliers, as well as operation of the balancing market, by 2014. (see Diagram 2).

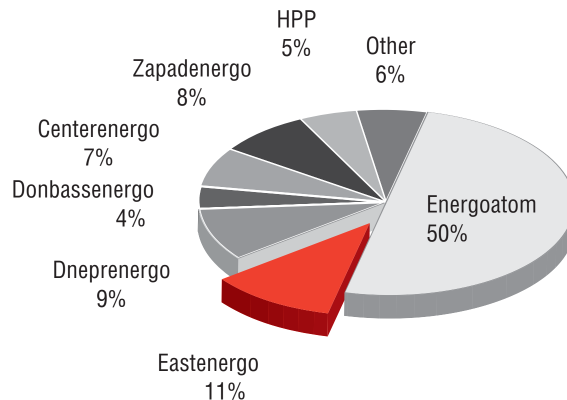
It is expected that the new model will be a launching pad for development of competition in the electricity generation sector, price-setting based on market principles and, proceeding from the balance between electricity demand and supply, it will improve the industry's investment appeal.

In the next two years it is planned to develop and approve all the regulatory documentation to regulate the rights

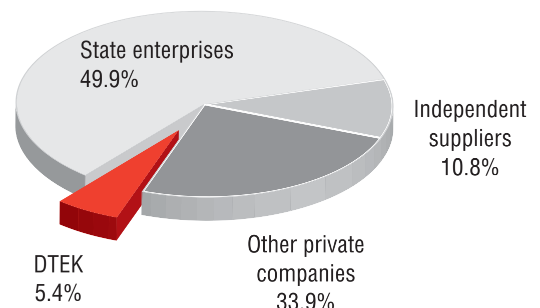
Structure of Ukrainian coal market in 2007



Structure of Ukrainian energy generation market in 2007



Structure of distribution market by purchase at wholesale market in 2007



and obligations of the market participants, the timelines and degree of market liberalization, the principles of the secondary service market functioning, etc.

In early 2008, the Ministry of Fuel & Energy of Ukraine has initiated the project for introduction of the incentivizing tariff formation system in the market of electricity distribution. The effective tariff formation system does not envisage the component of the return on shareholders' capital.

The principle of the incentivizing tariff formation system means setting electricity tariff rate cap for a continuous period of time. Therewith electricity suppliers will be interested in reduced costs in order to maximize own business' profitability.

As an alternative tariff formation method, the incentivizing regulation system may be used, which provides for the owner's ability to make profit and creates motivation for the industry businesses to reduce costs. At the same time, such a system allows to stimulate investment flow into business, being especially important for Ukrainian power supply companies, whose fixed assets' wear rate requires implementation of the reconstruction and overhaul programme.

Transition to the incentivizing system will enable to:

- extend the regulation period and to limit the regulator's administrative interference;
- ensure the possibility to select development objectives (with the regulator-set restrictions taken into account) and the ways to attain them independently;
- increase economic effect from improved efficiency;
- secure transition to adequate setting of the rate of return.

The Ministry of Fuel & Energy of Ukraine, the National Electricity Regulatory Commission (NERC) act as the core regulators of the Ukrainian electricity market. The NERC's influence spreads towards regulation of the price formation mechanisms in the market of electricity generation and distribution, licensing of major operations of DTEK related to electricity generation and distribution.

Throughout the year 2007 no significant changes have been introduced to the legislation of coal and energy businesses primarily due to the complicated political situation. Though the projects for energy market reforming to be implemented by the state will have a positive impact on the industry development objectives without doubt.

Diagram 1. Current Electricity Market Model

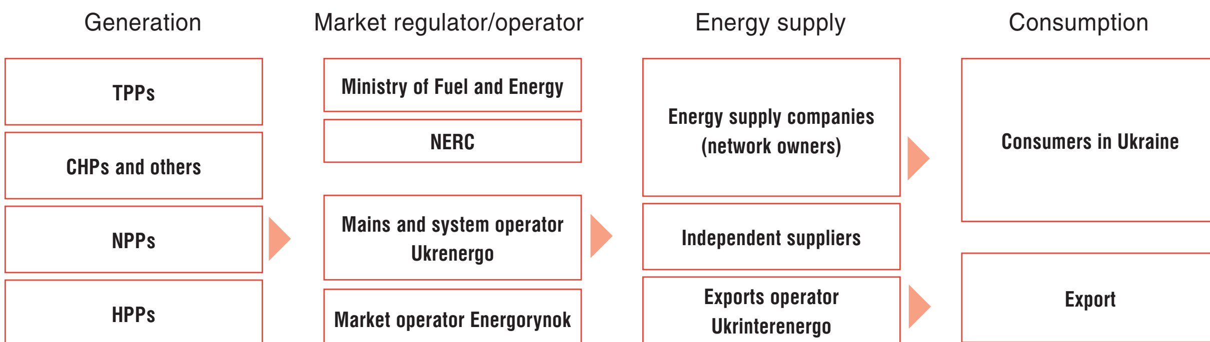
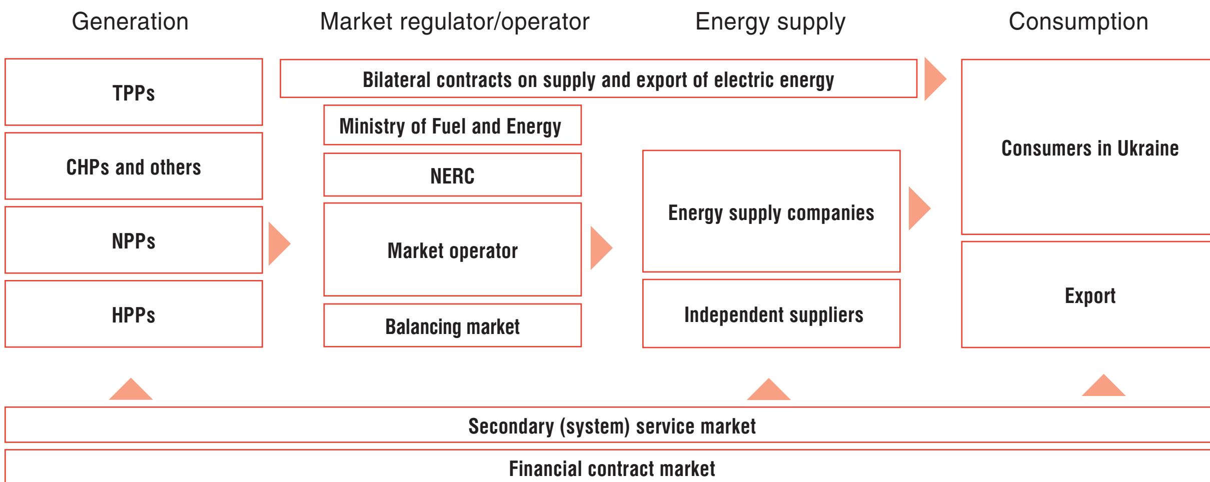


Diagram 2. Target Model of Bilateral Contract Market



Strategy

The key to DTEK's strategic success is the universal understanding of the goals and direction of the company throughout all of our businesses. From miner to top manager, everyone knows their role, place and required contribution towards achieving DTEK's strategic milestones. It is only through this level of teamwork and communication in the company can we ensure the continued growth of all our businesses at the current rapid rate in this complex and highly competitive environment.

Vitaly Butenko
Chief Strategy Officer

Coal production and enrichment

1. Production capacities of the coal production block

DTEK's coal mining segment is represented by the two largest enterprises in the industry – Pavlogradugol OJSC and Komsomolets Donbassa OJSC.

Reserves of Pavlogradugol OJSC and Komsomolets Donbassa OJSC

	Commercial reserves, mln tons	Coal grades
Pavlogradugol OJSC	744.8	DG, G
Komsomolets Donbassa OJSC	123.1	T

Pavlogradugol OJSC

The company is the largest Ukrainian coal producing enterprise. In 2007, the production volume grew up to 12.4 mln tons of coal (16.4% of the country's total output). The company incorporates 10 mines, as well as a range of transport and production facilities. About 30 thou. people are employed by the enterprise.

The main coal consumers are thermal power plants and coke-chemical plants.

Licenses and resources

Pavlogradugol OJSC is licensed for mining in the vast territory of the Pavlogradsko-Petropavlovskiy coal deposit of the Western Donbass coal area. Pavlogradugol's reserves-to-production ratio is about 75 years.

The company mines the coal seams with the thickness of 0.63–1.69 m.

Pavlogradugol's mines produce thermal (G, DG grades) and coking (G grade) coals. The natural ash content of coal mined is 8.0%–15.5%.

Production technology

As of January 1, 2008, Pavlogradugol's mines worked 35 longwalls. Length of mine workings totalled about 950 km. Thin coal seams are extracted by the retreat mining method to the rise and to the strike. Winning is fully mechanized, with complete roof rock fall. In 2007, 42 new longwalls were commissioned.

Within mines ROM coal is transported by belt conveyors to the main shaft, then in skips to the surface processing facilities with further shipment to cars, heading for enrichment plants and consumers.

Due to re-equipment carried out and organizational steps taken, labour productivity of an extraction miner increased from 44.5 tons/month to 51.8 tons/month for 2007.

In 2007, coal-cutting and tunneling equipment was purchased for Pavlogradugol's mines to an amount of $25.7 mln.

Coal winding machines were replaced at Dneprovskaya Mine. The fan installation was replaced at Pavlogradskaya Mine. These replacements allowed an increase in production capacity of the mines.

In order to raise coal production efficiency the project for introducing of the plough at Stepnaya Mine is being implemented with consideration for specific mining conditions of coal seams in the Western Donbass. Completion of the investment stage is planned for 2009.

Introduction of roof bolting at Pavlogradugol's mine continued in 2007.

Programme for Increasing Equipment Performance was developed and is being implemented since November 2007.

Coal production dynamics of Pavlogradugol OJSC

Indicators	2005	2006	2007
Coal production, thou.tons	12,056.4	12,228.5	12,361.4
Thermal coal	9,189.6	9,671.6	9,789.9
G grade	3,288.3	4,288.7	4,696.0
DG grade	5,901.3	5,382.9	5,093.9
Coking coal (G grade)	2,866.8	2,556.9	2,571.5

Komsomolets Donbassa OJSC

The company is the biggest producer of thermal coal in Ukraine. In 2007, for the first time on record, its production volume reached 3.4 mln tons (4.5% of Ukrainian total). The enterprise has own enrichment facilities which allow securing low ash content. Product is shipped to the thermal power plants.
The company's headcount is 5,456 employees.

Licenses and resources

Komsomolets Donbassa OJSC has a special subsoil permit (extraction of black coal, methane and drainage waters). The mine's reserves-to-production ratio is about 50 years.

The mine extracts seams with the thickness of 0.6–1.35 m with the low-dipping strata at the depth of 418–810 m.

Procured T-grade (meager) coal is a thermal type of coal with a high-quality chemical composition. The natural ash content of coal mined is 14.5%.

Production technology

Komsomolets Donbassa OJSC has nine coal seams, four of which are being worked. The length of the mine workings is 168.7 km.

The mine uses the longwall mining method (longwalls to the rise). The stripping scheme is by vertical pillars. Coal is extracted by powered mining sets. In 2007, 5 new longwalls were commissioned.

Komsomolets Donbassa OJSC successfully tested the Czech shearer MB-12 that is more productive than home-produced ones.

Due to re-equipment carried out and organizational steps taken, labour productivity increased from 52.9 to 65.3 tons/month.

Coal production dynamics of Komsomolets Donbassa OJSC

Indicators	2005	2006	2007
Thermal coal (T grade)	2,976.6	3,094.4	3,428.3

2. Production capacities of the coal enrichment division

In 2007, DTEK already incorporated the following coal enrichment plants: Mospino CPE LLC, CCM Kurahovskaya LLC, CCM Pavlogradskaya LLC as well as Ekoenergoresurs LLC, an enterprise that renders tailings pond cleaning services to CCM Pavlogradskaya LLC.

CCM Pavlogradskaya LLC is one of the biggest enrichment enterprises in Ukraine. It enriches ROM DG- and G-grade (long-flame gas and gas) coal and produces concentrate for powered coal combustion at thermal power plants. The plant uses dense media separation, skimping as its production method. The plant's production capacity is 5.25 mln tons per year.

In 2007, a number of important investment projects were implemented at the plant which allowed stabilizing the quality of product.

CCM Pavlogradskaya LLC

Indicators	2005	2006	2007
ROM coal enrichment, thou.tons	2,883.6	2,852.5	3,207.3
Coal concentrate output, thou. tons	2,181.0	2,100.5	2,359.7

Mospino CPE LLC enriches ROM T-, DG- and G-grade (meager, long-flame gas and gas) coal and anthracites to produce concentrate for powered coal combustion at thermal power plants. The plant uses dense media separation, skimping as its production method. The plant's production capacity is 2 mln tons.

Mospino CPE LLC

Indicators	2005	2006	2007
ROM coal enrichment, thou. tons	1,652.9	1,259.6	1,502.3
Coal concentrate output, thou. tons	1,226.0	889.2	1,013.9

CCM Kurahovskaya enriches ROM DG- and G-grade (long-flame gas and gas) coal to produce concentrate for powered coal combustion at thermal power plants.

The plant uses dense media separation, skimping as its production method. The plant's production capacity is 1.9 mln tons.

In 2007, an investment project envisaging complete reconstruction of the plant was developed. It will allow an increase in the volume and quality of coal enrichment.

CCM Kurahovskaya LLC

Indicators	2005	2006	2007
ROM coal enrichment, thou. tons	1,112.0	1,528.1	1,806.8

Power generation

1. Production capacities

DTEK's generating activity is represented by Eastenergo LLC, the first and the only private power generating company in Ukraine. Eastenergo operates three thermal plants (TPPs) – Zuevskaya, Kurahovskaya and Luganskaya.

TPPs are located in the industrially developed east of Ukraine: Luganskaya TPP is located in Lugansk region, Kurahovskaya and Zuevskaya TPPs – in Donetsk region.
18 power units with the total capacity of 4,060 MW are installed at the TPPs. 17 power units with the total capacity of 3,785 MW engage in power generation.

All the power plants are thermal and generate electric and thermal power using the same equipment. The main fuel used by the TPPs is thermal coal produced by DTEK coal mining enterprises. The gas share of the fuel mix is about 1.0%.

In 2007, major overhauls were performed at two power units, mid-term repairs – at six power units and routine repairs – at eight power units. Technical and economic indicators of the most of the power units were improved to standard values.

Generation capacities of Eastenergo LLC

Power plant	No. of units	Installed capacity, MW	Year of commissioning/ year of the last major overhaul	Current condition
Luganskaya TPP	9	175	1962 / 2007	In 2008, the unit capacity increase is planned – rehabilitation of the designed capacity of 200 MW
	10	175	1962 / 1999	
	11	200	1963 / 2004	In 2004, the unit capacity was changed – designed capacity of 200 MW was rehabilitated
	13	175	1968 / 2003	
	14	200	1968 / 2006	In 2007, the unit capacity was changed – designed capacity of 200 MW was rehabilitated
	15	200	1969 / 2005	In 2006, the unit capacity was changed – designed capacity of 200 MW was rehabilitated
Kurahovskaya TPP	3	200	1972 / 2007	
	4	210	1973 / 2004	In April-August 2008 – major overhaul
	5	210	1973 / 1998	In July-December 2008 – reconstruction
	6	210	1973 / 2005	
	7	210	1974 / 2004	
	8	210	1974 / 2003	
	9	210	1975 / 2006	

Power plant	No. of units	Installed capacity, MW	Year of com-missioning/ year of the last major overhaul	Current condition
Zuevskaya TPP	1	300	1982 / 2004	
	2	300	1982 / 2003	In July-December 2008 – reconstruction
	3	300	1986 / 2006	
	4	300	1988 / 2005	
Total		**3 785**		

Costs and investments of the generation division, $ mln (net of VAT)

	Equipment repair		Major overhaul of buildings and structures	Capital (new) construction and reconstruction	Purchase of non-movable assets and fixed assets, IT, non-current tangible assets of little value, intangible assets	Total
	Operating expenses	Investment expenses				
Zuevskaya TPP	7.6	-	0.5	1.1	0.3	9.5
Kurahovskaya TPP	13.1	6.5	1.6	3.5	0.5	25.2
Luganskaya TPP	12.5	7.1	1.0	0.6	0.6	21.8
HQ	-	-	-	-	0.4	0.4
Total	**33.2**	**13.6**	**3.1**	**5.2**	**1.8**	**56.9**

In 2007, Eastenergo LLC started implementation of the power units' modernization and reconstruction programme to be over by 2015. In 2007, reconstruction of power unit #1 of Kurahovskaya TPP and power unit #2 of Zuevskaya TPP started. Works are planned to be completed by late 2008.

Large-scale reconstruction of power units of all the power plants controlled by Eastenergo should have material effect on energy efficiency by 2012. The planned specific consumption of fuel will be 363 g/kWh, the gas share will remain just as low – 1.0% (only to secure manoeuvrability and unit start-ups). The modernization programme provides for reconstruction of an air-gas channel of turbines, modernization of heating surfaces of boilers, reconstruction of ancillary equipment. Moreover, it also provides for introduction of the digital control system (DCS).

By 2012, fours units will be reconstructed at each power plant. DTEK plans to invest about $740 mln in its power generation assets. Modernization will allow increasing the capacity of power units, improving their manoeuvrability, reducing the specific consumption of fuel, as well as resolving a number of environmental issues.

2. Electric power generation

Year 2007 was a banner year for the company in terms of electric power generation and supply. In 2007, Eastenergo's power plants generated 19,907.6 mln kWh of electric power (a 11% increase y-o-y). Following the 2007 results the company's share of the Ukrainian thermal generation market totalled 27.0%.

An increase in generation and supply was conditioned by growth of electricity consumption by industrial consumers in the east of Ukraine, in particular, that of steel mills and coal mines.

Electric power generation, mln kWh

Power plant	2005	2006	2007
Luganskaya TPP	4,309.5	5,541.9	6,436.3
Kurahovskaya TPP	4,609.6	6,396.2	7,000.7
Zuevskaya TPP	5,031.8	6,013.0	6,470.6
Eastenergo	13,950.9	17,951.1	19,907.6

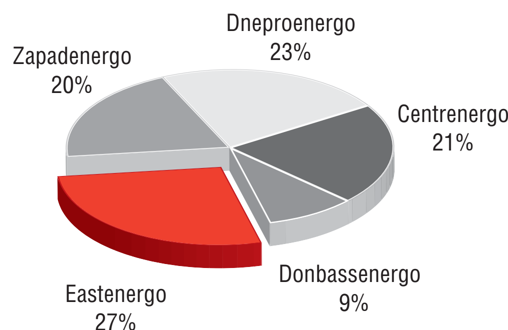
Eastenergo LLC sells electricity to suppliers via the wholesale electricity market of Ukraine, SE Energorynok.

In 2007, the company supplied 18 118.8 m kWh of electric power to the wholesale market (a 11% increase y-o-y).

Thanks to the high yearly electricity generation, Eastenergo's installed capacity utilization rate (ICUR) is high as well. For all of the company's power plants it grew against the previous year's level: by 4.4% – at Zuevskaya TPP, by 4.7% – at Kurahovskaya TPP and by 6.5% – at Luganskaya TPP.

Since 2003, ICUR of Eastenergo's power plants has been the highest in the Ukrainian thermal generation. In 2007, Eastenergo's ICUR totalled 56.0%. For comparison, the average ICUR of 200 MW power units in Ukraine is 42.0%, whereas the

Thermal electric power supply in Ukraine in 2007



ICUR of Eastenergo's power units of similar capacity at Kurahovskaya and Luganskaya TPPs is 52.0-54.0%. An average Ukrainian load of 300 MW power units is 31.0%. The load of Eastenergo's 300 MW power units is 61.6%.

Electric balance of Eastenergo LLC, 2007, mln kWh

	2005	2006	2007
Electric power generation	13,950.9	17,951.1	19,907.6
Electric power self-consumption	1,343.4	1,619.8	1,788.8
Electric power supply from busbars	12,607.5	16,331.3	18,118.8

3. Fuel supply

Reliable procurement with the high-quality fuel is one of Eastenergo's competitive edges securing stable operation of thermal power plants and the lowest production cost in the thermal generation market.

The main fuel is coal procured by DTEK coal mining enterprises. Eastenergo's TPPs are 90% procured with DTEK's self-produced coal. Strict coal quality control allowed the company to make the quality of coal supplied closer to the designed one and, as a result, to avoid co-firing of natural gas and mazut for maintaining coal combustion. Since 2005, natural gas has been fired at Eastenergo's thermal power plant solely at power unit start-ups.

In 2007, the actual fuel consumption in terms of standard fuel was 7.0 mln tons of standard fuel.

The actual coal consumption was 9,736.5 thou. tons, mazut – 34.8 thou. tons, natural gas – 64.5 mln cubic meters.

For the most effective fuel consumption Eastenergo works on optimizing furnace modes, lowering specific fuel consumption and increasing manoeuvrability of power units. In 2007, specific fuel consumption decreased by 2.7 g/kWh compared to 2006 and totalled 387.6 g/kWh. The economic effect was about $3.6 mln.

Period	Specific consumption of standard fuel, g/kWh	Gas share for total generation, %
2004	397.3	5.9
2005	396.2	1.2
2006	390.3	1.0
2007	387.6	1.0

Gas share in the fuel mix of other companies in the Ukrainian thermal generation market is much higher. In 2007, it was 17.2% for Dneproenergo, 19.6% – for Centrenergo, 6.5% – for Donbassenergo and 4.1% – for Zapadenergo.

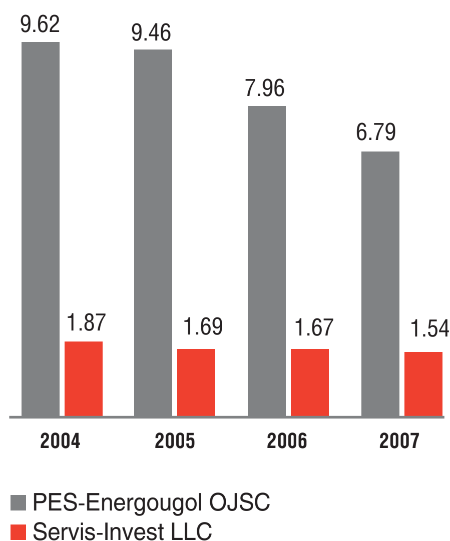
In 2007, while implementing the sustainable energy use strategy and policy of environmental priorities, Eastenergo LLC managed to reduce pollutant emissions to the atmosphere by more than 7.0% compared to 2005.

Power distribution

1. Production capacities of the power distribution block

Power supplying companies Servis-Invest LLC and PES-Energougol OJSC deal with the transmission and supply of electric power to consumers. 3000 km of their networks are located in Donetsk and Dnepropetrovsk Regions. The companies were founded in 2000 and 1989 correspondingly. They were incorporated in DTEK in 2006. DTEK owns a 91.12% stake in PES-Energougol OJSC and is a 100% owner of Servis-Invest LLC.

Dynamics of technical losses reduction in the companies' networks, %



Servis-Invest LLC

Servis-Invest operates 67 substations, including 17 transformer facilities with the total capacity of 2,314.5 MVA and 2,570.7 km of overhead power lines. In 2007, the company acquired 580.5 km (17.0%) of distribution networks in Dnepropetrovsk Region. In 2007, Servis-Invest's headcount was 604 employees.

PES-Energougol OJSC

PES-Energougol OJSC operates 75 substations, 310 transformer facilities with the total capacity of 441.5 MVA, 1,191.5 km of overhead and cable power lines. In 2007, PES-Energougol's headcount was 940 employees.

Production capacities of DTEK power distribution division

	No. of substations, distribution stations, pcs.			Transformer capacity, MVA			Length of networks, km		
	110 kV	35 kV	6-10 kV, 6/0.4kV	110 kV	35 kV	6-10 kV	Voltage of 154 kV, 110 kV	Voltage of 35 kV	Voltage of 6-10 kV, 0.4 kV
Servis-Invest LLC	33	13	21	2002	295.85	16.67	1,961.49	490.06	119.17
PES-Energougol OJSC	5	5	375	159	89.8	192.66	17.9	4.8	1,168.84
Total	**38**	**18**	**396**	**2161**	**385.65**	**209.33**	**1,979.39**	**494.86**	**1,288.01**

The company also has an equipment assembly and adjusting shop, a metrological laboratory, a fleet of special vehicles. Besides electric power transmission and supply, PES-Energougol tests electrical equipment and designs engineering networks. The company also renders services of equipment assemblage, set-up, repair, inspection, construction, start-up and adjustment, etc.

The companies' level of losses is one of the lowest in Ukraine. The further reduction is achieved due to implementation of the comprehensive programme for technological losses reduction.

2. Electric power purchase and transmission

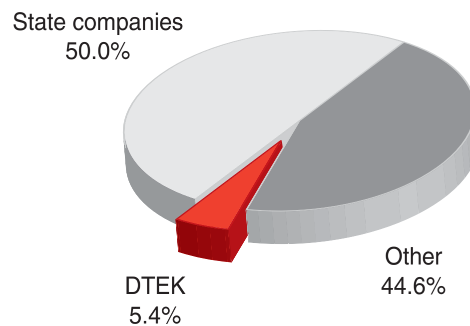
Pursuant to provisions of the Law of Ukraine 'On Power Sector' almost all electricity is purchased by the companies from SE Energorynok.

In 2007, Servis-Invest and PES-Energougol's share of the total purchase from Energorynok increased by 0.7% y-o-y and totaled 5.4% (9.2 bln kWh).

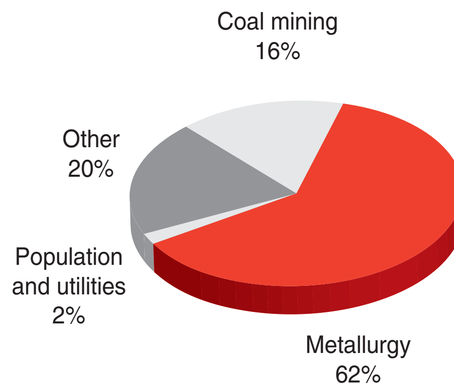
In 2007, the total volume of electric power transmitted over the companies' networks grew by 15.0% y-o-y and totaled 12.2 bln kWh. The key growth drivers were the increased productive supply to main consumers and expanded territory of licensed activity of Servis-Invest LLC in Dnepropetrovsk region (a 17.0% increase y-o-y). At the same time, due to the reduced electricity consumption of mines, PES-Energougol OJSC experienced a certain decrease in transmission volume in 2007.

Donbass industrial enterprises, the largest of them being 'Azovstal Iron and Steel Works' OJSC, 'Enakievskiy Metallurgical Plant' OJSC, CJSC Mini Steel Mill ISTIL (Ukraine), Northern Mining and Dressing Integrated Plant (Dnepropetrovsk region) and a number of others are the main consumers of Servis-Invest and PES-Energougol, which secure the stable and solvent demand.

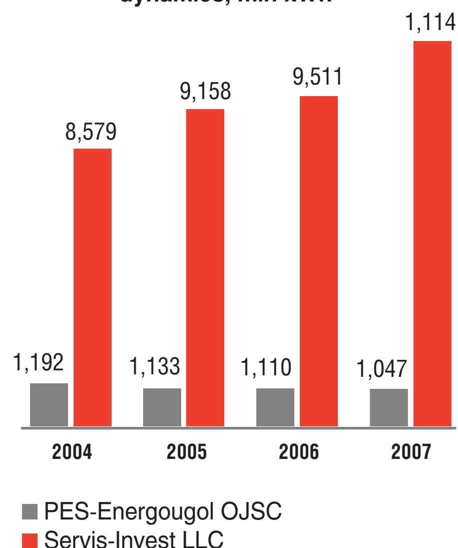
Structure of electricity purchase from SE Energorynok

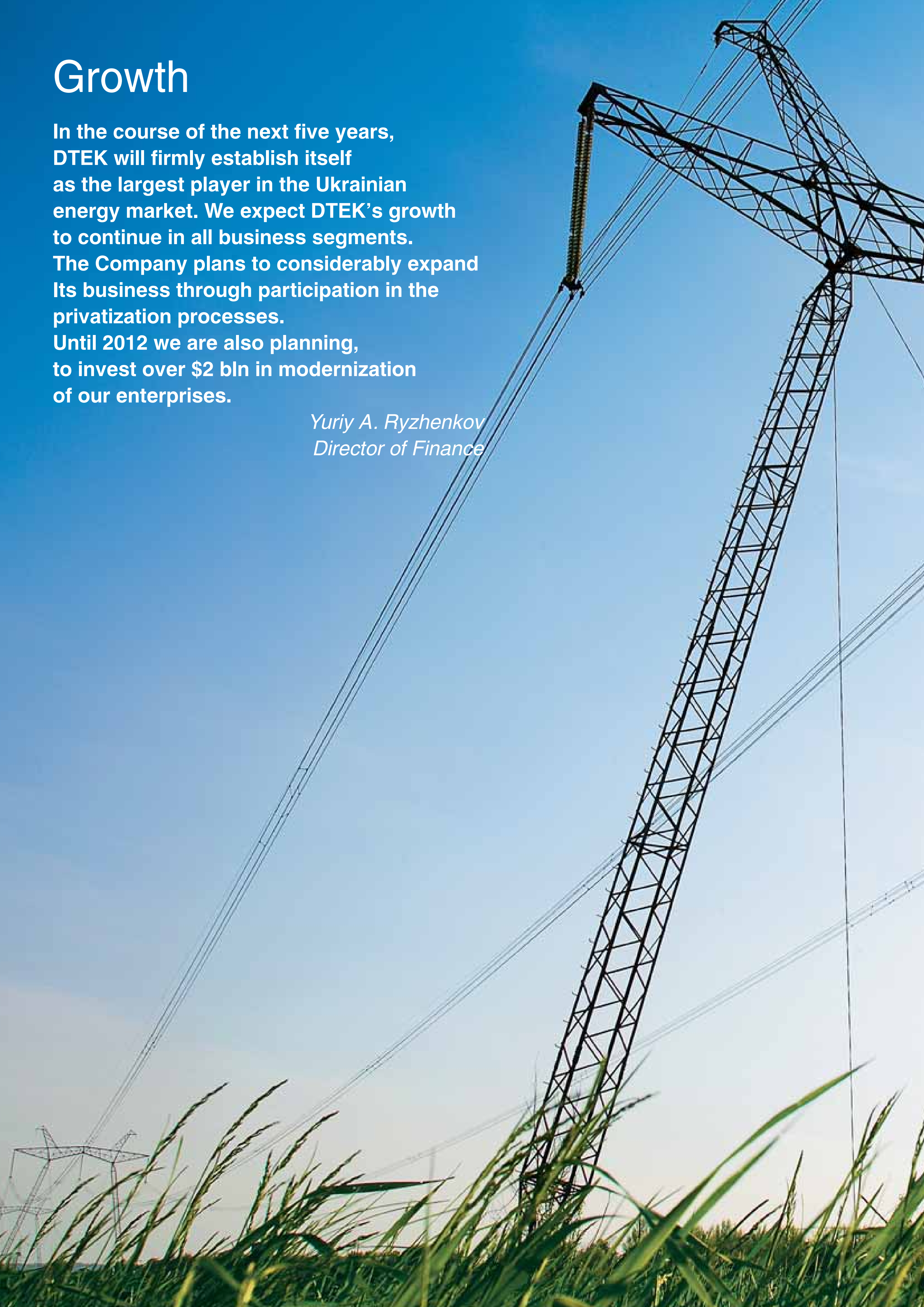


Consumers' structure in 2007



Electric power transmission dynamics, mln kWh





Growth

In the course of the next five years, DTEK will firmly establish itself as the largest player in the Ukrainian energy market. We expect DTEK's growth to continue in all business segments. The Company plans to considerably expand Its business through participation in the privatization processes. Until 2012 we are also planning, to invest over $2 bln in modernization of our enterprises.

Yuriy A. Ryzhenkov
Director of Finance

Investment Projects

Investments Projects

Following the 5-year strategy announced this year, in 2007, DTEK has almost doubled the volume of investments. A number of projects implemented within the reporting period enabled increasing productivity, cutting operational and other costs, improving efficiency of performance, reducing risks and environment pollution.

Table 1 – Investments into the Coal Production and Enrichment in 2007

Project title	Activities	Investments in 2007, $ mln (net of VAT)
Purchase of powered roof support units for Komsomolets Donbassa OJSC	Within the framework of the project the 1KD-90 powered roof support sets (170 units) and 2KD-90 80 units were purchased	5.4
Transfer of Pavlogradugol OJSC heat capacities to the municipal boiler houses	Within the framework of the project, the heat networks of municipal consumers and Pavlogradugol OJSC were separated with further transfer of the boiler house of '3/4 micro-district' (Ternovka), as well as the boiler houses 'Yuzhnaya' and 'Centralnaya' into the municipal ownership of Pershotravensk	4.9
Purchase of a KA-200 shearer, a SP26U conveyor for Komsomolets Donbassa OJSC	Within the framework of the project, a KA-200 shearer is being purchased completed with a SP26U conveyor	2.6
Set of works on methane drainage in Komsomolets Donbassa OJSC	Within the framework of the project, the subsurface gas drainage pipeline is being replaced, the major overhaul and restoration of the surface gas drainage facilities are being performed (vacuum stations, pipelines)	1.3
Purchase of drilling equipment for Pavlogradugol OJSC mines	Within the framework of the project, the following equipment has been purchased: MQT-120 drilling rig– 34 pcs. ZGST-65 drilling system – 12 pcs. Super turbo Roof-bolter – 18 pcs. UKVSh 5/7 Compressor – 14 pcs.	0.7
Set of works on methane utilization in Komsomolets Donbassa OJSC	The set of works on methane utilization includes the performance of the following actions: development and approval of an emission project within the framework of Kyoto Protocol; installation of utilization plants on the central platform and air supply shaft 3; switching the boilers to methane and installation of 3 container-type cogeneration plants	0.1

Coal production and enrichment

Investments into the upgrade and purchase of modern equipment in the coal production and enrichment sector allowed increasing coal output volumes, reducing an amount of rock mass in ROM coal and reducing per unit consumption of materials when driving mine roadways. The transfer of Pavlogradugol OJSC heat capacities into the municipal ownership of Ternovka and Pershotravensk towns has been accomplished, which enabled excluding constantly increasing accounts receivable from the households for heat supplied. One more important line was the set of works on gas drainage and methane utilization, which will result in gas emissions reduction and coal output increasing after the accomplishment.

Total project investments, $ mln (net of VAT)	Economic effect, $ mln (NPV)	Operational effect	Status
5.4	16.8	Reduced downtime of the support units when moving to a new longwall by 105 days, which allow additional output of about 140 thou. tons per year	Equipment delivery completed in March 2007. Currently, the support units have been assembled and are in operation in one of the mine longwalls
4.9	20.0	Cutting operational costs of Pavlogradugol OJSC due to elimination of continuously growing receivables from households for heat supply	The project has been completed. The boiler houses were transferred into municipal ownership in October 2007
2.6	13.0	Increase in coal output on average by 116 thou.tons per year; reduction in sectional ash content of coal produced by 14.0% (from 38.0% to 24.0%)	The delivery of all the equipment was completed in December 2007
16.4	30.9	Reconstruction of the gas drainage system will allow implementation of the strategic plans on daily coal output of up to 4000 thou.tons	The project has started in 2007 and is in progress now
1.8	6.4	Cutting operational and investment costs to tunnel mine workings at the expense of reduced cost of support units by 10.0% (combined – arch supports and roof bolting) – 15.0% (roof bolting)	The project has started in 2006 and is in progress now
7.2	6.0	The key effects of project implementation have been due to: 1. Trading of emission allowances within the framework of Kyoto Protocol, with the total volume of 801.5 thou. tons of CO2 (over 2008-2012) 2. Savings in coal used in the boiler house (about 8 thou. tons annually) 3. Reduced methane emissions to the atmosphere and reduced penalties 4. Electricity generation (about 30.4 MWh per year)	The project has started in 2007 and is in progress now. Currently the following has been done: 1. Project Design Document (PDD) was developed 2. Validation with the company Det Norske Veritas (DNV) was successfully passed 3. A letter of approval from the Ministry for Environmental Protection of Ukraine was received. 4. A project on switching coal-fired boilers to mine methane was designed 5. The project Gas Utilization Plant UKG-5/8 was developed 6. A gas utilization plants supply contract was signed 7. A tender on works to switch the boiler house to gas was held

Electricity Generation

The Generation sector has started the implementation of strategic projects on reconstruction of power generating units at Eastenergo LLC, which will ensure, in the near future, the increased installed capacity of the power plants, higher productive supply of electricity, and improved operation parameters of the equipment. Besides, major overhauls at some power generating units of Kurahovskaya and Luganskaya TPPs took place in 2007, which prolonged the equipment service life and reduced specific consumption of fuel.

Table 2 – Investments into Generation in 2007

Project title	Activities	Investments in 2007, $ mln (net of VAT)
Major overhaul of power unit #9 LuTPP, Eastenergo LLC	Repair of boiler lining and insulation, repair of the turbine, repair of the lining and insulation of the turbine, repair of the generator, repair of the transformer, repair of the electric equipment, repair of the heat automation and measurement equipment	7.0
Major overhaul of power unit #3 KuTPP, Eastenergo LLC	Repair of the boiler, turbine, turbo-generator, transformer, electric equipment	6.5
Construction of an ash dump section at KuTPP	Arranging a separation dyke (covering the slopes with macadam), arranging a maintenance dyke, arranging a road on the top edge of the separation dyke, arranging a drainage system of the 2nd tier of build-up, as well as the works on arranging service roads #1-2	1.3
Reconstruction of power unit #5 KuTPP, Eastenergo LLC	Preparation and holding the tenders, design works, upgrade of the LPC turbine; upgrade of the turbine control system; feed pump upgrade; upgrade of the electric precipitator; upgrade of the control and regulation system; upgrade of the generator; upgrade of the boiler; upgrade of the unit transformer; complex testing and confirmation of the guarantee liabilities	1.0
Reconstruction of power unit #2 ZuTPP, Eastenergo LLC	Preparation and holding the tenders, design works, upgrade of the boiler, upgrade of the electric precipitator, upgrade of the electric equipment (upgrade of the electric motors, frequency drive of the raw coal feeder, vacuum breakers), upgrade of the turbine (LPC, IPC, HPC), upgrade of the generator, complex testing and confirmation of the guarantee liabilities	0.6

Total project investments, $ mln (net of VAT)	Economic effect, $ mln (NPV)	Operational effect	Status
7.0	18.0	Reduced per unit consumption of standard fuel by the unit by 30.2 g/kWh; lower electricity self-consumption; prolonged equipment service life	Accomplished
6.5	11.9	Reduced per unit consumption of standard fuel by the unit by 13.5 g/kWh; lower electricity self-consumption; prolonged equipment service life	Accomplished
3.0		Provided free space to stock ash slag to a volume of 2,920,271 cubic meters	Accomplished
30.6	27.0	Reduced per unit consumption of standard fuel by the unit by 58.0 g/kWh; increased installed electric capacity of the unit by 15 MW; expanded unit flexibility; prolonged equipment service life	Under implementation. The unit commissioning is scheduled for January 2009
15.4	30.3	Reduced per unit consumption of standard fuel by the unit by 21.9 g/kWh; increased installed electric capacity of the unit by 15 MW; expanded unit flexibility; prolonged equipment service life	Under implementation. The unit commissioning is scheduled for December 2008

Electricity Distribution

Investments in Distribution in 2007 were allocated for acquisition of additional electrical networks for Servis-Invest LLC, which made it possible to increase electricity supply volumes. Besides, equipment at the substations 'Enakievo', 'Chulkovka' and 'Donetskaya' was reconstructed, 25 km of overhead lines was constructed and reconstructed, which ensured reliable supply of electricity to large industrial consumers and mitigation of various operational risks

Table 3 – Investments into Distribution in 2007

Project title	Activities	Investments in 2007, $ mln (net of VAT)
Comprehensive upgrade of substation 110 кV 'Enakievo'	Reconstruction of 110 кV outdoor switchgear and relay protection devices, construction of 110 кV bypass bus system	3.5
Purchase of electric networks of Metinvest (Northern GOK, Central GOK) by Servis-Invest LLC	Purchase of fixed assets	2.3
Purchase of electric networks of Pavlogradugol OJSC by Servis-Invest LLC	Purchase of fixed assets	1.1
Reconstruction of 110 кV overhead line 'UTES-Zavodskaya #3,4'	Reconstruction (replacement of cable, supports, fittings and insulation) of 10.9 km of 110 кV overhead line	0.7
Construction of a section of 35 кV overhead line for substations 'Chulkovka – Donetskaya 110 кV – Donetskaya 35 кV'	Construction of 7.8 km of 35 кV overhead line	0.5
Reconstruction of 35 кV overhead line 'Yasinovataya-YaKHZ #1,2'	Reconstruction (replacement of cable, supports, fittings and insulation) of 7.0 km of 35 кV overhead line	0.4
Reconstruction of equipment of 110 кV substation 'Donetskaya'	Reconstruction of 6 кV relay protection and automation devices	0.3
Reconstruction of relay protection and automation devices of 110 кV substation 'Chulkovka'	Reconstruction of 6 кV relay protection and automation devices	0.2

	Total project investments, $ mln (net of VAT)	Economic effect, $ mln (NPV)	Operational effect	Status
	5.9	11.2	Reduced risks of 110 kV switchgear equipment forced outage and, respectively, emergency disconnections of consumers. Reduced operational costs ($8,000 per year)	Accomplished
	2.3	21.4	Increased volume of electricity supply by 2. 5 TWh annually	Accomplished
	1.1	6.2	Increased volume of electricity supply by 0.5 TWh annually	Accomplished
	0.9	4.0	Reduced risks of emergency consumer disconnections	Accomplished
	0.6	0.4	Reduced risks of emergency consumer disconnections	Accomplished
	0.5	1.7	Reduced risks of emergency consumer disconnections	Accomplished
	2.7	2.1	Reduced risks of forced outage of relay protection and automation devices and, respectively, of emergency consumer disconnections	Accomplished
	0.6	0.7	Reduced risks of forced outage of relay protection and automation devices and, respectively, of emergency consumer disconnections	Accomplished

Stability

DTEK demonstrates positive growth dynamics from the moment of its foundation. Stable growth is provided by vertical integration of production processes, and diversification of asset portfolio. Full production cycle, from coal extraction to distribution of electricity allows minimizing the risks of market fluctuation, and stabilizes relations with consumers.

Evgeniy Romaschin
Coal Production and Enrichment Director

Risk Management

DTEK's approach to managing risks assumes a comprehensive system of internal control and management based on strategic planning.

Since 2007, the risks are revealed and assessed at DTEK on a regular basis and the measures of reaction to risks are elaborated. Risk management processes are outlined in the Company's regulations.

Management and monitoring of risks is conducted by DTEK management while decision making is performed by a collective body at the top management level. Risk management and internal control are the functions centralized within the holding at the level of Managing Company. This provides a unified methodological approach to risk management process.

Regulatory Risks

Risks related to the state regulation of coal and electricity markets are essential for DTEK. To minimize these risks, the Company is actively engaged in the lawmaking processes, in particular in the elaboration of a new model of energy market.

Operational Risks

With regards to operational activity, managing the risks related to labour safety, environmental protection, and provision of uninterrupted production is a priority for DTEK.

An action plan to eliminate emergencies is elaborated for each of the Company's enterprises. The insurance concept is elaborated for all business units, and it is realized throughout the whole company by means of a centralized division which ensures a unified approach when cooperating with insurance companies. This allows optimizing the insurance costs, and maintaining the adherence to standards and quality.

The Company's insurance system ensures the fulfillment of the state requirements of compulsory insurance types, as well as the protection of Company's interests, such as insurance of the assets and coverage of loss in case of production interruption.

DTEK is a vertically integrated company. This reduces the risks related to raw materials supply to generation business.

New Risks

In future, DTEK's susceptibility to market risks and M&A risks may increase.

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Financial performance review

Over the last three years DTEK Group has been showing high growth rate of the key financial indicators.

In 2007, sales proceeds grew up by 77.6% compared to 2006, and made $1,776 mln. This result was achieved through the growth of sales in electricity distribution, growth of electricity sales to the Wholesale Electricity Market both through the growth of volume and through the growth of electricity tariff, as well as due to the significant growth of coal sales.

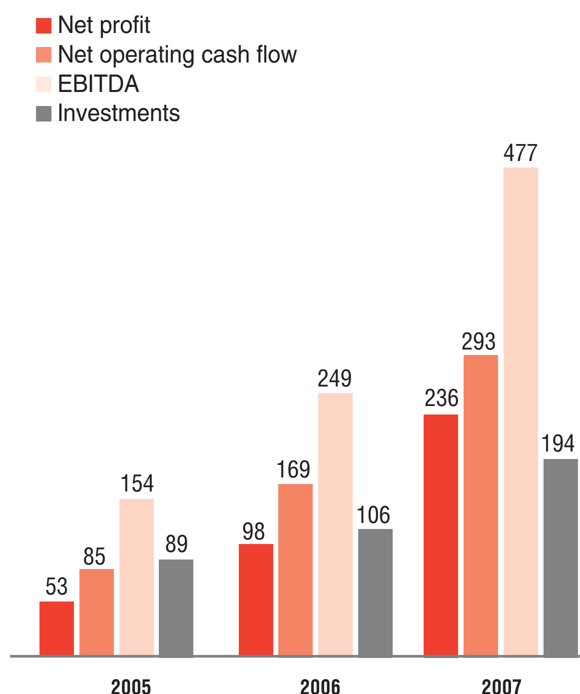
2007 EBITDA made $477 mln, net profit of the Company amounted to $236 mln, which is 91.7% and 142.0% more than in 2006 accordingly. Apart from the growth of the company's proceeds, the growth of the net profit is achieved through the introduction of the operational improvements:

- New technologies of coal extraction are being introduced;
- Optimization of the company's headcount is being implemented;
- Energy saving technologies are being introduced;
- Systems of commercial electricity measuring for reduction of losses are being implemented.

To keep the high growth rates of the financial results in the future, starting from 2008, the Group is planning to implement large-scale investment projects that will make it possible to cut the costs substantially, both in coal production and in electricity generation.

The scope of investment in 2007 amounted to $194 mln, which is 82.3% more from 2006.

Key finance indicators of DTEK in 2007, $ mln



Indicator	2005	2006	2007
Sales proceeds, $ mln	738	1,000	1,776
Net profit, $ mln	52	98	236
Net profit margin, %	7.1	9.8	13.3
EBITDA, $ mln	152	249	477
EBITDA margin, %	20.5	24.9	26.9
EBIT, $ mln	98	192	325
EBIT margin, %	13.2	19.2	18.3
Net operating cash flow, $ mln	84	169	293
Investments, $ mln	88	106	194

The Group's net operating cash flow grew up by 73%. The increase is conditioned by the growth of the Group's production indicators and financial indicators.

The total assets of the Group for 2007 grew up 1.5 times to the level of $2,654 mln.

The growth is conditioned by substantial increase in the output of the Group's enterprises and the growth of the retained earnings.

The growth of the aggregate assets was also influenced by the continued actions aimed at restructuring of SCM Group business. In 2007, SCM Group started the last

procedure on establishing the energy division – DTEK Group. In July 2007, shares of Pavlogradugol OJSC were transferred – 92.1% to an amount of $278 mln.

The growth of the Group's assets is explained by the implementation of the strategy of business extension. In 2007, large investments were made into Dneproenergo OJSC. 9.9% of the company's shares were bought on the open market. The Group also invested into the minority packages of Ukrainian power companies. The total investment into the shares of the companies in 2007 made $250 mln. In addition, in October 2007, within the framework of Dneproenergo OJSC rehabilitation, DTEK Group made advance payment for shares to an amount of $208 mln.

Indicator	2005	2006	2007
Total assets, $ mln	791	1,736	2,654
Return on assets (ROA), %	6.7	5.6	8.9
Equity, $ mln	473	1,026	1,678
Return on equity (ROE), %	11.2	9.5	14.1
Capital employed, $ mln	644	1,416	2,104
Return on capital employed (ROCE)*, %	15.4	13.5	15.4

* ROCE = EBIT / (Total Equity + Total non-current liabilities)

One of the indicators of the business efficiency estimate for DTEK management is the indicator of return on the capital employed (ROCE). In 2007, ROCE made 15.4%, which is 1.9% over the level of 2006.

In 2007, the Group achieved significant growth of the indicators of return on assets and return on equity compared to 2006 and exceeded the value of these indicators compared to 2005. Insignificant reduction of indicators compared to 2005. Insignificant reduction of return on assets and return on equity in 2006 compared to 2005 (by 1.1% and 1.7% correspondingly) was conditioned by revaluation of the fixed assets and, as a result, by the growth of value of the assets and equity.

Indicator	2005	2006	2007
Net debt, $ mln	12	123	313
Net debt /EBITDA	0.08	0.49	0.66
Net debt/equity	0.02	0.12	0.19
Total debt $ mln	29	170	386
Total debt/EBITDA	0.19	0.68	0.81
Total debt/Equity	0.06	0.17	0.23
Interest payments on loans, $ mln	3	7	22
Rate of financial costs coverage	31	27	15

As of the end of 2007, the loans of the Group were $386 mln, which is 2.3 time more than the level of the year beginning. The increase of the debt was conditioned by implementation of the strategy of the business growth.

At the same time, it should be pointed out that the ratio of the company's debt to the equity continues to be at quite a low level for an industrial company – 23%. The ratio of financial cost coverage (ratio of EBIT to interest payments) is 15, which also characterizes high financial stability of DTEK.

The majority of DTEK's loans are from Ukrainian banks. For the purpose of its strategy implementation – raising of unsecured funds at the international capital markets and from the largest international banks – in 2007 the Group took a credit facility from Deutsche Bank AG. Hereinafter DTEK intends to keep to this strategy of loan raising.

Responsibility

Corporate Social Responsibility

Corporate Social Responsibility

Corporate Social Responsibility is the Company's long-term philosophy which allows smooth integration of business with basic human values and priorities of national development.

DTEK's CSR policy aims are:
- leadership based on willingness to grow systematic contribution to solving the problems of the society;
- harmonious development of a dialogue and cooperation between the Company and key stakeholders;
- vivid contribution to long-term stability of business through our socially oriented programmes;
- improvement of corporate governance practices.

While achieving these aims, we adhere to the following practical principles:
- awareness of our role in development of the society, and belief that our contribution must be long-term, systematic, as well as transparent and clear for the society;
- recognize the authority of law in all spheres of social and economic life. Respect of human rights;
- programs concerned with the Company's employees labour safety, personnel development and other aspects of CSR are an unconditional priority;
- accordance of the level and direction of our internal and external investment in the regions of the Company's activities to the scale and perspectives of business development;
- account for world experience and best practice in CSR;
- dialogue with society, openness and publicity. The whole complex of our CSR principles, programs and events is voluntary for the companies. Only a successful company that does not doubt long-term stability of its business can afford an effective social mission that surpasses formal obligations. Our CSR policy consists of successful and ethical business in the first place.

Strategy and Policy

A 2007 independent research by the Economic and Social Technologies Bureau showed that DTEK's business in general as well as its individual enterprises are ready for far-reaching initiatives and standards of CSR.

A distinctive feature of DTEK's CSR policy in 2007 is a gradual transfer of social investment to a regular strategic basis, from somewhat unmethodical projects to long-term programs built on principles of social partnership.

Apart from the traditional CSR (charity work, labour safety, enviroment, personnel development etc), DTEK initiated pioneering projects, unexampled in Ukraine. In summer 2007, a social partnership programme was launched in the three regions of DTEK business presence (Donetsk, Dnepropetrovsk and Lugansk regions). Within the program, DTEK cooperates with the seven cities where its businesses are located. The main aim of the project is to move from the mainly charitable model of cooperation to a strategy of long-term social investments. Decision making on social investing is conducted jointly with city authorities.

Also, in 2007 DTEK joined the Global UN Agreement in May, and became member of the European Business Association in September.

CSR Management

CSR policy and strategy are defined by managing bodies, Supervisory Board and Executive Board that follow the strategic decisions approved at the SCM Group level. Operative management is conducted within the Human Resources and Corporate Communications Division which in 2007 incorporated a new subdivision – CSR Management. CSR manager closely coordinates his work with the CEO Social Sphere Reforming Advisor, with those responsible for CSR at enterprises, and with the Labour Safety and Environmental Department.

DTEK's draft CSR policy was approved at a corporate conference in December 2007 and published in a specially designed section of the Company's website (http://dtek.com/social_responsibility/). At the moment the project is at a stage of consultations with stakeholders whose remarks and comments on the policy document will be taken into account during its modification. This is an unexampled step on the way to transparency of cooperation. What's more, within the conference the Code of Ethics was also approved for further discussion, and the internal social report 2006 was presented. This was a preparation stage before launch of full non-financial statement for external audiences.

DTEK follows the development of world practice in CSR. We participate in expert discussions, conferences and seminars where we not only learn from the global experience but also influence its development. For example, together with SCM Group, DTEK participates in work of the Ukrainian national committee on elaboration of a new social responsibility international standard ISO 26000. Its approval is planned for 2009.

Operations and Projects

Social partnership with cities of presence of business

In 2007, DTEK implemented a diversified programme of social partnership with local authorities of cities where the Company's businesses are located: Zugres, Kirovskoye, Kurakhovo, Pavlograd, Pershotravensk, Schastye, and Ternovka. By scale of cooperation between private and public sector, this project has no examples in Ukraine. In the 2nd half of 2007 only, DTEK allocated $0.6 mln for the program, and the amount doubles in 2008. The funds were directed for solving problems in education, healthcare, and improvement of towns' infrastructure.

In the end of 2007, DTEK in a partnership with USAID started a joint project "Local Economic Development" (LED) in seven cities and two districts of the Company's presence. Within the project, DTEK and USAID will provide methodical and consulting support to city councils and district authorities, aimed at elaborating strategic plans of economic development at local level, enhancing potential of local authorities, and improving investment climate.

As a result, the Company took all measures necessary to transfer the social partnership practice in 2008 to a long-term and larger-scale basis.

Investments in enviromental programmes, labour safety, personnel development, and social programs

Labour safety, responsibility for influence on the environment, and orientation at the best available modern technologies are important priorities for DTEK. The strategy of the Company's development until 2012 implies considerable investment in reconstruction and modernization of equipment, which will significantly improve accident-free conditions of work at energy enterprises, provide uninterrupted supplies of electricity, and reduce influence of production activities on the environment.

In 2007, a number of measures that improved enviromental standards were conducted at DTEK's industrial enterprises. Investments in generating block amounted to $23.5 mln, in distribution block – $13.7 mln.

DTEK is proud of its personnel development programs, and of a flexible and harmonious structure of personnel assessment and competency development which was completed in 2007. The Company's personnel development policy defines the training scheme that is mandatory for all employees (from CEO to specialists) and is based on individual plans defined by the annual assessment. The assessment center is an essential career step: complex assessment of managers, and formation of talent pool proceed from it. In 2006, 4.9 thousand employees were trained, spending amounted to almost $1.2 mln; in 2007, 5.5

thousand employees, and $1.5 mln; planned training budget for 2008 is $2.8 mln.

At the same time, work conditions at DTEK's enterprises were consistently improved. The Company revises collective agreements with its employees on a regular basis, and aims at improving social protection of the personnel. In such a way, collective agreement at DTEK's coal enterprises is considered among the best in the industry. DTEK guarantees its employees help in case of a job cut or leave, partly reimburses communal services, acts as warrantor of young families of workers for mortgages, and provides interest-free credits and other bonuses.

A modernization and reconstruction of boiler-houses in the cities of Ternovka and Pershotravensk became the largest by the scale, and one of the most significant DTEK's external social projects in 2007. Budget of the project amounted to $5.9 mln; later the renovated boiler-houses were passed to public ownership.

Perspectives for 2008

DTEK positions itself as an active company with regards to CSR. In 2008 we expect to excel from CSR programs at local and regional levels to projects of state and international importance, while the Company's engagement in strategic development of communities at regions of presence will expand.

Social accountability

In 2008 we are launching a process of external social reporting according to international standards.

Research of local communities' expectations

For a precise definition of local communities' expectations and potential, and to improve responsiveness and effectiveness of DTEK's social policy, in summer 2008 we are going to launch a series of dialogue with NGOs concerned with socio-economic development and environmental protection.

Environment and labour safety

In 2008, we start implementing environmental management according to international standard ISO 14001. The project involves training of line managers, creation of a planning system, improvement of monitoring and control, and revision of functional responsibilities in environmental protection.

Implementation of a modern system of labour and health safety management will finish in 2008. The system is being implemented at three enterprises: Eastenergo, Pavlogradugol and Komsomolets Donbassa, and it is going to be certified according to international standard OHSAS 18001.

Labour Safety

Our effectiveness depends on reliable and accident-free work. This is the reason why at DTEK, great attention is paid to ensuring labour safety. In 2007, corporate labour safety policy was elaborated and approved, and the Company's strategic aims concerning labour safety were defined until 2011. Labour Safety Committees led by head managers function at all enterprises of DTEK. Also, we started elaboration of a modern corporate system of labour safety management which we plan to implement in 2008 and subsequently certify the system according to international standard OHSAS 18001 at Pavlogradugol, Komsomolets Donbassa, and Eastenergo.

A number of measures of improvement of labour conditions at workplaces are consistently undertaken:

- labour safety trainings for management at the Central training and methodical center of the State Committee of Health and Safety at Work;
- training of employees according to international standard OHSAS 18001 for qualification of chief auditors (16 people) and internal auditors (68 people);
- general raising of knowledge and skills in labour safety (seminars, trainings, participation in the work of state training centres);
- employees protection from electric current by supplying them with means of individual and collective protection;
- ensuring safety while working at height;
- elimination of risk of fire or explosion;
- improvement of microclimate (installation of new condition systems, maintenance of aspiration and ventilation settings);
- reduction of the level of noise and vibration at production premises;
- improvement of interior lighting (maintenance of lighting network and installation of new lamps);
- regular medical examination and lab analysis of work conditions;
- employees appraisal for achievements in labour safety;
- general informing of employees about measures of safety at work (video briefings, information stands and posters);
- general improvement of health conditions at work.

We adhere to the elaborated Programme of technology upgrades of blasting operations at mines. The Program incorporates:

- industrial testing of a new generation device of control of explosive series resistance 'Sensor-1' (completed). 135 devices are already purchased for Pavlogradugol mines, the general amount of expenses is over $0.03 mln;
- new type of industrial testing of explosive P-52, safety class Y (in progress);
- extra safety measures elaborated by the functional Scientific and Research Institute (MakNII) of work in mines that are potentially dangerous due to methane accumulations;
- acquisition of four gas draining devices for mines Ternovskaya and Stepnaya to fight local methane accumulations (total costs $0.04 mln);
- acquisition of methane outlay and concentration control equipment for the fixed vacuum pump station of Zapadno-Donbasskaya mine (total costs $0.03 mln);
- industrial testing of new type of gas control devices 'Signal-9' at a number of mines of Pavlogradugol (acquisition of devices is planned for 2008);
- In line with the investment programme of Pavlogradugol, 7 suspended freight rope-ways (DKNL, DKNU type) were purchased for the mines. This is aimed at improved safety of materials and equipment transportation to the tunneling and coal getting sections.

Industrial injuries

In 2007 as opposed to 2006, we managed to reach the following indices:

- general level of industrial injuries reduced by 14% from 599 to 516 incidents;
- number of severe accidents reduced by 19% from 21 to 17 incidents;
- accident frequency factor reduced by 7% from 1.66 to 1.55 incidents per 200,000 man-hours;
- accident severity factor reduced by 12% from 66.63 to 58.62 days of lost time per 200,000 man-hours.

Spending for labour safety

In total, the Company allocated $15.6 mln on labour safety programme in 2007, including:

- coal block – $13.8 mln;
- generation block – $1.0 mln;
- distribution block – $0.8 mln.

Human Resources Policy

Effective human resources policy which is in force at DTEK is an important success factor that helps attracting top professionals. Creating a united team of qualified specialists is a priority and a strategically important task for DTEK. Special departments at each enterprise of the Company carry out the common corporate policies in adherence to the common methodology and corporate standards.

Creation and submission for open discussion of DTEK's common HR policy was an important step in the Company's development. The policy's main highlights:

- attraction, motivation of, and retaining talented and initiative employees;
- constant replenishment of knowledge and development of skills;
- development of executive potential and providing highly professional and stable management;
- creation of favourable work conditions, provision of good health conditions for all employees.

2007 has seen a number of organizational changes aimed at forming most effective governance structure of the Company and its enterprises. The reason for that is the start of a new phase of DTEK's development which provides for further expansion of the Company, growth of assets and production facilities. Within the legal restructuring, in 2007 the corporate center was transferred from DTEK Corporation to DTEK Ltd.

Efficient production management system, human resources and social policy, fulfillment of requirements of the sector and general agreements as well as collective agreements at enterprises lead to steady growth of key production indicators and result in steady rise of salaries at DTEK's enterprises.

Notably, collective agreements of DTEK's enterprises excel similar documents in the other sectors with regards to level of social protection. Moreover, these documents are regularly improved and updated with new benefits.

An important aspect of our human resources policy is the occupational training, raising of skills, and special training of employees. A system of regular training programs is an integral part of DTEK's development. Education is designated for employees at all levels, from the CEO to workers at the enterprises. In January-December 2007, 5,253 employees were trained while spendings amounted to $1.5 mln which is $0.3 mln more than last year. For 2008, we plan to expand the training budget to $2.8 mln, and train about 7,000 employees.

At DTEK, management of employees' effectiveness is conducted with consideration of individual contribution of each employee to the Company's development. This system is a 3-dymensional model that grounds on employees' competency, results achieved, and potential. As a result of assessment, salaries are reviewed, and bonuses are paid. The motivation system also takes account for sector specificity of the Company's enterprises.

Lack of professionals became particularly important due to Company's constant growth, and planned diversification of business. We solve the problem by creating and developing the talent pool. In 2007, this program totally included corporate center and top management at the enterprises, and was expanded to the level of middle executives at the assets. At DTEK, we are using the 'assessment centre' method to form the talent pool. The method allows to pick out talented managers, and to make forecasts on their possible success at an executive position.

We pay great attention to work of our HR services concerning recruitment of workers. Employee search is conducted through advertisement in the media and at special websites, among the graduates as well as through direct and internal search.

Modernization and automating of production resulted in headcount optimization. To help the employees who left Pavlogradugol, a Social Adaptation Center was launched in July 2007. The Center's main tasks are educating and helping workers find new employment

as well as informing about current vacancies at local Employment center and at enterprises of Pavlograd and its surroundings. We plan to launch similar centers at other cities where DTEK businesses are present.

In 2007, DTEK started publishing own corporate media. 'Nasha Gazeta' newspaper discusses current events and trends of the Company and its individual enterprises. It is issued twice a month, circulation is 15,000. The newspaper is accessible to all employees. In December 2007, the first issue of 'Energiya zhizni' corporate magazine was released. The magazine addresses top and middle management. We also implemented a feedback system – a telephone hotline and letterboxes at all the enterprises.

An important step of forming DTEK's corporate culture was presentation of Code of Corporate Ethics of DTEK in December 2007. The Code formulates and systematizes norms and principles and conduct which are to be adhered to by all the Company's employees.

The Company aims at providing its employees with the most comfortable conditions of work and vacation. Sotsis and Sotsugol companies effectively manage a number of social establishments of DTEK, among them recreation and health centers, child recreation centers, etc. The general amount of spending on improvement of the quality of health and recreation services totaled $0.2 mln in 2007.

Corporate Social Responsibility

2007 was a year of intensive introduction of fundamental elements of the CSR concept into DTEK's everyday business activity. Consistent efforts of implementing a systematic approach in social investment, pro-active cooperation with the stakeholders and launch of pioneering programs of social partnership allowed the Company to become one of the CSR leaders among the Ukrainian businesses.

Sergey Kordashenko
Human Resources and Corporate Communications Director

Environmental Protection

Environmental protection is one of the key priorities for DTEK. As a leading Ukrainian manufacturer, we are fully aware of responsibility in the national and global processes of sustainable development.

We believe that a business can only develop when its negative environmental effect is minimized. DTEK's activity adheres to the following principles:

- social responsibility for the environmental conditions;
- orientation on the best available technologies;
- preventing environmental pollution;
- careful treatment of natural resources (water, soil, forest);
- reducing the amounts of production and consumption waste.

Mitigation of environmental impact is a direct result of constantly growing amount of investment in environmental protection. Spending for ecology related matters in 2007 amounted to $20.5 mln. Among them,

- for coal extracting enterprises $0.5 mln
- for energy enterprises $2.6 mln
- for coal enrichment enterprises $2.2 mln

Prospectively, the Company plans to increase the amount of investment in environmental protection.

Decisions concerned with environmental protection are made in close cooperation with state authorities. DTEK aims to comply with the international and Ukrainian standards of environmental protection and plans to elaborate and implement an environmental management system according to ISO 14000 standards at its core enterprises.

Atmosphere

DTEK is greatly concerned with the state of gas purifying equipment at the energy enterprises that are the main source of air pollution.

In 2007, routine repairs of electric precipitators were conducted at Zuevskaya TPP. As a result, the efficiency factor rose from 98.9% to 98.95% while dust discharges reduced by 1,190 tons per year. At Kurahovskaya TPP, reconstruction of electric precipitators of the power unit #3 was conducted. This resulted in the rise of efficiency of gas and dust purifying equipment from 96.6% to 97%. The amount of dust discharge that contained SiO_2 reduced by 2,986 tons per year. At Luganskaya TPP, overhaul of ash catchers increased their efficiency by 2.3%, and reduced dust discharge by 1,538 tons per year.

At Komsomolets Donbassa, a complex of methane utilization works was launched. Methane will be used for work of the boiler-house during heating season, and burned at utilization plants during other seasons. Methane flaring and utilization at the boiler-house will allow reducing emissions by 4,100 tons per year.

At CCM Kurahovskaya, a dump extinguishing project resulted in a reduction of discharges: of sulphur anhydrite by 7.3 tons, carbon oxide by 98.9 tons, hydrogen sulphide by 5.9 tons.

Also, as a result of events designated at reduction of specific fuel consumption, in 2007 we achieved a 3%, or 592,740.7 tons overall reduction of CO_2 emissions compared to 2006.

Water

In 2007, reparation and organizational measures resulted in a reduction of consumption of drinking water at DTEK enterprises by 634.3 m^3, or 9.1% compared to the previous year.

Discharge of sewage reduced by 471,600 m^3, or 12.1% compared to previous year.

At Luganskaya TPP, installation of a fish protection device at the water reservoir prevented fry from death during work of pumps of coast station #1.

Waste. Soil Revegetation

Most of the Company's waste is disposed with the help of specialized organizations and by own efforts.

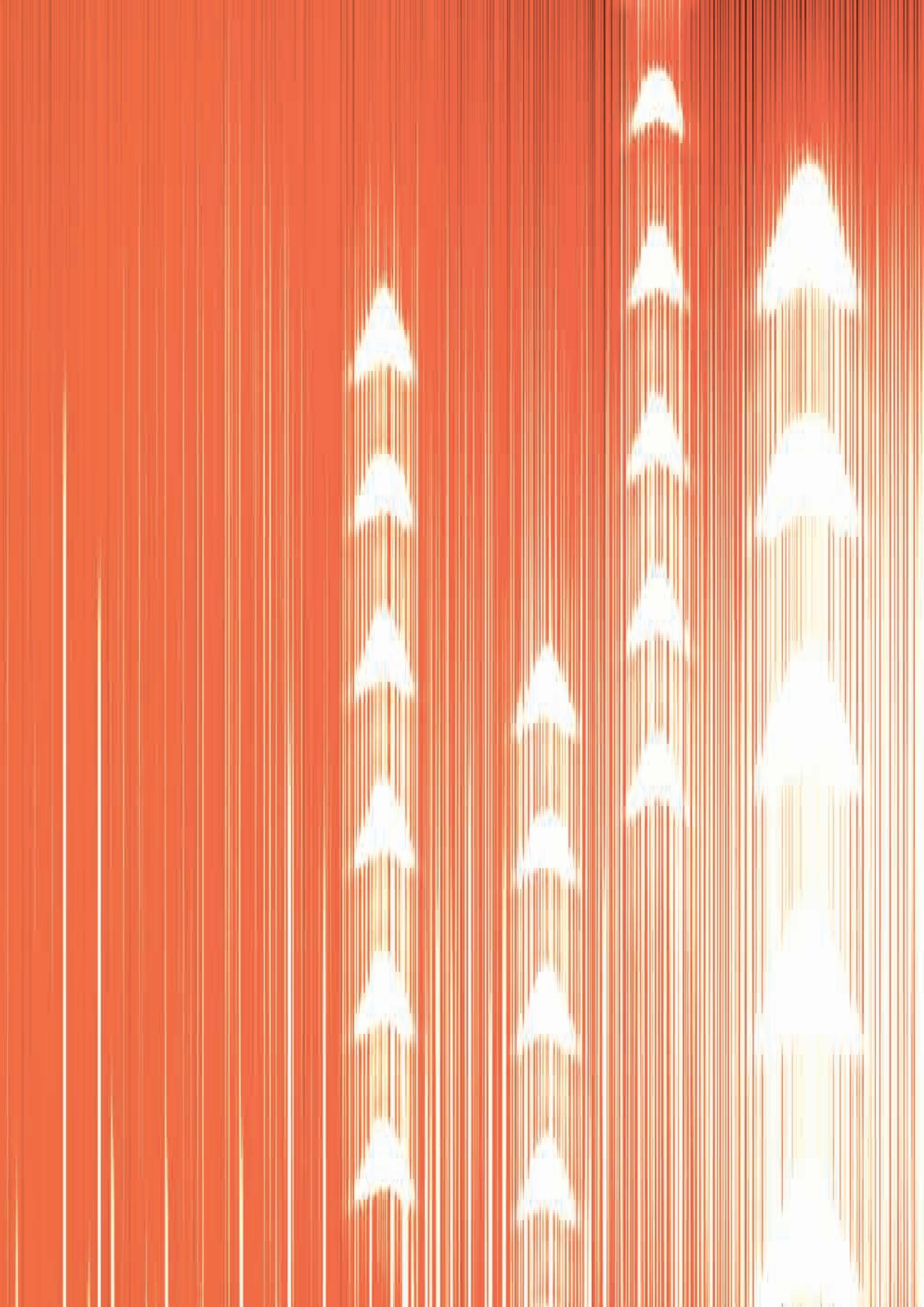
At DTEK's coal enterprises, a complex solution of utilization of large-capacity coal waste is in force. Simultaneously, collapsed and impounded land areas are being revegetated. Total area revegetated in 2007 is 13.8 hectares.

At Kurahovskaya TPP, the 'Starye Terny' ash disposal area is being revegetated. The undertaking allowed a reduction in warehousing of ash and slug waste by 52,400 tons in 2007, and eliminate 111.5 tons of dust discharge per year.

At CCM Pavlogradskaya, modernization of water mud scheme will reduce silt discharge to the tail-storage by 3.9%.

DTEK Environmental Activity in 2007 (main projects)

Enterprise	Project	Environmental Effect	Investment, $ mln
Eastenergo LLC	Reconstruction and repairs of electric filters and ash collectors	Increase of effectiveness of electric precipitators to 97.1%, of ash catchers to 94.9%. Reduction of dust discharge by 5,910 tons	**1.7**
	Step-by-step technical revegetation of exhausted land of 'Starye Terny' ash disposal area of Kurahovskaya TPP	Revegetation of 12.5 hectares of land by depositing fertile layer; reduction of solid particles discharge by 11.5 tons	**0.1**
	Transfer of two solid fuel (coal) boilers to combustion of gas fuel (methane from degassing activities) at the air shaft VPS-3	In the framework of compliance with the Kyoto protocol, a reduction of CO2 emissions by 30,000 tons per year is planned	**0.1**
Pavlogradugol OJCS	Reconstruction of Ternovskiye purifying facilities	Implementation of a new decontamination technology. Reduction of waste discharge by 139.6 tons	**0.1**
CCM Pavlogradskaya LLC	Repairs of drying aggregate #1	Increase of effectiveness of dust purification to 98%	**0.6**
	Re-equipment and modernization of water mud scheme	Reduction of waste (slit) disposal by 3.9%	**0.3**
	Reconstruction of tail storage at CCM Pavlogradskaya aimed at accident-free exploitation	Providing for accident-free exploitation	**1.2**
	Implementation of dry screening system	Reduction of waste (silt) disposal by 0.8%	**0.6**
CCM Kurahovskaya LLC	Replacement of industrial ventilation system	Increase of purifying effectiveness to 97.0%	**0.1**



DTEK Holdings Limited

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

31 December 2007

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and the Board of Directors of DTEK Holdings Limited
We have audited the accompanying consolidated financial statements of DTEK Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kyiv, Ukraine
15 April 2008

In millions of USD	Note	31 December 2007	31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	8	1,258	1,216
Goodwill	9	125	118
Other intangible assets		2	1
Investments in associates	10	17	-
Financial investments	11	782	92
Deferred income tax asset	33	65	45
Other non current assets		5	7
Total non-current assets		**2,254**	**1,479**
Current assets			
Inventories	12	93	70
Trade and other receivables	13	196	120
Current income tax prepayments		-	11
Financial investments	11	38	9
Cash and cash equivalents	14	73	47
Total current assets		**400**	**257**
TOTAL ASSETS		2,654	1,736
EQUITY			
Share capital	15	-	-
Other reserves	16	945	652
Retained earnings		449	158
Equity attributable to the equity holders		**1,394**	**810**
Minority interest		**6**	**216**
TOTAL EQUITY		**1,400**	**1,026**
LIABILITIES			
Non-current liabilities			
Liability to minority participants	17	-	1
Borrowings	18	70	30
Other financial liabilities	19	304	19
Indebtedness under amicable agreement	20	20	18
Government grants	21	21	28
Retirement benefit obligations	22	134	119
Other provisions for liabilities and charges	23	27	27
Deferred income tax liability	33	128	148
Total non-current liabilities		**704**	**390**
Current liabilities			
Borrowings	18	316	140
Indebtedness under amicable agreement	20	-	3
Prepayments received		11	7
Trade and other payables	24	177	140
Current income tax payable		12	3
Other taxes payable	25	34	27
Total current liabilities		**550**	**320**
TOTAL LIABILITIES		**1,254**	**710**
TOTAL LIABILITIES AND EQUITY		**2,654**	**1,736**

Approved for issue and signed on behalf of the Board of Director on 11 April 2008.

Maxim Timchenko
Director

In millions of USD	Note	2007	2006
Revenue	26	1,776	1,000
Cost of sales	27	(1,376)	(681)
Gross profit		**400**	**319**
Other operating income	28	51	2
Distribution costs	29	(10)	(10)
General and administrative expenses	30	(73)	(56)
Other operating expenses	31	(45)	(59)
Excess of interest in fair value of subsidiaries' net assets acquired over the cost of investment	35	-	3
Operating profit		**323**	**199**
Finance income	32	48	9
Finance costs	32	(88)	(49)
Share of result of associates	10	(5)	-
Profit before income tax		**278**	**159**
Income tax expense	33	(42)	(61)
Profit for the year		**236**	**98**
Profit/(loss) is attributable to:			
Equity holders of the Company		255	142
Minority interest		(19)	(44)
Profit for the year		**236**	**98**

In millions of USD	Attributable to equity holders of the Company Share capital	Other reserves	Retained earnings	Total	Minority interest	Total Equity
Balance at 1 January 2006	-	**142**	**98**	**240**	**233**	**473**
Financial investments:						
– Fair value gains less losses	-	16	-	**16**	-	**16**
Property, plant and equipment:						
– Revaluation	-	590	-	**590**	38	**628**
Income tax recorded in equity (Note 33)		(147)	-	**(147)**	(11)	**(158)**
Net income recognised directly in equity	-	**459**	-	**459**	**27**	**486**
Profit for the year	-	-	142	**142**	(44)	**98**
Total recognised income for 2006	-	**459**	**142**	**601**	**(17)**	**584**
Net capital contribution as a result of reorganisation (Note 16)	-	50	-	**50**	-	**50**
Loss of acquired associate related to previously held ownership interest	-	-	-	**-**	-	**-**
Minority share in net deficit relating to acquisition of PES-Energougol OJSC	-	-	(3)	**(3)**	-	**(3)**
Dividends (Note 15)	-	-	(78)	**(78)**	-	**(78)**
Balance at 31 December 2006	**-**	**651**	**159**	**810**	**216**	**1,026**
Financial investments:						
– Fair value gains less losses	-	293	-	**293**	-	**293**
– Disposals or transfer of AFS to associates (Note 16)	-	(54)	-	**(54)**	**-**	**(54)**
Property, plant and equipment:						
– Realised revaluation reserve	-	(51)	51	**-**	-	**-**
Income tax recorded in equity (Note 33)	-	6	(13)	**(7)**	-	**(7)**
Net income recognised directly in equity	-	194	38	**232**	-	**232**
Profit for the year	-	-	255	**255**	(19)	**236**
Total recognised income for 2007		**194**	**293**	**487**	**(19)**	**468**
Share issuance (Note 15)	-	199	-	**199**	-	**199**
Acquisition of minority interest in Pavlogradugol OJSC (Note 36)	-	(99)	-	**(99)**	(191)	**(290)**
Share of results of associate while accounted for as AFS (Note 10)	-	-	(3)	**(3)**	-	**(3)**
Balance at 31 December 2007	**-**	**945**	**449**	**1,394**	**6**	**1,400**

In millions of USD	Note	2007	2006
Cash flows from operating activities			
Profit before income tax		**278**	**159**
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles, net of amortisation of government grants		154	61
Excess of interest in fair value of entities' net assets acquired over the cost of investment	35	-	(3)
Revaluation and impairment of property, plant and equipment		-	7
Losses less gains on disposals of property, plant and equipment		1	22
Less gain from sale of investments available-for-sale	28	(27)	-
Impairment of trade and other receivables		16	3
Change in other provisions for liabilities and charges		(11)	-
Income from previously written off trade and other receivables		(1)	-
Net increase in retirement benefit obligation		15	18
Extinguishment of accounts payable		(1)	(1)
Share of result of associates	10	5	-
Foreign exchange losses on operating activities		-	1
Finance costs, net	32	40	40
Operating cash flows before working capital changes		**469**	**307**
Increase in trade and other receivables		(114)	(62)
Increase in inventories		(23)	(11)
Increase in advances received		4	5
Decrease in trade and other payables		60	26
(Decrease)/increase in other financial liabilities		(4)	6
Increase/(decrease) in taxes payable		8	(5)
Cash generated from operations		**400**	**263**
Income taxes paid		(69)	(78)
Defined employee benefits paid		(12)	(9)
Interest paid		(26)	(7)
Net cash generated from operating activities		**293**	**169**
Cash flows from investing activities			
Purchase of property, plant and equipment		(192)	(103)
Proceeds from sale of property, plant and equipment		1	2
Purchase of financial investments		(250)	(77)
Prepayment for shares in Dneproenergo JSC		(208)	-
Proceeds from sale of financial investments		-	1
Acquisition of minority interest and subsidiary acquired		(24)	-
Deposits placed		(37)	-
Deposits received		8	-
Interest received		6	1
Net cash used in investing activities		**(696)**	**(176)**
Cash flows from financing activities			
Proceeds from borrowings		596	180
Repayment of borrowings		(361)	(40)
Repayment of debts under amicable agreement		(5)	(24)
Issue of ordinary shares		199	-
Dividends paid		-	(79)
Net cash generated in financing activities		**429**	**37**
Net decrease in cash and cash equivalents		**26**	**30**
Cash and cash equivalents at the beginning of the year	**14**	**47**	**17**
Cash and cash equivalents at the end of the year	**14**	**73**	**47**

1 The Organisation and its Operations

DTEK Holdings Limited (the “Company”) is a private limited liability company incorporated in Cyprus on 10 April 2006. On incorporation all the shares were owned by SCM (System Capital Management) Limited, a 100% owned subsidiary of Joint Stock Company System Capital Management (“SCM”), registered in Donetsk, Ukraine. In September 2007, InvestCom Services Limited, another wholly owned subsidiary of SCM contributed USD 199 million to the Company, thereby becoming a 25% shareholder. The Company and its subsidiaries (together referred to as “the Group”) are ultimately controlled by Mr. Rinat Akhmetov. Mr. Akhmetov also has a number of other business interests outside of the Group. Related party transactions are detailed in Notes 7, 35 and 36.

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 in Ukraine. The Group’s coal mines and power generation plants are located in the Donetsk, Dnipropetrovsk and Lugansk regions of Ukraine. The Group sells all electricity generated to Energorynok, 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. In 2006 the Group acquired two distribution subsidiaries which acquire electricity from Energorynok and distribute it to end customers.

As discussed in Note 36, in prior periods the Group had consolidated Pavlogradugol OJSC on the basis that SCM had delegated to the Group the power to govern its financial and operational activities. In February 2007, the Group acquired a 7.81% interest in Pavlogradugol OJSC from the State Property Fund of Ukraine and in July 2007, the Group legally acquired a 92.11% interest in Pavlogradugol OJSC from SCM subsidiaries.

The principal subsidiaries are presented below:

Name	% interest held as at 31 December		Segment	Country of incorporation
	2007	2006		
DTEK LLC	100.00	100.00	Management	Ukraine
DTEK Corporation	98.64	73.66	Management	Ukraine
Pavlogradugol OJSC (Note 36)	99.92	-	Coal Mining	Ukraine
Komsomolets Donbassa OJSC	94.64	94.64	Coal Mining	Ukraine
Eastenergo LLC	100.00	100.00	Power generation	Ukraine
Tehrempostavka LLC	100.00	100.00	Power generation	Ukraine
Servis-Invest LLC	100.00	100.00	Electricity distribution	Ukraine
PES-Energougol OJSC	91.12	91.12	Electricity distribution	Ukraine
CCM Kurahovskaya LLC	99.00	99.00	Coal Enrichment	Ukraine
CCM Pavlogradskaya LLC	99.00	99.00	Coal Enrichment	Ukraine
Mospino CPE LLC	99.00	-	Coal Enrichment	Ukraine
Pershotravensky RMZ LLC	99.92	-	Other	Ukraine
Sotsis LLC	99.00	99.00	Other	Ukraine
Ekoenergoresurs LLC	99.00	99.00	Other	Ukraine
Servis Enterprise LLC	99.00	99.00	Other	Ukraine

The Group was formed in 2006 through a reorganisation of entities under common control, and accordingly the formation was recorded using the predecessor basis of accounting in a manner similar to the pooling of interest method of accounting. As such, the financial statements, including corresponding amounts, have been presented as if the transfers of controlling interests in the subsidiaries had occurred at the beginning of the earliest period presented or, if later, on the date of the acquisition of the subsidiary by the transferring entities under common control. The difference between the predecessor carrying amounts of net assets and the purchase consideration was recorded as an adjustment to equity.

The Company’s registered address is Themistokli Dervi 3, Julia House, P.C.1066, Nicosia, Cyprus. The principal place of business is 11 Shevchenko blvd, 83055 Donetsk, Ukraine.

As at 31 December 2007, the DTEK Group employed approximately 47 thousand people (31 December 2006: 49 thousand people).

2 Summary of Significant Accounting Policies

Basis of preparation. The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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 consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4, Adoption of New or Revised Standards and Interpretations). Certain reclassifications have been made to conform to the current period presentation.

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 consolidated financial statements are disclosed in Note 3.

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 US dollars ("USD") and issued in addition to the consolidated financial statements presented in Ukrainian Hryvnia ("UAH"). Such presentation is considered more convenient for certain users of the consolidated financial statements. Assets and liabilities of subsidiaries domiciled in Ukraine are translated into the presentation currency at the closing rate existing at the date of each balance sheet presented; income and expenses are translated at the annual average exchange rates for the respective years. Cash flow statements are translated at annual average rates for the respective years, with the exception of cash and cash equivalents at the beginning and at the end of the reporting periods, which are translated at the exchange rate ruling at the respective dates. Equity items other than those resulting from the income and expense recognised in the period are translated at the closing rates. The exchange difference arising on the translation are taken directly to a separate component of equity.

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 2007, the exchange rate used in the preparation of the consolidated financial statement was USD 1 = UAH 5.05 (31 December 2006: USD 1 = UAH 5.05); EUR 1 = 7.42 UAH (31 December 2006: EUR 1 = 6.65 UAH). The average UAH/USD exchange rates used in the preparation of the consolidated financial statements for the years ended 31 December 2007 and 2006 was UAH 5.05 for 1 USD.

Any translation of UAH amounts to USD should not be construed as a representation that such UAH amounts have been or will be converted into US dollars as the exchange rates shown.

Exchange restrictions in Ukraine are limited to compulsory receipt of foreign receivables within 90 days of sales. Foreign currency can be easily converted at a rate close to the NBU rate. Prior to 1 April 2006, there was a requirement to convert 50% of foreign currency receipts to UAH. At present, the UAH is not freely convertible outside Ukraine.

2 Summary of Significant Accounting Policies (Continued)

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 purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Accounting polices of subsidiaries have been changed where necessary to ensure consistency with the polices of the Group.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Minority interest forms a separate component of the Group's equity.

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.

Purchases of minority interests. The Group has acquired minority shareholdings in its subsidiaries. Where such transactions are with parties under the common control of the ultimate shareholder, the difference between the carrying value of a minority interest and the amount paid to acquire it is recorded as a debit or credit in additional paid-in capital in the statement of changes in equity. Where such transactions are with third parties, the difference is recorded as goodwill or negative goodwill.

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 recorded at cost adjusted for the Group's share of the net assets after acquisition, as well as any impairment charges. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured accounts receivable, 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.

Segment reporting. A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in another economic environment.

Property, plant and equipment. Effective 31 December 2006, the Group changed its accounting policy for property, plant and equipment from the cost model to the revaluation model. 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. 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. As at 31 December 2007, property, plant and equipment are stated at revalued amounts less accumulated depreciation and provision for impairment, if required.

2 Summary of Significant Accounting Policies (Continued)

The increase in the carrying amounts resulting from revaluation are credited to other reserves in equity. Decreases that offset previously recognised increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to 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 capitalized with the carrying amount of the replaced component being written off. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the consolidated income statement as an expense when incurred.

Property, plant and equipment are derecognized 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 internally 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, which are acquired by the Group and which have finite useful lives. Mineral licenses are stated at cost less accumulated amortisation and accumulated impairment losses, and are amortised on a straight-line basis over the estimated useful life.

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 incurred when the item is acquired...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 are recognised in the income statement or other reserves in equity to the extent of any revaluation balance existence in respect of the related asset. Provisions in respect of abandonment and site restoration are evaluated and re-estimated annually, and are included in these 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 presented separately in the consolidated 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.

2 Summary of Significant Accounting Policies (Continued)

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.

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.

The 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 consolidated 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.

2 Summary of Significant Accounting Policies (Continued)

Impairment losses are recognised in the consolidated 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 consolidated income statement, is removed from equity and recognised in the consolidated income statement. Impairment losses on equity instruments are not reversed through the consolidated 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 consolidated income statement, the impairment loss is reversed through current period's consolidated 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. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the provision is recognised in the consolidated 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 consolidated financial statements in accordance with Ukrainian 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 consolidated 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.

2 Summary of Significant Accounting Policies (Continued)

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. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. 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, discounted at the original effective interest rate. 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 a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

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. A portion of sales and purchases is settled by promissory notes or bills of exchange, which are negotiable debt instruments. Sales and purchases settled by promissory notes are recognised based on management's estimate of the fair value to be received or 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 other reserves.

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.

2 Summary of Significant Accounting Policies (Continued)

Value added tax. VAT is levied at two rates: 20% on domestic sales and imports of goods, 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. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. The Group does not capitalise borrowing costs.

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 consolidated 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 amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any transaction costs and any discount or premium on settlement. Financial liabilities which do not have a fixed maturity are subsequently carried at fair value.

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.

2 Summary of Significant Accounting Policies (Continued)

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 ("VAT") and discounts.

The Group also engages in sale and purchase transactions to manage cash flows. Such transactions are not revenue generating to the DTEK 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.

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.

All 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.

Employee benefits: Defined Contributions Plan. The Group makes statutory contributions to the Social Insurance Fund, Pension Fund and Insurance Against Unemployment 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. During 2007, the Group selected to classify the unwinding of interest on the pension obligation from payroll costs included in cost of sales to finance costs, and comparatives totalling USD 15 million were reclassified accordingly.

The Group previously presented the revaluation of property, plant and equipment on a gross basis. In 2007, these were presented net.

Management believes that these reclassifications result in a more appropriate presentation of the consolidated financial statements.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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:

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

Impairment of property, plant and equipment. The entities of the Group are required to perform impairment tests for their 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.

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.

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 (Notes 18 and 19). 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 33).

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 (Note 7).

Prepayment for Dneproenergo OJSC. As discussed in Note 11, the Group advanced USD 208 million to acquire an incremental equity interest in Dneproenergo OJSC, and subsequent to year end, this transaction has been declared void by the Supreme Court of Ukraine. Management believe that in the event the incremental shares are not issued, the prepayment would be returned to the Group. There is significant judgement involved in determining the recoverability and timing of the return of the prepayment, which could have a significant effect on the financial statements.

4 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations, and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2006, unless otherwise described below.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk, including analysis of sensitivity to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

Other new standards or interpretations. The Group has adopted the following interpretations which became effective from 1 January 2007:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

5 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early-adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). This standard applies to public entities. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group does not expect IFRS 8 to significantly affect its financial reporting.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of expensing borrowing costs that relate to assets under construction. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

5 New Accounting Pronouncements (Continued)

Vesting Conditions and Cancellations-Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amendment to affect the consolidated financial statements.

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 11, *IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

6 Segment Information

Primarily reporting format – business segments.

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

- Coal mining and enrichment;
- Power generation;
- Electricity distribution.

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 dependence between the principle 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.

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

Secondary reporting format – geographical segments.

Geographical segments for reporting of external revenue are based on the location of customers, and for reporting of segment assets and capital expenditure on the location of assets. Capital expenditure excludes assets acquired through business combinations. The Group's customers and production assets are located in Ukraine.

6 Segment Information (Continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2007 is as follows:

In millions of USD	Coal mining	Power generation	Electricity distribution	Other	Elimination	Total
2007						
Sales – external	318	892	475	91	-	1,776
Sales to other segments	465	1	30	66	(562)	-
Total revenue	783	893	505	157	(562)	1,776
Segment result	85	217	29	50	(40)	341
Unallocated expenses						(18)
Operating profit						**323**
Finance costs, net						(40)
Share of result of associates						(5)
Profit before income tax						**278**
Income tax expense						(42)
Profit for the year						**236**
Segment assets	1,043	724	107	67	-	1,941
Investments in associates						17
Current and deferred tax assets						65
Other unallocated assets						631
Total assets						**2,654**
Segment liabilities	339	54	24	20	-	436
Current and deferred tax liability						140
Other unallocated liabilities						678
Total liabilities						**1,254**
Capital expenditure	159	24	16	8	-	**207**
Depreciation and amortisation	95	45	12	2	-	**154**
Other non-cash income/(expenses)	40	2	(12)	-	-	**30**

Other segment sales primarily relate to sale of materials and supplies to third party mines operating close to the Group's subsidiaries.

Unallocated assets primarily relate to available-for-sale securities.

6 Segment Information (Continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2006 is as follows:

In millions of USD	Coal mining	Power generation	Electricity distribution	Other	Elimination	Total
2006						
Sales – external	202	686	107	5	-	1,000
Sales to other segments	349	-	4	-	(353)	-
Total revenue	551	686	111	5	(353)	1,000
	-	-	-	-	-	-
Segment result	(17)	224	1	4	(4)	208
Unallocated expenses						(9)
Operating profit						**199**
						-
Finance costs, net						(40)
Profit before income tax						**159**
Income tax expense						(61)
Profit for the year						**98**
Segment assets	784	710	101	9	-	1,604
Investments in associates						-
Current and deferred tax assets						55
Other unallocated assets						77
Total assets						**1,736**
Segment liabilities	262	192	44	9	-	507
Current and deferred tax liability						150
Other unallocated liabilities						53
Total liabilities						**710**
Capital expenditure	81	21	94	3	-	**199**
Depreciation and amortisation	62	4	3	-	-	**69**
Other non-cash income/(expenses)	40	2	-	-	-	**42**

7 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's immediate parent and ultimate controlling party are disclosed in Note 1.

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 2007 are detailed below. At 31 December 2007, the outstanding balances with related parties were as follows:

In millions of USD	2007		2006	
	Entities under common control of SCM	Associates	Entities under common control of SCM	Associates
Gross amount of trade and other receivables	36	-	46	-
Promissory notes receivable	1	-	5	-
Financial aid provided	-	-	1	-
Cash and cash equivalents – current account	5	-	1	-
Bonds issued (contractual interest rate: 15%)	(278)	-	(13)	-
Other financial liabilities (effective interest rate: 13.28%)	(2)	-	(6)	-
Trade and other payables	(46)	(1)	(36)	-
Promissory notes issued	(8)	-	(16)	-

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

In millions of USD	2007		2006	
	Entities under common control of SCM	Associates	Entities under common control of SCM	Associates
Sales of coking coal	132	-	104	-
Sales of electricity	212	-	36	-
Sales of inventory and services	3	1	2	-
Purchase of coal	(1)	-	-	-
Purchase of goods for resale	(61)	-	-	-
Purchase of raw materials and equipment	(17)	(1)	(14)	-
Purchase of services	(3)	-	(11)	-
Gain from sale of promissory notes	-	-	3	-
Gain from early settlements of promissory notes receivable	-	-	2	-
Interest income on long-term receivables (Note 32)	1	-	1	-
Gain on initial recognition of long-term payables	-	-	1	-
Interest expense on long-term payables	-	-	(5)	-
Interest expense on promissory notes payable (Note 32)	(2)	-	(3)	-
Interest expense on bonds issued	-	-	(2)	-
Loss on early repayment of bonds issued (Note 32)	(13)	-	(9)	-
Loss on early repayment of promissory notes (Note 32)	(13)	-	(1)	-

7 Balances and Transactions with Related Parties (Continued)

There have been no guarantees issued or received by the Group.

Revenue, trade and other receivable

The trade receivables balance as at 31 December 2007 due from a related party is non-interest bearing. The balances outstanding from related parties as at 31 December 2007 and 2006 are unsecured and settlements are made either in cash, in the form of a debt set-off or by means of exchanging promissory notes issued by the settling counterparties or third parties to the transaction. The Group created no provision for impairment of accounts receivable due from related parties as of 31 December 2007 and 31 December 2006.

During 2007, 45% of sale of electricity to final customers was made to companies under common control (2006: 34%).

Purchases, trade and other payables

Purchases and outstanding trade and other payables as at 31 December 2007 and 2006 comprised balances due to related parties for supplies of iron shoring for mines, raw materials and steaming coal. Balances payable are non-interest bearing and are repayable in the normal course of business.

Key management personnel compensation

Key management personnel consist of six top executives of DTEK LLC and three members of the Board of Directors of DTEK Holdings Limited. In 2007 total compensation to key management personnel included in administrative expenses amounted to USD 2.95 million (2006: USD 1.69 million). Compensation to the key management personnel consists of salary and bonus payments.

8 Property, Plant and Equipment

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

In millions of USD	Mining assets	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
At 1 January 2006						
Cost	178	98	273	24	103	**676**
Accumulated depreciation	(30)	(37)	(104)	(17)	-	**(188)**
Carrying amount at 1 January 2006	148	61	169	7	103	**488**
Year ended 31 December 2006						
Opening net book amount	148	61	169	7	103	**488**
Acquisition of subsidiaries	-	56	29	3	3	**91**
Revaluation surplus	73	357	180	11	-	**621**
Additions	8	1	-	-	97	**106**
Disposals	(4)	(6)	(3)	(1)	(8)	**(22)**
Depreciation charge	(15)	(6)	(44)	(3)	-	**(68)**
Transfer	41	15	56	8	(120)	-
Carrying amount at 31 December 2006	**251**	**478**	**387**	**25**	**75**	**1,216**
At 31 December 2006						
Cost or valuation	251	487	488	42	75	**1,343**
Accumulated depreciation	-	(9)	(101)	(17)	-	**(127)**
Carrying amount at 31 December 2006	251	478	387	25	75	**1,216**
Year ended 31 December 2007						
Opening net book amount	251	478	387	25	75	**1,216**
Acquisition of subsidiaries	-	-	-	-	1	**1**
Additions	8	11	41	6	139	**205**
Disposals	(1)	(1)	(1)	-	-	**(3)**
Depreciation charge	(34)	(35)	(86)	(6)	-	**(161)**
Transfer	51	18	69	3	(141)	-
Carrying amount at 31 December 2007	**275**	**471**	**410**	**28**	**74**	**1,258**
At 31 December 2007						
Cost or valuation	**304**	**511**	**597**	**49**	**74**	**1,535**
Accumulated depreciation	**(29)**	**(40)**	**(187)**	**(21)**	**-**	**(277)**
Carrying amount at 31 December 2007	275	471	410	28	74	**1,258**
NBV had no revaluation taken place at 31 December 2006	**177**	**121**	**207**	**14**	**75**	**594**
NBV had no revaluation taken place at 31 December 2007	**218**	**125**	**240**	**19**	**74**	**676**

8 Property, Plant and Equipment (Continued)

During 2006 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 values of the majority of buildings were determined with reference to market value. The majority of the structures, plant and machinery are specialised in nature and are rarely sold in the open market in Ukraine. 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.

As at 31 December 2007, buildings, plant and machinery carried at USD 538 million (31 December 2006: USD 395 million) have been pledged to third parties as collateral for loans and borrowings (Note 18).

In 2007, the depreciation expense of USD 151 million (2006: USD 56 million), net of government grant credited to the consolidated income statement, was included in cost of sales, USD 2 million (2006: USD 1 million) in general and administrative expenses, USD 1 million (2006: USD 0.2 million) in distribution expenses, and nil (2006: USD 0.2 million) in other operating expenses.

Lease rentals amounting to USD 3 million (2006: USD 1 million) relating to the lease of office premises are included in other operating expenses in the income statement.

9 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

In millions of USD	2007	2006
As at 1 January	**118**	**109**
	-	-
Acquisition of PES-Energougol OJSC (Note 35)	-	9
Acquisition of subsidiaries-Mospino CPE LLC	-	-
Acquisition of minority interest in subsidiaries-Pavlogradugol OJSC (Note 36)	7	-
As at 31 December	**125**	**118**

Goodwill Impairment Test

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

In millions of USD	2007	2006
Coal mining	116	109
Energy distribution	9	9
Total	**125**	**118**

The recoverable amount has been determined based on a value in use calculation. 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:

In %	2007	2006
Coal mining		
Pre-tax discount rate	15%	13%
Growth rate	4%	9-7%
Gross margin	15%	10%
Energy distribution		
Pre-tax discount rate	**15%**	**13%**
Growth rate	1-5%	9-7%
Gross margin	7%	10%

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.

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

10 Investments in Associates

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

In millions of USD	**2007**	**2006**
Carrying amount at 1 January	-	-
Acquisition of associates	25	-
Share of after tax results of associates	(5)	-
Share of results of associate while accounted for as AFS	(3)	-
Carrying amount at 31 December	**17**	-

At 31 December 2007, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

In millions of USD	Country of incorporation	% of ownership	Carrying value	Total assets	Total liabilities	Revenue	Loss
Donetskoblenergo JSC	Ukraine	30.41%	11	191	1,169	470	(18)
Other	Ukraine	various	6	17	4	13	(1)
Total			**17**	**208**	**1,173**	**483**	**(19)**

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

11 Financial Investments

As at 31 December, non-current financial investments consisted of equity securities available-for-sale and prepayment for securities:

In millions of USD	**2007**	**2006**
Securities quoted on the Ukrainian stock market:	567	92
- Dneproenergo JSC	409	40
- Other	158	52
Prepayment for shares of Dneproenergo OJSC	208	-
Unquoted securities	7	-
Total	**782**	**92**

The fair value of investments in securities, which are traded on the Ukrainian stock markets, is determined with reference to quoted market bid prices at the balance sheet date.

During 2006, the Group acquired an 8.3% interest in Dneproenergo OJSC which was recorded at fair value of USD 40 million at 31 December 2006. Dneproenergo OJSC, a majority State owned power generating company with a capacity of 8,185 MW located in the Dnepropetrovsk region of Ukraine, was under external management in accordance with the Law of Supreme Court # N 2343-XII dated 14 May 1992 on *Restoring debtor's solvency or declaring a debtor bankrupt*. In 2007, the Group actively participated in assisting Dneproenergo OJSC emerge from bankruptcy and continued acquiring additional interests in this entity. In June 2007, the Arbitration Court approved the creditor committee's amicable agreement for restructuring Dneproenergo's OJSC obligations and bringing the entity back to solvency. In accordance with this amicable agreement, in October 2007, the Group's subsidiaries Pavlogradugol OJSC and Komsomolets Donbassa OJSC contributed USD 208 million to a special purpose entity which was then merged with Dneproenergo OJSC. In exchange Pavlogradugol OJSC and Komsomolets Donbassa OJSC each received a 17.12% interest in Dneproenergo OJSC. The majority of these funds were used to repay the creditors while the remaining contribution would be used to fund working capital. Further, the amicable agreement required Pavlogradugol OJSC and Komsomolets Donbassa OJSC to commit to funding Dneproenergo's investment agreement totalling USD 200 million during the period 2008 through 2012.

11. Financial Investments (Continued)

Subsequent to approval of the above amicable agreement, various parties have challenged the legality of the amicable agreement, such that the additional share issue has not been recognised by the share registrar and accordingly, the Group has not been able to exercise any additional influence over this entity.

On 8 April 2008, the Supreme Court of Ukraine overturned the decisions on the additional share capital increase. Management believe the original legal challenges are without merit and are currently investigating their legal options. See Note 41 for further discussion. While management believe this matter will be resolved to their satisfaction, they have elected a prudent accounting treatment by only recognising their registered interest in Dneproenergo OJSC. At 31 December 2007, the Group's registered 18.19% interest (before dilution) in Dneproenergo OJSC has been recorded at fair value of USD 409 million. The USD 208 million paid to acquire the additional 34.24% interest has been recorded as a prepayment for shares at cost. In addition, the investment commitment of USD 200 million has not been recorded as a liability as it is linked to the issuance of the additional shares.

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

In millions of USD	**2007**	**2006**
Deposits placed with a maturity of more than three months	37	8
Other	**1**	**1**
Total	**38**	**9**

		Maturity		**Interest re-pricing**
In millions of USD	**2007**	**2006**	**2007**	**2006**
Deposits and loans due:				
– within 1 year	38	9	38	9
Total	**38**	**9**	**38**	**9**

		2007		**2006**
In millions of USD	**Other**	**Deposits**	**Other**	**Deposits**
Rating by Moody's Investors Service				
- Ba2 rated	-	33	-	8
- B2 rated	-	4	-	-
Non-rated	1	-	1	-
Total	**1**	**37**	**1**	**8**

In 2007 and 2006 the Group provided short-term interest-free repayable loans to related parties (Note 7). As at 31 December 2007 deposits amounting to USD 32 million (31 December 2006: nil) were pledged as collateral for borrowings (Note 18).

The amount of the current financial investments is neither past due nor impaired. Carrying amounts of deposits and financial aid approximate their fair values.

12 Inventories

As at 31 December, inventories were as follows:

In millions of USD	**2007**	**2006**
Coal	48	41
Raw materials	22	14
Spare parts	14	7
Goods for resale	7	6
Work in process	2	2
Total inventories	**93**	**70**

The amount of inventory write down recognised as an expense in 2007 was USD 1 million (2006: USD 0.4 million). As at 31 December 2007 no inventories have been pledged as collateral for borrowings (31 December 2006: nil).

13 Trade and Other Receivables

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

In millions of USD	**2007**	**2006**
Trade receivables	154	116
Less impairment provision	(79)	(66)
Trade receivables – net	**75**	**50**
Other financial receivables	66	31
Less impairment provision	(15)	(13)
Receivable for sale of financial instruments	-	47
Total financial assets	***126***	***115***
Prepayments to suppliers	68	7
Less impairment provision	(2)	(3)
VAT recoverable	3	-
Other	2	1
Less impairment provision	(1)	-
Total non-financial assets	***70***	***5***
Total trade and other receivables	**196**	**120**

All trade and other receivables are denominated in UAH.

Included in prepayments at 31 December 2007 is USD 52 million advanced to a single supplier to secure the supply of coal in 2008. The deposit will be repaid by the supplier when the Group purchases coal for an equivalent amount.

As at 31 December 2007 trade receivables and future proceeds from sales agreements of USD 200 million (2006: USD 200 million) were pledged as collateral for borrowings (Note 18).

13 Trade and Other Receivables (Continued)

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

In millions of USD	2007	2006
Provision for impairment at 1 January	**82**	**80**
Recovery of)/provision for impairment during the year	16	11
Amounts written off during the year as uncollectible	(1)	(1)
Release of impairment	-	(8)
Provision for impairment at 31 December	**97**	**82**

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

	2007			**2006**		
In millions of USD	Trade receivables	Receivable for sale of financial instruments	Other financial receivables	Trade receivables	Receivable for sale of financial instruments	Other financial receivables
Current and not impaired – exposure to						
- Energorynok, SE	33	-	-	23	-	-
- Large Ukrainian corporates	22	-	1	5	40	-
- Medium sized companies	3	-	10	2	6	12
Total current and not impaired	**58**	**-**	**11**	**30**	**46**	**12**
Past due but not impaired						
- less than 30 days overdue	6	-	10	2	1	1
- 30 to 90 days overdue	2	-	29	4	-	5
- 90 to 180 days overdue	3	-	-	1	-	-
- 180 to 360 days overdue	3	-	-	10	-	-
- over 360 days overdue	3	-	1	3	-	-
Total past due but not impaired	**17**	**-**	**40**	**20**	**1**	**6**
Individually determined to be impaired (gross)						
- less than 30 days overdue	-	-	-	-	-	1
- 30 to 90 days overdue	-	-	-	-	-	2
- 180 to 360 days overdue	-	-	4	-	-	2
- over 360 days overdue	79	-	11	66	-	8
Total individually impaired	**79**	**-**	**15**	**66**	**-**	**13**
Less impairment provision	**(79)**	**-**	**(15)**	**(66)**	**-**	**(13)**
Total	**75**	**-**	**51**	**50**	**47**	**18**

14 Cash and Cash Equivalents

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

In millions of USD	2007	2006
Bank balances payable on demand	22	43
Term deposits with original maturity of less than three months	51	4
Total cash and cash equivalents	**73**	**47**

As at 31 December 2007, of total cash and cash equivalents USD 5 million was denominated in USD. (31 December 2006: USD 3 million). Term deposits have an effective interest rate of 12.8% at 31 December 2007 (31 December 2006: 10.5%).

As at 31 December 2007 no cash and cash equivalents have been pledged as collateral for borrowings (31 December 2006: USD 2 million) (Note 18).

All 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:

	2007		2006	
In millions of USD	Bank balances payable on demand	Term deposits	Bank balances payable on demand	Term deposits
Rating by Moody's Investors Service				
- A3 rated	5	-	22	-
- Ba2 rated	4	46	20	4
- B2 rated	6	5	1	-
- B3 rated	3	-	-	-
- P1rated	4	-	-	-
Total	**22**	**51**	**43**	**4**

15 Share Capital

As at 31 December 2006, the authorised share capital comprised 32,272 ordinary shares with a par value of US$1.00 each; 10,000 shares were fully paid, the remaining 22,272 were paid in May 2007. In September 2007, the authorised share capital was increased to 50,000 ordinary shares of US$1.00 each and 17,728 shares were issued for a cash consideration of US$200 million. As at 31 December 2007 US$1.5 million of the share issuance remains unpaid. The net capital contribution totalling USD 199 million has been recorded in additional paid in capital.

Immediately prior to the reorganisation of the Group as discussed in Note 1, the Group subsidiary Eastenergo LLC declared and paid a dividend of USD 78 million to its former parent. This distribution has been recorded in these consolidated financial statements as dividend in the statement of changes in equity. DTEK Holdings Limited has not declared or paid dividends.

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 Ukrainian GAAP. Ukrainian legislation identifies the basis of distribution as retained earnings, 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.

16 Other Reserves

As described in Note 1, the Group was formed in 2006, as a reorganisation of SCM's power generating business. Assets and liabilities of the transferred subsidiaries were recorded in these consolidated financial statements at the predecessor carrying amounts, including goodwill and shareholder's equity, from the earliest period presented.

During 2006, SCM contributed assets to the Group at a valuation of USD 63 million (including USD 55 million related to Servis-Invest) (see Note 35). In exchange for these contributions, the Company issued shares and paid cash consideration of USD 13 million to the contributing parties. The net contribution of USD 50 million has been credited to additional paid in capital equity.

Effective 31 December 2006, the Group changed its accounting policy from a cost to a revaluation model and recognised a revaluation surplus of USD 590 million (deferred taxation of USD 146 million) in other reserves. In 2007, USD 51 million (deferred tax of USD13 million) has been recycled from other reserves to equity.

During 2007, unrealised fair value gains on available-for-sale investments totalling USD 293 million were recorded directly in other reserves. Further, realised gains on available-for-sale investments totalling USD 27 million (Note 28) have been transferred to the income statement while gains totalling USD 27 million related to Donetskoblenergo JSC have been derecognised following transfer to equity accounting (Note 10).

In millions of USD	Additional paid in capital	Revaluation reserve	AFS reserve	Total
Balance at 1 January 2006	**142**	-	-	**142**
Financial investments:				
– Fair value gains less losses	-	-	16	**16**
Property, plant and equipment:				
– Revaluation	-	590	-	**590**
Income tax recorded in equity	-	(146)	(1)	**(147)**
Net capital contribution as a result of reorganisation	50	-	-	**50**
Balance at 31 December 2006	**192**	**444**	**15**	**651**
Financial investments:				
– Fair value gains less losses	-	-	293	**293**
– Disposals or transfer of AFS to associates	-	-	(54)	**(54)**
Property, plant and equipment:				
– Realised revaluation reserve	-	(51)	-	**(51)**
Income tax recorded in equity	-	13	(7)	**6**
Share issuance (Note 15)	199	-	-	**199**
Acquisition of minority interest in Pavlogradugol OJSC (Note 36)	(99)	-	-	**(99)**
Balance at 31 December 2007	**292**	**406**	**247**	**945**

17 Liability to minority participants

The minority interest in the limited liability companies registered in Ukraine is classified as a liability in the Group's consolidated financial statements and the income attributed to the minority participants is shown as a finance charge in the consolidated income statement.

The movements in the liability to minority participants were as follows:

In millions of USD	2007	2006
Balance at 1 January	**1**	**1**
Minority share in profits recognised in finance cost (Note 32)	5	-
Acquisition of minority interest by parent (Note 36)	(6)	-
Balance at 31 December	**-**	**1**

18 Borrowings

In millions of USD	2007	2006
Non-current		
Bank borrowings	70	30
	70	**30**
Current		
Bank borrowings	313	140
Interest accrual	3	-
	316	**140**
Total borrowings	**386**	**170**

The Group's borrowings are denominated in currencies as follows:

In millions of USD		2007	2006
Borrowings denominated in:	- UAH	35	-
	- USD	351	160
	- Euro	-	10
Total borrowings		**386**	**170**

The Group's loans and borrowings maturity and re-pricing is as follows:

	Maturity		**Interest re-pricing**	
In millions of USD	**2007**	**2006**	**2007**	**2006**
Loans and borrowings due:				
– within 1 year	316	140	334	140
– between 1 and 5 years	70	30	52	30
– after 5 years	-	-	-	-
Total borrowings	**386**	**170**	**386**	**170**

18 Borrowings (Continued)

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

	2007			2006		
In % per annum	**UAH**	**USD**	**EUR**	**UAH**	**USD**	**EUR**
Bank borrowings	9.5%-13.5%	7.9%-10.3%	-	-	8.5%-9.25%	8%
In millions of USD						
Total borrowings	**35**	**351**	**-**	**-**	**160**	**10**

As at 31 December 2007, borrowings amounting to USD 264 million (31 December 2006: USD 50 million) were secured with property, plant and equipment, financial investments, trade and other receivables (Notes 8, 11 and 13).

There are no significant differences between the carrying value and the fair value of borrowings.

19 Other Financial Liabilities

As at 31 December financial liabilities of the Group comprise:

In millions of USD	**2007**	**2006**
Payable for shares in Pavlogradugol (Note 36)	278	-
Bonds issued	15	13
Promissory notes	-	6
Restructured trade payables	11	-
Total other financial liabilities	**304**	**19**

As discussed in Note 36, the Group acquired a 92.11% interest in Pavlogradugol from parties under common control. This related party non-interest bearing liability was restructured in December 2007 to 15% interest bearing bonds repayable during 2015 – 2019.

Promissory notes payable mature in 2008 – 2013 and bear interest of 0.01%. They were initially recognised at fair value using an effective interest rate of 16-13%.

The major part of the restructured trade payables relates to an agreement between PES-Energougol OJSC and Energorynok SE and totals USD 9 million. This liability is to be settled in monthly instalments through August 2015. The restructured trade payables to Energorynok SE bear no nominal interest, and have been discounted to their net present value using an effective interest rate of 13%, resulting in a gain on extinguishment of USD 6 million (Note 32).

20 Indebtedness under Amicable Agreement

In 2005 the creditors of Pavlogradugol OJSC initiated bankruptcy procedures against the company asking for the repayment of the amounts due by Pavlogradugol OJSC. As a result of these procedures, Pavlogradugol OJSC concluded an amicable agreement with its creditors. Under the agreement the company shall repay the total amount of USD 76 million during 2007 – 2019, which represents a substantial modification of the terms of the liability and was accounted for as an extinguishment of the original liability and the recognition as a new liability. As 31 December 2005 the Group recorded a new liability to its creditors at its fair value using an effective interest rate of 16%.

A summary of the restructured obligations is presented below:

		2007		2006
In millions of USD	**Nominal value**	**Amortised cost**	**Nominal value**	**Amortised cost**
Promissory notes issued	48	20	49	18
Taxes payable, other than income tax	-	-	4	3
Trade accounts payables	-	-	-	-
	48	**20**	**53**	**21**
Current	-	-	-	3
Non-current	-	20	-	18
Total indebtedness under amicable agreement	**-**	**20**	-	**21**

During 2007, included in finance costs is USD 3 million (2006: USD 2 million) related to the unwinding of the discount on this restructured obligation.

21 Government Grants

In 2004, Pavlogradugol OJSC received government grants to fund capital expenditures. Such amounts received were recorded as deferred revenues and are being amortised to income over the useful lives of the assets. Since 2005, the Group has not received any additional government grants.

Movements in government grants during 2007 and 2006 are summarised as follows:

In millions of USD	**2007**	**2006**
As at 1 January	**28**	**35**
Expenditures incurred	-	-
Amortisation of government grants to match related depreciation	(7)	(7)
As at 31 December	**21**	**28**

22 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 upon retirement and post-retirement benefit programs.

In 2007 the defined benefit plan covers 48,113 people, including 4,513 ex-employees (2006: approximately 46,733 and 5,215 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 USD	2007	2006
Present value of unfunded defined benefit obligations	261	165
Unrecognised net actuarial loss	(127)	(46)
Liability in the consolidated balance sheet	**134**	**119**

In millions of USD	2007	2006
Retirement benefits	197	116
Retirement benefits – coal support	52	40
Lump sum payments	12	9
Total balance sheet obligations	**261**	**165**

The amounts recognised in the consolidated income statement were as follows:

In millions of USD	2007	2006
Current service cost	10	8
Interest cost	14	15
Recognized actuarial losses	3	5
Total	**27**	**28**

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

In millions of USD	2007	2006
Defined benefit obligation as at 1 January	**165**	**174**
Current service cost	10	8
Actuarial losses	84	(23)
Interest cost	14	15
Benefits paid	(12)	(9)
Defined benefit obligation as at 31 December	**261**	**165**

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

In millions of USD	2007	2006
As at 1 January	**119**	**100**
Benefits paid	(12)	(9)
Net expense recognised in the income statement	27	28
As at 31 December	**134**	**119**

22 Retirement Benefit Obligations (Continued)

The principal actuarial assumptions used were as follows:

In %	2007	2006
Nominal discount rate	9%	9%
Nominal salary increase	9%	9%
Nominal pension entitlement increase	9%	9%

Experience adjustments for 2007 do not exceed USD 108 million (2006: USD 11 million). Payments in respect of post-employment benefit plan obligations expected to be made during the year ending 31 December 2008 are USD 13 million (2007: USD 12 million).

23 Other Provisions for Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In millions of USD	Assets retirement provision	Provision for legal claims	Other provisions	Total
As at 1 January 2006	**2**	**-**	**-**	**2**
Acquisitions of a subsidiary	-	12	-	12
Change in estimates	9	-	-	9
Arising during the year	-	2	1	3
Unwinding of discount	1	-	-	1
Utilised	-	-	-	-
At 31 December 2006	**12**	**14**	**1**	**27**
Acquisitions of a subsidiary	-	-	-	-
Change in estimates	11	-	-	11
Arising during the year	3	1	-	4
Unwinding of discount	-	-	-	-
Reversal of provision	-	(13)	-	(13)
Utilised	(1)	-	(1)	(2)
At 31 December 2007	**25**	**2**	**-**	**27**

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

In accordance with the Mining Law of Ukraine No. 1127 – XIV dated 6 October 1999, and the Law On environmental protection No. 1264 – XII dated 26 June 1991 with subsequent changes, Pavlogradugol OJSC and Komsomolets Donbassa Mine OJSC have the mandatory obligation to dismantle and remove the mines and restore the sites to their original condition. As at 31 December 2007 the Group has estimated the present value of the mines retirement obligation at USD 20 million (31 December 2006: USD 8 million). The mines are planned to be closed at the end of their estimated useful lives.

The Group's obligation to remediate disturbed soil as a result of underground works or ash dumps is estimated at USD 5 million as at 31 December 2007 (31 December 2006: USD 4 million).

During 2007, PES-Energougol OJSC and Energorynok SE reached an agreement on restructuring of PES-Energougol's obligation (Note 19). Accordingly the provision for penalties and interest totalling USD 8 million has been reversed. While Energorynok SE continues to claim the penalties and interest, the management believes the risk of additional payment is remote.

Following favourable court rulings, the Group's subsidiary Servis-Invest has reversed provisions totalling USD 4 million associated with claims made by one of its customers in connection with supply of electricity.

24 Trade and Other Payables

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

In millions of USD	2007	2006
Trade payables	99	69
Wages and salaries payable	20	18
Liabilities for purchased securities	22	18
Promissory notes payable	2	6
Liabilities for purchased property, plant and equipment	4	4
Accrued liabilities and other creditors	8	6
Total financial payables	**155**	**121**
Accruals for employees' unused vacations	21	18
Other payables	1	1
Total non-financial payables	**22**	**19**
Total	**177**	**140**

In millions of USD	Trade payables	Wages and salaries payable	Promissory notes payable	Liabilities for purchased securities	Liabilities for purchased property, plant and equipment	2007 Accrued liabilities and other creditors
Currency analysis:						
UAH denominated	97	20	2	21	3	8
USD denominated	2	-	-	-	-	-
EUR denominated	-	-	-	2	1	-
Total	**99**	**20**	**2**	**23**	**4**	**8**
Future undiscounted cash flow analysis:						
Up to 3 months	97	20	-	7	4	8
From 3 to 6 months	1	-	-	15	-	-
From 6 to 12 months	1	-	2	-	-	-
Total	**99**	**20**	**2**	**23**	**4**	**8**

24 Trade and Other Payables (Continued)

In millions of USD	Trade payables	Wages and salaries payable	Promissory notes payable	Liabilities for purchased securities	Liabilities for property, plant and equipment	2006 Accrued liabilities and other creditors
Currency analysis:						
UAH denominated	69	18	6	18	3	6
EUR denominated	-	-	-	-	1	-
Total	**69**	**18**	**6**	**18**	**4**	**6**
Future undiscounted cash flow analysis:						
Up to 3 months	69	18	6	5	4	6
From 6 to 12 months	-	-	-	13	-	-
Total	**69**	**18**	**6**	**18**	**4**	**6**

25 Other Taxes Payable

As at 31 December other taxes payable were as follows:

In millions of USD	2007	2006
Value-added tax	17	12
Payroll-taxes	8	8
Other taxes	9	7
Total other taxes payable	**34**	**27**

26 Analysis of Revenue by Category

In millions of USD	2007	2006
Sale of electricity to electricity pool	889	684
Sale of electricity to final customers	475	107
Sale of steaming and coking coal	318	202
Sales of merchandise products	87	5
Other sales	7	2
Total	**1,776**	**1,000**

27 Cost of Sales

In millions of USD	2007	2006
Cost of electricity purchased	464	100
Staff cost, including payroll taxes	333	270
Raw materials	250	153
Depreciation of property, plant and equipment net of amortisation and government grants	151	56
Cost of merchandise	74	5
Production overheads	43	39
Taxes, other then income tax	23	16
Transportation services and utilities	22	17
Equipment maintenance and repairs	16	15
Change in finished goods and work in progress	(3)	(1)
Other costs	3	11
Total	**1,376**	**681**

28 Other Operating Income

In millions of USD	2007	2006
Realised gains less losses from investments available-for-sale	27	-
Reversal of reserve for legal claims (Note 23)	11	-
Gain on sales of inventory	3	2
Extinguishment of other accounts payable	1	-
Other	9	-
Total	**51**	**2**

29 Distribution Costs

In millions of USD	2007	2006
Transportation	6	6
Staff cost, including payroll taxes	3	3
Depreciation	1	-
Other costs	-	1
Total	**10**	**10**

30 General and Administrative Expenses

In millions of USD	2007	2006
Staff cost, including payroll taxes	43	35
Professional fees	14	4
Office costs	5	6
Transportation	2	2
Depreciation	2	1
Taxes, other than income tax	1	3
Other costs	6	5
Total	**73**	**56**

31 Other operating expenses

In millions of USD	2007	2006
Maintenance of social infrastructure	19	20
Change in impairment of trade and other receivables and prepayments made	16	3
Charitable donations and sponsorship	5	4
Non-recoverable VAT	2	2
Net loss on disposal and write-off of equipment	-	22
Revaluation decrease of property, plant and equipment (Note 8)	-	7
Other	3	1
Total	**45**	**59**

32 Finance Income and Finance Cost

In millions of USD	2007	2006
Gain on initial recognition of promissory notes issued	21	-
Gain on initial recognition of bonds issued	12	-
Interest income		
– bank deposits	6	1
– other (Note 7)	1	-
Gain on extinguishment of financial liabilities (Note 7)	6	1
Gain on early repayment of promissory notes receivable (Note 7)	1	2
Interest income on long-term promissory notes receivable	-	1
Gain from sale of promissory notes receivable (Note 7)	-	3
Other finance income	1	1
Total finance income	**48**	**9**
Interest expense		
– borrowings	24	7
– promissory notes payable (Note 7)	2	3
– bonds issued	-	2
– long-term payables	-	5
Loss on early repayment of long-term promissory notes (Note 7)	25	1
Unwinding of discounts on pension obligations	14	15
Loss on early repayment of bonds issued (Note 7)	13	9
Minority interest of participants	5	-
Foreign exchange losses, net	3	1
Loss on early repayment of long-term payables	1	-
Loss on initial recognition of long-term receivables	-	4
Loss on initial recognition of long-term promissory notes	-	1
Other finance costs	1	1
Total finance costs	**88**	**49**

33 Income Taxes

Income tax expense comprises the following:

In millions of USD	2007	2006
Current tax	89	66
Adjustments in respect of current income tax of previous years	-	-
Deferred tax	(47)	(5)
Income tax expense	**42**	**61**

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

In millions of USD	2007	2006
Net gain on revaluation of fixed assets (Note 16)	-	157
Unrealised gain on available for sale financial assets (Note 16)	7	1
Income tax reported in equity	**7**	**158**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine; the holding company is registered in Cyprus). In 2007 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2006: 25%). In 2007, the tax rate for Cyprus operations was 10% (2006: 10%) on worldwide income.

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

In millions of USD	2007	2006
Profit before income tax, including	**278**	**159**
Profit before income tax of Ukrainian companies	259	160
Profit before income tax of DTEK Holding Cyprus Limited	19	(1)
Income tax at statutory rates of 25% (Ukrainian operations)	**65**	**40**
Profit taxed at different rates 10% (Cyprus operations)	-	-
Weighted average tax rate of 25.13% (for year 2006 of 25.0%)	65	40
Adjustments in respect of current income tax of previous years		
Tax effect of items not deductible or assessable for taxation purposes:		
– excess of fair value of assets less liabilities acquired over cost of the subsidiaries and associates	-	-
– non-deductible expenses	10	22
– non-taxable income	(6)	-
Deferred taxation on pensions obligation	(28)	-
Excess of fair value of assets less liabilities acquired over cost of the investment	-	(1)
Losses of associates	1	-
Income tax expense at effective tax rate of 15.12% (2006: 39.74%)	**42**	**61**

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 31 December is as follows:

In millions of USD	2007	2006
Deferred tax liability	(128)	(148)
Deferred tax asset	65	45
Net deferred tax liability	**(63)**	**(103)**

In prior years, pensions obligations were treated as permanent differences, however in 2007, the tax authorities clarified the rules on deductibility of pension's costs and accordingly a deferred tax asset has been computed on the entire pension obligation.

33 Income tax (Continued)

In millions of USD	31 December 2006	Acquisition	Credited/ (charged) to income statement	Charged to equity	31 December 2007
Tax effect of deductible temporary differences					
Trade and other payables	4	-	3	-	7
Trade and other receivables	8	-	4	-	12
Other provisions for liabilities and charges	4	-	3	-	7
Retirement benefit obligations	1	-	27	-	28
Prepayments received	2	-	1	-	3
Inventories	2	-	-	-	2
Financial investments	(1)	-	14	(7)	6
Gross deferred tax asset	**20**	**-**	**52**	**(7)**	**65**
Tax effect of taxable temporary differences					
Property, plant and equipment	(109)	-	12	-	(97)
Indebtedness under amicable agreement	(8)	-	8	-	-
Other financial liabilities	(5)	-	(22)	-	(27)
Trade and other receivables	(1)	-	(3)	-	(4)
Gross deferred tax liability	**(123)**	**-**	**(5)**	**-**	**(128)**
Recognised deferred tax asset/(liability)	**(103)**	**-**	**47**	**(7)**	**(63)**

In millions of USD	31 December 2005	Acquisition	Credited/ (charged) to income statement	Charged to equity	31 December 2006
Tax effect of deductible temporary differences					
Trade and other payables	2	2	(1)	-	3
Trade and other receivables	6	-	2	-	8
Provisions	-	-	3	-	3
Defined benefit liabilities	3	-	-	-	3
Advances received	1	-	1	-	2
Inventories	1	-	-	-	1
Financial investments	-	-	-	(1)	(1)
Gross deferred tax asset	**13**	**2**	**5**	**(1)**	**19**
Tax effect of taxable temporary differences					
Property, plant and equipment	68	(15)	(4)	(157)	(108)
Indebtedness under amicable agreement	(10)	-	3	-	(7)
Other financial liabilities	(7)	-	2	-	(5)
Prepayments and other current assets	(1)	-	(1)	-	(2)
Gross deferred tax liability	**50**	**(15)**	**-**	**(157)**	**(122)**
Recognised deferred tax asset/(liability)	**63**	**(13)**	**5**	**(158)**	**(103)**

33 Income tax (continued)

As at 31 December 2007, the Company has not recorded a deferred tax liability in respect of taxable temporary differences of USD 5 million (31 December 2006: USD 30 million) associated with investments in subsidiaries as the Company 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.

34 Contingencies, Commitments and Operating Risks

Operating environment of the Group. Ukraine displays certain characteristics of an emerging market, including relatively high inflation and strong economic growth. Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Ukraine. 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.

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

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Capital expenditure commitments. As at 31 December 2007, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling USD 0.4 million (31 December 2006: USD 10 million). The Group has already allocated the necessary resources in respect of these commitments. The management of the Group believes that future net income and funding will be sufficient to cover this and any similar commitments. In accordance with the amicable agreement to bring "Dneproenergo" OJSC back to solvency, the Group has contractual commitment to fund Dneproenergo's investment program during the period August 2008 through 2012 at a nominal value of USD 200 million. The Group has not allocated any resources in respect of these commitments as at 31 December 2007. See Note 11 for further discussion.

Assets pledged and restricted. At 31 December 2007 the Group has the following assets pledged as collateral:

		2007		2006	
In millions of USD	**Notes**	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Financial investments	11	32	32	-	-
Property, plant and equipment	8	538	212	395	150
Proceeds from future sales contracts		200	20	200	20
Total		**770**	**264**	**595**	**170**

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.

34 Contingencies, Commitments and Operating Risks (Continued)

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group is in compliance with the covenants as at 31 December 2007.

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.

Recent volatility in global financial markets. Since the second half of 2007 there has been a sharp rise in foreclosures in the US sub prime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. The borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

35 Business Combinations

In 2007 the Group did not make any significant acquisitions of subsidiaries. In 2006 the Group made the following major acquisitions:

Name	Date	Segment	Country of incorporation
Servis-Invest LLC	30 September 2006	Electricity distribution	Ukraine
PES-Energougol OJSC	January-August 2006	Electricity distribution	Ukraine

SCM acquired a 25% ownership interest in Servis-Invest LLC in November 2005 for cash consideration of USD 14 million and paid USD 42 million for the acquisition of the remaining 75% subject to approval of the Antimonopoly Committee of Ukraine. In September 2006, the Antimonopoly Committee approval was granted and the SCM acquired control over Servis-Invest LLC and contributed this investment to the Group at USD 55 million. Servis-Invest LLC owns high voltage electric lines in the Donetsk region and purchase electricity from Energorynok SE for distribution to the final customers.

In January – August 2006 the Group acquired 70.65% of the voting shares in PES-Energougol OJSC, an electricity distribution company based in Donetsk region, Ukraine.

Entity acquired *In millions of USD*	**Servis-Invest**	**PES- Energougol**	**Total**
Property, plant and equipment (Note 8)	81	10	**91**
Inventories	1	1	**2**
Trade and other accounts receivable	2	5	**7**
Cash and cash equivalents	3	-	**3**
Other current assets	-	-	**-**
Deferred tax asset	-	1	**1**
Deferred tax liability (Note 33)	(13)	-	**(13)**
Trade and other accounts payable	(9)	(20)	**(29)**
Provisions	(4)	(9)	**(13)**
Taxes payable	-	-	**-**
Less: minorities share in (net assets)/net deficit, adjusted for step acquisition	-	4	**4**
Share of fair value of net assets/(net deficit) acquired, adjusted for step acquisition as applicable	**61**	**(8)**	**53**
Excess of share in net assets over consideration paid	(3)	-	**(3)**
Goodwill (Note 9)	-	9	**9**
Fair value of purchase consideration	**58**	**1**	**59**
Less: Consideration satisfied by SCM then contributed to the Group	(55)	(1)	**(56)**
Less: Consideration satisfied in cash	(3)	-	**(3)**
Less: Cash of subsidiary acquired	3	-	**3**
Outflow of cash and cash equivalents on acquisition	-	-	**-**

The goodwill on acquisition of PES-Energougol OJSC represents the payment made by the Group in anticipation of future economic benefits from access to the PES-Energougol OJSC distribution networks and customer base.

Had the above acquisitions been completed on 1 January 2006, consolidated net profit and net revenues would have been USD 9 million lower and USD 257 million higher, respectively.

36 Acquisition of minority interest

Until July 2007, 92.11% of Pavlogradugol OJSC was legally owned by Avdeyevsky CoKe Plant OJSC, a company under common control of SCM. In 2006, SCM transferred to the Group the power to govern the financial and operational policies of Pavlogradugol OJSC without transferring ownership. Pavlogradugol is a coal mining entity that is fully integrated with the Group's operation such that up to 90% of its coal production is used by the Group to produce electricity. The Group controls Pavlogradugol OJSC's governing body, which has the power to appoint and remove the managers and effectively obtains the majority of the benefits of Pavlogradugol OJSC activities. Accordingly, Pavlogradugol was consolidated in these financial statements using a method similar to the pooling of interests method using SCM's carrying values for the year ended 31 December 2006, together with a 100% minority interest as the residual equity interest in Pavlogradugol had not been transferred to the Group.

In July 2007, the Group legally completed its reorganisation via the acquisition of 92.11% in Pavlogradugol OJSC from Avdeyevsky Cole Plant OJSC, for consideration of USD 281 million. This transaction has been accounted for as a purchase of minority interest from parties under common control and accordingly the excess of purchase consideration over the carrying amount of the interest acquired has been debited to other reserves in shareholders equity. In December 2007, the Group renegotiated the obligation for Pavlogradugol and replaced it with a new financial instrument bearing interest at 15% and repayable in 2015-2019.

In February 2007, the Group acquired the remaining 7.81% interest in Pavlogradugol OJSC from the State Property Fund of Ukraine for a cash consideration of USD 22 million. The difference between the consideration paid and the share of the net assets acquired totalling USD 7 million was recorded as additional goodwill.

As a result of the purchase of the minority interest in Pavlogradugol OJSC, the Group's effective share in Corporation DTEK and Pershotravensky RMZ LLC increased to 98.64% and 99.00% respectively.

The impact of the above transaction on the consolidated financial statements is recorded below.

In millions of USD	**Pavlogradugol**	**Other**	**Total**
Consideration paid/payable:			
– common control transaction	281	-	**281**
– acquisition from third party	22	-	**22**
	303	-	**303**
Goodwill recognised (Note 9)	(7)	-	**(7)**
Minority interest in equity acquired	(192)	-	**(192)**
Minority interest in liability acquired	-	(5)	**(5)**
Excess consideration over the net asset acquired on common control transaction recorded in equity	(104)	5	**(99)**

In September 2006, the Group acquired an additional 20.47% share in PES-Energougol OJSC, taking its ownership to 91.1%. The additional share was acquired in a business combination transaction: the Group acquired control in Servis-Invest LLC, which owned a 20.47% share in PES-Energougol OJSC. Since PES-Energougol OJSC had a net deficit which was recognised in equity at the date of acquisition, no goodwill arose on the date of acquisition of the minority.

37 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 seeks to minimise the potential adverse effects on the Group's financial performance for those risks that are manageable or non core 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 State Entity Energorynok, 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 and Dneproenergo OJSC (Note 11) 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 Company does not require collateral in respect of trade and other receivables.

The Company 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 statistic for similar financial assets. The Group does not create provision for receivables from related parties.

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 the balance sheet	31 December 2007	31 December 2006
Prominvest Bank OJSC*	Financial investment	36	8
Prominvest Bank OJSC*	Cash and cash equivalents	29	16
State Savings Bank of Ukraine JSCB*	Cash and cash equivalents	20	8
VAB Bank JSC*	Cash and cash equivalents	6	-
Dongorbank CJSC	Cash and cash equivalents	5	-
Marfin Popular Bank	Cash and cash equivalents	5	22
OTP Bank CJSC	Cash and cash equivalents	4	-
Artemzvetmetexport LLC	Trade and other receivables	16	16
Dneproenergo OJSC (Note 10)	Trade and other receivables	11	4
State Company Energorynok	Trade and other receivables	33	36
Metinvest Holding LLC**	Trade and other receivables	30	-

* These banks rank among the top 30 Ukrainian banks by size of total assets and capital.

** Metinvest Holdings and DongorBank are subsidiaries of SCM and have not been rated by an internationally recognised rating agency.

37 Financial Risk Management (Continued)

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 limited to borrowings, the majority of which are denominated in USD. However, as discussed in Note 3, since April 2005, the UAH has been fixed to the US dollar at the rate of US$1 = UAH 5.05, and accordingly exposure to the US dollar does not necessarily expose the Group to currency risk beyond its functional currency. While management monitors this exchange exposure, the Group does not hedge its US dollar currency positions. The Group does not have significant exposure to other currencies.

At 31 December 2007, if the UAH had weakened by 2% against the US dollar with all other variables held constant, post-tax profit for the year would have been USD 7 million (2006: USD 3 million) lower mainly as a result of foreign exchange losses on translation of US dollar denominated borrowings. Profit is more sensitive to movement in UAH/US dollar exchange rates in 2007 than 2006 because of the increased amount of US-dollar denominated borrowings. Equity would have been USD 10 million (2006: USD 3 million) lower, arising mainly from foreign exchange losses on translation of borrowings. Equity is more sensitive to movement in UAH/US dollar exchange rate in 2007 than 2006 because due to the increased exposure to USD borrowings in 2007.

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 has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rate. The Group's interest rate risk 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. Historically, the Group has borrowed using short-term fixed rate instruments, however the majority of such borrowings have been with the ultimate shareholder.

At 31 December 2007 and 2006, the majority of the Group's variable interest debt is US dollar denominated, while the majority of the UAH denominated debt is fixed rate. As at 31 December 2007, 65% of the total borrowings was provided to the Group at fixed rates (31 December 2006: 100%).

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 it believes that a 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 Managing Company together with the Treasury Department. The Corporate Finance is responsible for planning the financing structure (levels of leverage) and borrowing activities. The key objective to financing is reduction of borrowing costs.

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 Note 18. 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 2007, if interest rates on US dollar denominated borrowings had been 400 basis points higher with all other variables held constant, post-tax profit for the year would have been USD 1 million lower.

Other price risk. The Group has limited exposed 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.

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.

37 Financial Risk Management (Continued)

The table below summarises the impact of increases of the most significant equity quotations on the Group's equity. The analysis is based on the assumption that the equity quotation had increased by 10% as at 31 December 2007 and 31 December 2006 with all other variables held constant.

	Impact on equity	
In millions of USD	**31 December 2007**	**31 December 2006**
Dneproenergo OJSC	45	4
Other	12	5

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. Historically, the Group has relied heavily upon the ultimate parent to finance its operations and continues to have significant payable balances with related parties. During 2007, the acquisition of Pavlogradugol OJSC for USD 281 million from related parties, has significantly impacted the Group's liquidity ratios, however as discussed in Note 38, management views this obligation as quasi equity. 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 manage both liquidity and credit risks. The Group has an extensive capital program 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 2007 is as follows:

In millions of USD	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Liabilities					
Borrowings(Note 18)	337	59	31	-	427
Other financial liabilities (Note 19)	42	46	168	460	716
– related party	*42*	*42*	*125*	*448*	*657*
– external	-	*4*	*43*	*12*	*59*
Indebtedness under amicable agreement (Note 20)	-	-	-	48	48
Trade and other payables (Note 24)	155	-	-	-	155
Total future payments, including future principal and interest payments	**534**	**105**	**199**	**508**	**1,346**

37 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2006 is as follows:

In millions of USD	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Liabilities					
Borrowings(Note 18)	153	37	-	-	190
Other financial liabilities (Note 19)	-	8	15	12	35
Indebtedness under amicable agreement (Note 20)	4	-	-	48	52
Trade and other payables (Note 24)	121	-	-	-	121
Total future payments, including future principal and interest payments	**278**	**45**	**15**	**60**	**399**

38 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 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 the gearing ratio. This ratio is calculated as total 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. As discussed in Note 1, the Group was formed via a legal reorganisation of the Energy segment of SCM, however the contribution of Pavlogradugol OJSC was legally structured as a sales and purchase contract. The Group management considers the obligation for the acquisition of Pavlogradugol OJSC from related parties as quasi equity and accordingly total capital under management is equity as shown in the consolidated balance sheet plus the Pavlogradugol OJSC obligation plus net debt.

Since incorporation in 2006, the Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 1 year and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy. The Group has yet to obtain a credit rating, however its objective would be to match the Sovereign rating.

	31 December 2007	31 December 2006
Total net debt	313	123
Total equity	1,678	1,026
Debt to equity ratio	18.6%	12.0%

39 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 on the consolidated 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 except for certain investment securities available for sale for which there were no available external independent market price quotations. These securities have been fair valued by the Group on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

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. Fair value of held-to-maturity investments was determined based on quoted bid prices.

Carrying amounts of trade and other financial receivables approximate fair values.

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 discount rate used is 13.28% which is a cost of borrowings available for the Group. Refer to Note 18 for the estimated fair values of borrowings. Carrying amounts of trade and other payables approximate fair values.

40 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 of 31 December 2007:

In millions of USD	Loans and receiv-ables	Availa-ble-for-sale assets	Held to maturity	Total
ASSETS				
Cash and cash equivalents (Note 14)				
- Bank balances payable on demand	22	-	-	22
- Term deposits	51	-	-	51
Trade and other receivables (Note 13)		-	-	
- Trade receivables	74			74
- Promissory notes receivable	-	-	1	1
- Receivable for sale of financial instruments	-	-	-	-
- Other financial receivables	51	-	-	51
Financial investments (Note 11)	-		-	
- Securities quoted on the Ukrainian stock market	-	568	-	568
- Unquoted securities	-	7	-	7
- Prepayment for shares of Dneproenergo OJSC	208	-	-	208
- Deposits placed with the maturity more than three months	37	-	-	37
- Other	1	-	-	1
TOTAL FINANCIAL ASSETS	**444**	**575**	**1**	**1,020**
NON-FINANCIAL ASSETS	-	-	-	1,634
TOTAL ASSETS	-	-	-	2,654

All of the Group's financial liabilities are carried at amortised cost.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2006:

In millions of USD	Loans and receiv-ables	Availa-ble-for-sale assets	Held to maturity	Total
ASSETS				
Cash and cash equivalents (Note 14)				
- Bank balances payable on demand	43	-	-	43
- Term deposits	4	-	-	4
Trade and other receivables (Note 13)				
- Trade receivables	50	-	-	50
- Promissory notes receivable	-	-	2	2
- Receivable for sale of financial instruments	47	-	-	47
- Other financial receivables	16	-	-	16
Financial investments (Note 11)				
- Securities quoted on the Ukrainian stock market	-	92	-	92
- Deposits placed with the maturity more than three months	8	-	-	8
- Other	1	-	-	1
TOTAL FINANCIAL ASSETS	**169**	**92**	**2**	**263**
NON-FINANCIAL ASSETS	-	-	-	1,473
TOTAL ASSETS	-	-	-	1,736

41 Events after the Balance Sheet Date

Dneproenergo OJSC On 8 April 2008, following the appeal from Dneproenergo OJSC's minority shareholder, the Supreme Court of Ukraine overturned the decision taken by the shareholders' meeting of Dneproenergo OJSC in August 2007 in relation to the share capital increase that was an integral part of the action plan approved by the government of Ukraine to emerge Dneproenergo OJSC from the bankruptcy. The management believes that unveiling of the shareholder's meeting decision will result in reinstatement of the external management to Dneproenergo OJSC set up by its former creditors. The management believes that in the most unfavourable course of action for the Group, it would be able to claim back in full the prepayment for the expected issue of the shares of Dneproenergo OJSC totalling to USD 208 million and would not be entitled to fulfil the investment commitment totalling to USD 200 million.

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The present Annual Report contains information concerned with DTEK’s business activities in future, based on forecasts and estimates of DTEK’s management derived from the current situation. Due to the effect of various objective factors, actual results may differ from the forecast and estimates mentioned above.