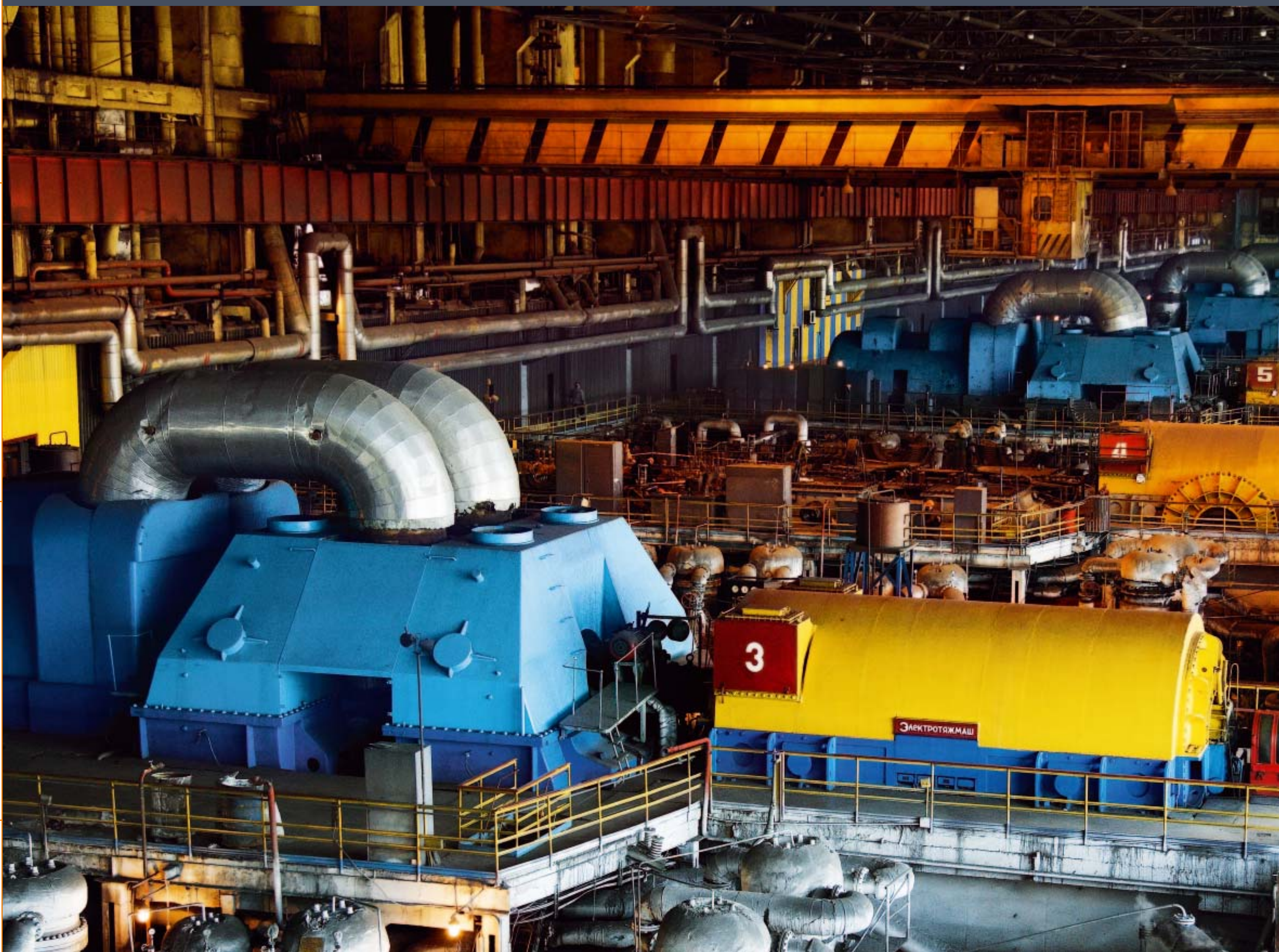
TAKING THE LEAD THROUGH TECHNOLOGY

DTEK ANNUAL REPORT 2008

Modern technologies are at the heart of our success. Production, management and employment technologies allow for the use of resources and time with the maximum level of efficiency, predicting results, picking up the pace and assuring leadership. Year after year DTEK achieves new and ambitious goals. We are betting on technology. We are investing in leadership.



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ABOUT DTEK

DTEK is the largest private vertically-integrated energy company in Ukraine. DTEK enterprises form an effective industrial chain from coal production and enrichment to electrical power generation and distribution. The Company holds leading positions in the Ukrainian coal and thermal generation markets, having 22.6% and 47.5%* of the market, respectively.

DTEK's strategy envisions the building of an energy company connecting Ukraine, the European Union and Russia in a single chain for the production and sale of electricity and utilizing the Company's competitive advantages: vertical integration, top management expertise, experience in developing coal enterprises in difficult geological conditions and Ukraine's unique geographic position.

Coal production

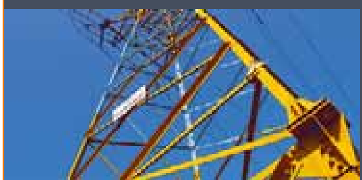
Largest Ukrainian coal production company

17.6 mln tons

Electrical power supply

Largest private generating company in Ukraine

31.5* bln kWh



Electrical power transmission

Key player in the market for electrical power distribution

13.5 bln kWh

Personnel

International standards for social responsibility

52,000* employees

* Including Dneproenergo (47.5% owned by DTEK).

Mission

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

Vision

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

Values

Professionalism

Our employees possess professional expertise, responsibility and diligence in the fulfillment 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 activities on the belief that all our efforts shall serve public interest. We are responsible for work quality and adherence to corporate standards, performance of our obligations, prudent use of resources and environmental safety. We bear responsibility for those who make our company successful — our employees.

Pursuit of Excellence

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

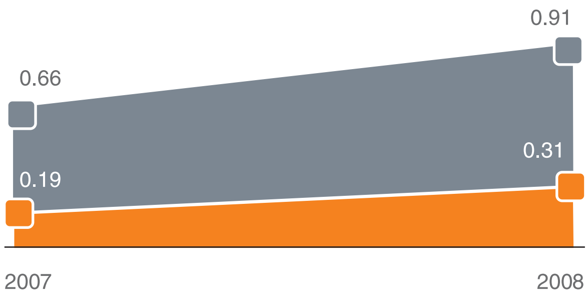
Unity

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

Highlights of 2008



Liquidity and financial solvency

Net debt / EBITDA
Net debt / Equity

Key production results

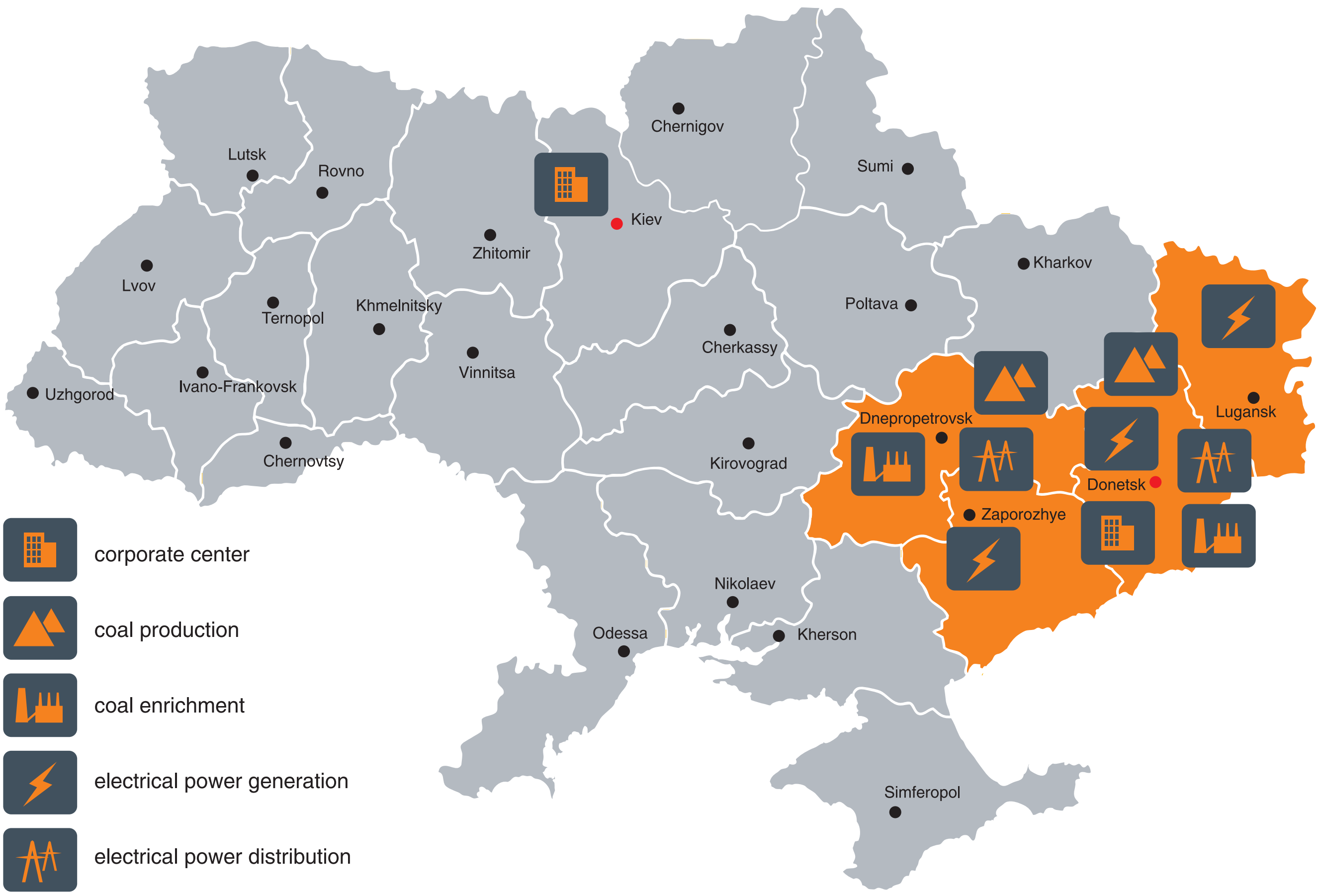
Indicators	unit	2008	2007	Change (+/-)	Change %
Coal production	ths tons	17,594.6	15,789.7	1,804.9	11.4
Electrical power generation					
Electrical power supply	mln kWh	31,514.6*	18,118.8**	13,395.8*	73.9*
ICUR of Vostokenergo	%	51.8	56.0	-4.2	
ICUR of Dneproenergo	%	22.3	23.1	-0.8	
Electricity transmission					
Transmission volume through the networks	mln kWh	13,510.3	12,189.9	1,320.4	10.8

Key financial results

Indicators	unit	2008	2007	Change (+/-)	Change %
Sales revenue	UAH mln	12,969	8,969	4,000	44.6
EBITDA	UAH mln	3,453	2,410	1,043	43.3
EBITDA margin	%	26.6	26.9		-0.3
CapEx	UAH mln	1,773	979	794	81.1

* Including Dneproenergo (47.5% owned by DTEK).
** Excluding Dneproenergo.

DTEK Geography



Coal production and enrichment

This segment is represented by Pavlogradugol (10 mines), Komsomolets Donbassa Mine (one mine) and five enrichment plants. This segment produces thermal and coking coal. The main consumers are the enterprises in DTEK's power generating segment.

Electrical power generation

Vostokenergo and Dneproenergo, which includes six thermal power plants (TPP). This segment produces electrical power. All of the power produced is supplied to the wholesale electricity market.

Electrical power distribution

This segment is represented by the transmission companies PES-Energougol and Service-Invest. The companies buy electrical power on the wholesale market, and distribute and supply it to end consumers. The key consumers are the metallurgical and coal industries.

Commercial reserves	837 mln tons*
Market share	22.6%

Installed capacity	12,270 MW**
Market share	47.5%**

Transmission network length	3,791 km
Market share	6.5%***

* Per the classification of the State Committee for Mineral Reserves in Ukraine.
** Thermal generation market share according to the data of the Ministry of Fuel and Energy, includes Dneproenergo.
*** Share in the total volume of electrical power purchased on the wholesale electricity market.

Vertical integration

- Today, DTEK supplies all of the coal required by its generating enterprises. Under the liberalization of the energy market, opportunities are emerging to conclude contracts directly between generation and distribution companies.
- The Company's development strategy envisages maintaining a balanced chain of coal, generation and distribution.
- Vertical integration allows for mitigation of business risks in the Company segments and control of the entire chain of value creation.

Management expertise

- DTEK team possesses the best management expertise in coal production and electrical power generation in Ukraine.
- We seek to maintain this advantage in existing markets as well as in new markets, where we have established a presence, by attracting and developing the best managers.

Experience in developing of coal enterprises

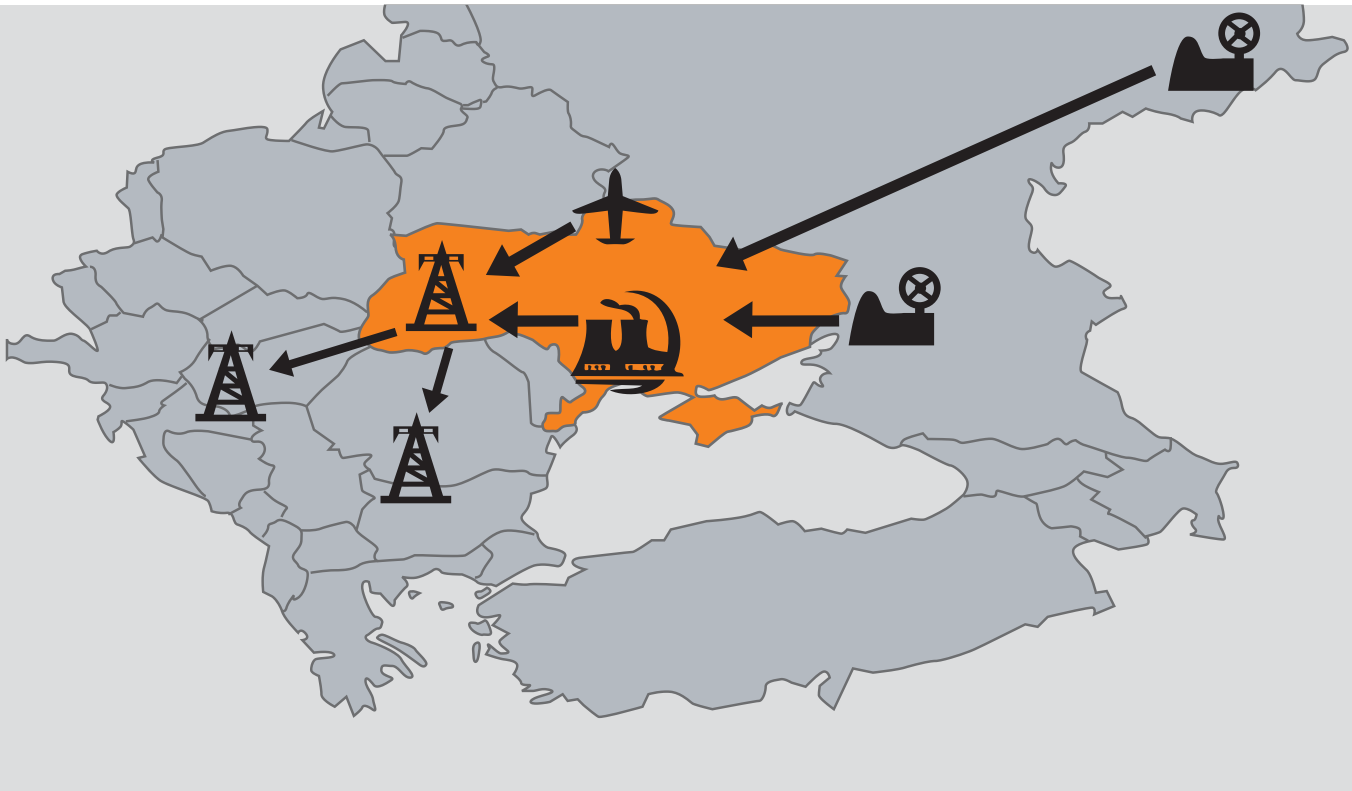
- DTEK possesses unique experience in developing of coal production with thin seams, which helps minimize expenditures on coal production.
- The lowest cost of coal among Ukrainian coal producers allows us to have a competitive resource foundation for expanding our generation business.

Geographical location of Ukraine

- Ukraine is the most important energy transport corridor between Russia and Europe. DTEK has access to a substantial raw materials base on the Ukrainian and Russian markets, and, at the same time, access to European markets for the sale of electrical power.

- We plan to use our access to cheap raw materials to expand our business in the generating segment in Ukraine and Europe.

- In turn, the competitive price of Ukrainian electrical power will serve as a basis for exporting to European countries lacking sufficient domestic supplies.



Oleg Popov,
Chairman of the Supervisory Board

Dear Colleagues and Partners,

I am sure that we will not forget 2008 soon. It began with the rapid growth of the Ukrainian economy in each of its sectors, and ended with an equally sharp fall induced by the overall downturn in the world economy.

Despite the downturn affecting all areas, DTEK's position is stable, as well as the position of the whole energy sector of Ukraine.

The main factor for our stability and our success was, and remains, the proven long-term strategy of DTEK, based on the vertical integration of highly effective production, generation and distribution capacities, and also the diversification of markets for the sale of electrical power. It is precisely this uncomplicated approach that has ensured production and financial stability for the Company, and is fundamental to the creation of value in the Company today. This will allow DTEK to work successfully under the conditions of an economic downturn and, at the same time, to have possibilities for significant growth when the economy begins to recover.

Development strategy

DTEK's strategy is based on the development of a powerful and efficient fuel and energy industrial complex on the Ukrainian market with subsequent expansion into European energy markets. Under the conditions prevailing during the present crisis, this strategy has allowed us to take advantage of the redistribution of the energy resource balance in neighboring markets and gives us the opportunity for growth, which previously simply did not exist.

In 2008, DTEK consistently moved towards the goal that remains unchanged in 2009: to build an energy company connecting Ukraine, Europe and Russia in a single chain for the production and sale of electrical power. I am sure that by using correctly our competitive advantages — vertical integration, the best management expertise, Ukraine's unique geographical location and our own experience in developing coal enterprises — DTEK will be able to become not only a national leader, but also a kind of an energy bridge between Russian and Europe.

Corporate governance

We are certain that our actions speak louder than our words. Because we understand this, we pay special attention to our system of corporate governance, which is needed to ensure that the interests of all stakeholders are observed and that there is transparency in the decision-making process.

I want to thank all members of the Supervisory Board and its committees, as well as the entire DTEK management for its excellent work, for their results and for each person's contribution to their achievements. I also want to thank all the directors of DTEK's operating companies. It would have been and will be impossible to implement the Company strategy without them.

In 2009, we will continue working at formalization the structure of corporate governance at DTEK. We are striving for the DTEK system of governance, as well as its business structure, to be fully brought in line with the target objectives by the end of the year.

The Team

No matter how good our decisions are, they will not be able to bring about success without proper implementation. I want to thank every employee at DTEK for their contribution to our overall success, for their daily labour and dedication. This was especially so in 2008, when everybody had to work under rapidly changing external conditions and constant challenges.

Undoubtedly, one of the advantages of DTEK is the strong dedication of our employees to the Company. We highly value the attitude of management and our employees to their work, and personally, as the DTEK Supervisory Board Chairman, I am inspired by it.

Social Responsibility

For us, social responsibility is an instrument for the sustainable development of the Company in the long-term that remains a bedrock principle of our strategy. We understand that creating a company, which will be successful year after year, is only possible when business takes into account the interests and needs of all stakeholders: the communities in which the business participate, our employees, our partners, our shareholders and society as a whole.

Maxim Timchenko, CEO

Dear Colleagues and Partners,

In 2008, DTEK took the next step in achieving our strategic goal of becoming one of the leading companies on the European energy market. Despite the worsening of the economic situation and instability on the financial markets, we were able to fulfill the majority of the objectives set out at the beginning of the year and demonstrate qualitative growth in all segments of the business.

Operational results

The coal subdivision of the Company finished 2008 with 17.6 mln tons of coal produced, which is 11.4% higher than in 2007. This has helped DTEK to strengthen its position on the Ukrainian coal market and increase its share to 22.6%. The implementation of landmark investment projects for our Company, as well as for the sector in general, began at our coal production enterprises with introduction of coal plowing technologies and complete renewal of mining equipment, using highly productive, imported technical equipment. The project on recycling of mine methane, which is innovative for Ukraine, was launched at the Komsomolets Donbassa mine

In 2008, DTEK began the implementation of a programme to modernize its generating capacity at Vostokenergo, which is planned to last until 2016. During the reporting period, we completely reconstructed power unit #2 at the Zuevkaya TPP and power unit #5 at the Kurakhovskaya TPP, and began preparing for the second step of the reconstruction programme for the Company's generating equipment. DTEK occupies the leading position on the thermal energy market with a market share of 47.5% and total power output of 31.5 bln kWh together with the results of Dneproenergo are included.

The distribution segment demonstrated impressive rates of growth. The transmission volume of electrical power through DTEK networks grew by 10.8% and the purchase of electrical power on the wholesale market increased by 19.8%. As a result, the Company's share of the market rose from 5.7% in 2007 to 6.5% in 2008. During the accounting period, as in previous years, DTEK carried out work targeted at reducing losses in the network. An automated system of commercial metering and dispatch control was implemented and artified at Service-Invest. These and other measures helped us to achieve a record low level of losses of 1.6%.

An important event in 2008 was the opening of the first PES-Energougol service center. We believe that a modern and convenient system for servicing clients will provide us with a competitive advantage in the near future.

Financial results and investments

In 2008, key financial results demonstrate steady growth. The consolidated revenues of the Company rose by 45% to UAH 12.9 bln, and our EBITDA rose by 43% to UAH 3.4 bln. EBIDTA margin was 26.6%, which exceeds the planned level by 1.6 percentage points and is the by far the best result in the sector. This positive dynamic of our main financial indicators, even under difficult conditions of industrial downturn that began in the fourth quarter, confirms the efficiency and stability of DTEK's vertically-integrated business model.

In 2008, the Company continued to conduct a wide-scale investment programme directed toward the renewal and expansion of production capacity in our main business segments. Modernization projects are also aimed at growth of the Company's operational efficiency. Under the year-end results, DTEK capital expenditures totaled UAH 1.8 bln, which is 84% higher year-on-year.

In 2008, the Company has actively engaged in fundraising. We issued our debut bonds to an amount of UAH 500 mln for a three-year period. Furthermore the Company obtained a two-year syndicated loan from a pool of foreign banks for $150 mln and paid back our first international loan of $100 mln to Deutsche Bank. These actions have allowed us not only to ensure stable financing for the development of the Company but also to optimize our debt structure in terms of cost and maturity dates.

On the basis of our full-year results, the ratio of net debt to EBITDA was 0.91, where DTEK's net debt totaled UAH 3.1 bln. Despite this increase, Fitch and Moody's confirmed the credit ratings of the Company at the country level. DTEK's stable financial condition allows us to say with confidence that we will be able to consistently fulfill all Company debt obligations in 2009-2010.

Sustainability and development

DTEK's business structure and highly-qualified management team allows us to promptly react to quickly changing market conditions. In a worsening economic situation, we have taken a series of measures directed at ensuring the stability of work at the company, maintaining the efficiency of the business and laying the foundation for further growth. In particular, the Company has reviewed its production programmes and investment plans fowards extending terms of implementation while not reducing the amount of planned spending. In addition, a programme for the reduction of operational expenditures, mainly those unrelated to production, was developed and launched. This programme will be extended in 2009.

Simultaneously, we began work on expanding sales channels and diversifying sales markets. In 2009, the company DTEK Trading was created for the coal segment, the main goal of which is to enter the European coal market. Today, the quality of DTEK rough coal is comparable to its European counterpart while retaining a lower production cost. In 2009, we will continue our investment programme in the sphere of coal enrichment.

In 2008, we continued our productive partnership with NJSC Energy Company of Ukraine with regard to the management of Dneproenergo: power unit #10 of the Krivorozhskaya TPP was put into operation after being shutdown for 12 years, while an effective model for managing and financing the enterprise was developed and approved at the General Shareholders' Meeting held in March 2009.

We also increased our involvement in Donetskoblenergo, in line with our strategy of maintaining the balanced development of all business segments. We concider these assets strategically attractive for our business. We are also interested in increase of our share in the shareholder capital of these companies, including through participation in their privatization.

In line with the strategy of diversifying the Company's business, we began elabourating a long-term investment project for the development of the business in the wind energy sector. We have come to a positive conclusion regarding the growth prospects of this sector, taking into account the Ukrainian government's efforts to reduce the nation's dependence on gas exports and attractive tariff regulations. Created specifically for this project in 2008, the company Wind Power will install measurement masts in the Zaporozhye region to determine the optimal locations for wind turbines. We have set an ambitious target of generating up to 20% of DTEK's electricity from wind power. Over the next few years, we intend to invest significantly in developing this project.

DTEK also views wind energy as a socially significant project that will help improve the environment and create additional jobs in the scientifically intensive sector of the economy.

Corporate governance

As part of work to develop DTEK's corporate governance structures, internal normative documents were developed and supplemented during the reporting period. These documents set out procedures and delineate the responsibilities of different divisions. In 2009, we intend to adopt the DTEK Corporate Governance Code that will raise protections for the interests of shareholders to a new level and ensure a high level of efficiency in the governance structure of the Company.

Personnel and corporate responsibility

From the moment DTEK was founded, the best international practices in the sphere of corporate responsibility and managing personnel have been our most important priority. The past year saw significant progress in this area. During the reporting period, we adopted an HR strategy for the Company. This document defines the long-term goals and mechanisms for developing DTEK in this area.

DTEK's strategic goals include developing the potential of employees, creating an effective motivational system and increasing the attractiveness of the company as an employer. In 2008, the TOP-50 Programme was released. This is intended to ensure that a successor is prepared to take over key positions within the Company. In addition, the strategy and structure for the DTEK Academy corporate university were developed and it is due to begin its work in 2009. In addition, we have begun working on an Talent Pool and have developed a progressive system of salary payments for employees working at enterprises in the coal segment.

Among our important achievements in 2008 there was the adoption of DTEK Policy in the area of corporate social responsibility (CSR) and Code of Corporate Ethics that was the result of an open dialogue of the Company with all interested parties. Both documents formulate the principles and standards of DTEK activity and behavior of each employee.

Strategy and vision

The year 2009 will bring about new challenges for DTEK. We expect a further fall in industrial production, which in turn will result in a reduction of domestic demand for electrical power. The Company intends to intensively work in the direction of expanding sales channels for coal and electrical power in order to compensate for the reduction of volumes sold on traditional markets. In addition, DTEK management has set a goal of maintaining the specific coal production cost at its 2008 level. Together with measures that have already been adopted regarding optimizing operational expenses, this will allow us to maintain a high level of efficiency.

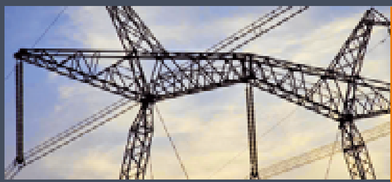
However, the new economic realities bring not just challenges, but also opportunities. The Company is actively considering deals to acquire assets in the thermal generation and coal production sectors, both in Ukraine and abroad. The situation on the employment market gives DTEK the opportunity to strengthen its management team with professional managers. We intend to take full advantage of the situation in the marketplace for strengthening DTEK's leading positions.

We look to the future with confidence. DTEK strategy remains unchanged. As before, we are oriented toward leadership on the Ukrainian market and the role of a connecting link between Russia and Europe in the energy sphere. A key factor in our success is the team of professionals and like-minded individuals that we have been able to put together in this company. I want to thank all DTEK employees for their enthusiasm, energy, professionalism and commitment.

STRATEGY

Development concept

To build an energy company connecting Ukraine, the European Union and Russia in a single chain for production and sale of electrical power using our competitive advantages.



Strategic goals until 2013

- Become the national leader and establish the maximum market share in coal production and power generation in Ukraine within regulated limits.
- Provide our own fuel for no less than 90% of DTEK's thermal generation needs and make sales to end consumers of no less than 70% of electrical power produced.
- Use our own personnel to fill no less than 80% of the vacancies for top and middle management.
- Have the lowest coal production cost in Ukraine.
- Become the main Ukrainian operator on foreign energy markets and ensure the share of assets outside of Ukraine amounts to no less than 25% of the Company's operating profit.

Competitive advantages

- Vertical integration.
- Best management expertise on the markets of operations.
- Experience in developing coal enterprises under difficult geological conditions.
- Unique geographical location of Ukraine.

DTEK is a stable, growing and efficient company that is the leader in the fuel and energy sector in Ukraine. According to its 2008 results, DTEK produced 17.6 mln tons of coal and is the largest producer in Ukraine with a market share of 22.6%. The Vostokenergo enterprise along with Dneproenergo, in which DTEK owns a 47.5% stake, produced 34.5 bln kWh in 2008, or almost half of all of the thermal electric power in Ukraine. DTEK is also one of the largest companies on the electrical power distribution market. DTEK's plans for future involve modernizing production, introducing new technologies and raising labour productivity.

BUSINESS OVERVIEW

Macroeconomic results

In 2008, Ukraine's economy demonstrated positive momentum overall. In the first half of the year, the accelerated growth of industrial production, real wages and household incomes continued. Despite the significant impact of the worldwide economic crisis on Ukraine during the second half of 2008, GDP grew by 2.1% for the year, totaling UAH 975.7 bln, according to data from The Economist.

At the same time, Producer Price Index dropped by 5% in 2008, against a background of 11% growth in 2007. A significant drop in industrial production occurred in the fourth quarter of 2008. The metals and machine-building industries suffered most from the crisis, with production falling by up to 40% by the year-end. Overall, a 20-30% drop occurred in all sectors of the economy, except agriculture.

The main factor driving the fall in GDP was the drop in prices for steel and demand for metallurgical factory products from traditional trading partners of Ukraine. Insofar as around 25% of all industrial production comes from the metals sector, and another 15% from the machine-building industry, the effect of the external factor on the economy was significant.

Prices for gas imported into Ukraine from Russia rose in the first quarter of 2008. This in combination with the fall in prices for steel and steel products led to a significant foreign trade deficit. In the first three quarters of 2008, this increased fourfold from $2.0 bln to $8.2 bln, or 6.6% of GDP.

The exchange rate of the hryvnia (UAH), Ukraine's national currency, was supported by the National Bank for several years at a stable level of $5.05/UAH with a tendency being toward appreciation. However, in the second half of 2008, the exchange rate to the US dollar dropped by 40% to $7.7/UAH. The weakening of the national currency, despite the negative consequences, had a substantially positive effect, first and foremost for exporters. This includes metals and coal producers, having the prerequisites for increasing export volumes, which had decreased in physical terms in previous years due to the rise in domestic demand.

According to National Bank data, Ukraine's Sovereign debt at the end of 2008, including bank and corporate debt, was $93 bln, or 52% of GDP.

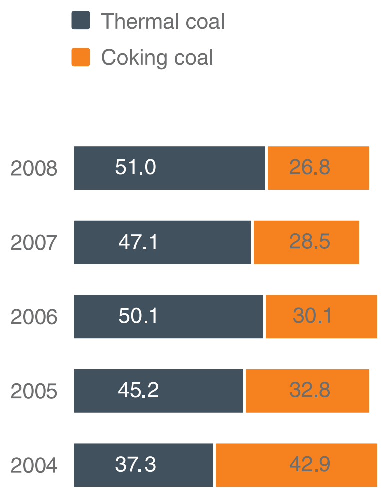
Inflation in Ukraine ran at 25.2% in 2008, compared with 12.8% in 2007. The PPI rose by 36.5%, compared with 19.5% in 2007. The inflation trend is expected to continue in 2009.

Ukrainian coal market

The amount of rough coal produced in Ukraine in 2008 was 77.8 mln tons, 3% higher than in 2007. The bulk of coal produced (66.5%) is thermal-grade coal, which is used as fuel at Ukrainian TPPs. In 2008 51.0 mln tons of thermal coal of different grades was produced in Ukraine, 8.3% more than in 2007. Over the past few years, prices for both coking and thermal coal have increased thanks to the favourable economic climate worldwide, as well as the rise in steel making and electricity production, which has led to a coal deficit. Over the first three quarters of 2008, the price of coking coal climbed by some 70%, while the price of thermal coal grew by 35%.

The fourth quarter of 2008 saw a drop in demand for thermal and coking coal due to a reduction in electricity generation and a decline in metals production. In 2009, electricity generation and steel making are expected to either remain in line with the levels seen in the fourth quarter of 2008 or to rise slightly. DTEK estimates that the demand for thermal-grade coal in Ukraine fell by around 20% and that for coking coal by 30-40% in 2008. This trend is expected to continue in 2009, turning the coal deficit into a surplus. Its level is estimated at around 2.8 mln tons of G and DG grade coal and 2.9 mln tons of T and A grade coal.

Coal production dynamics in Ukraine, mln tons



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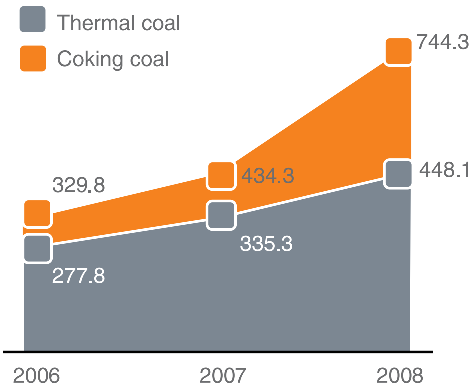
Prices of coal concentrate in Ukraine, UAH/ton



As of today, the Ukrainian market for thermal coal is conventionally divided between the government and the private sector. Private mining companies, which account for about 30% of the market, sell their coal directly to consumers, as the operator SE Ukrainian Coal purchases all the coal produced by the government sector. DTEK is the largest coal producer in Ukraine, with annual production of 17.6 mln tons and a market share of 22.6%. In 2008, the Company's market share in coal production sector has grown primarily thanks to the implementation of investment programmes aimed at expanding production capacity, the acquisition of new mining equipment and the optimization of production processes.

One key problem in this field is the high level of fixed assets deterioration at government enterprises, resulting in low labour productivity and high production costs. Creating a competitive market by switching to a system of direct contracts between enterprises and consumers would help solve a number of existing problems. One necessary condition for reform is the privatization of the coal sector, which would help create competition on the market. However, due to the worsening of the economic situation in Ukraine, the necessary steps to reform the coal market are unlikely to be taken in 2009.

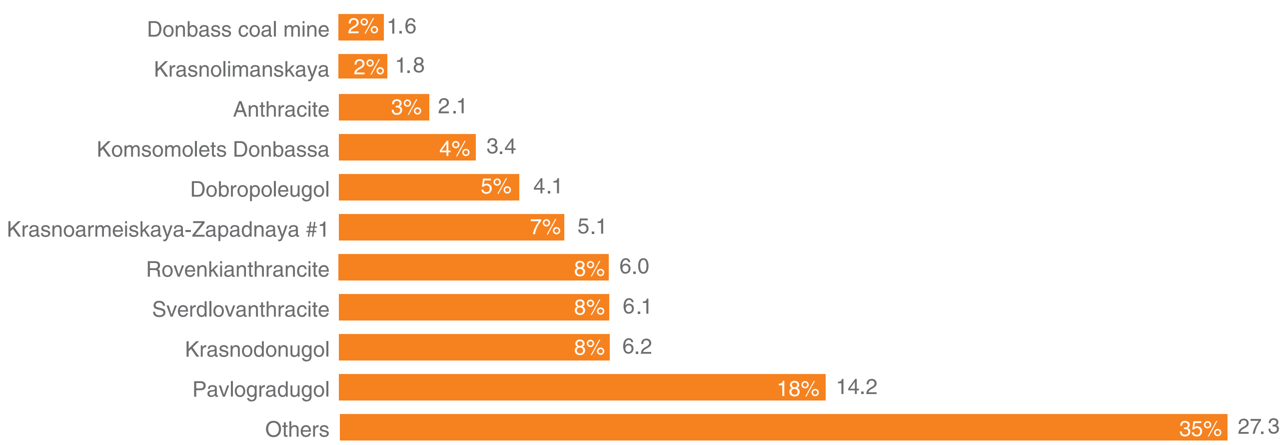
The main challenge for coal producers in 2009 will be arranging exports. The weakening of the national currency versus the US dollar has led to a drop in the US dollar price of coal produced at Ukrainian mines.

Ukrainian electricity industry

Market volume and structure

In 2008 the production and consumption of electricity in Ukraine fell slightly. The amount of electricity generated by the country's power plants was 183.5 bln kWh, 1.8% less than in 2007. Domestic generation covers virtually all electricity consumption. However, in order to stockpile coal for thermal power generation in the fall/winter period, a small amount (less than 1%) of electricity is imported.

Leading coal producers in Ukraine, mln tons
Coal production in 2008, mln tons
Coal production, %



Installed capacity at Ukraine's power plants is 52.2 GW.

The main producer of electricity in Ukraine is the nuclear industry, whose power plants produce 49% of all the country's electricity and have a capacity load of over 70%. Priority is given to nuclear power plants because the electricity provided by them is significantly cheaper than that from thermal power plants, which helps to lower the weighted average wholesale market price. One state nuclear energy generating company NNEGC Energoatom, consisting of four nuclear power plants, operates in the power market of Ukraine.

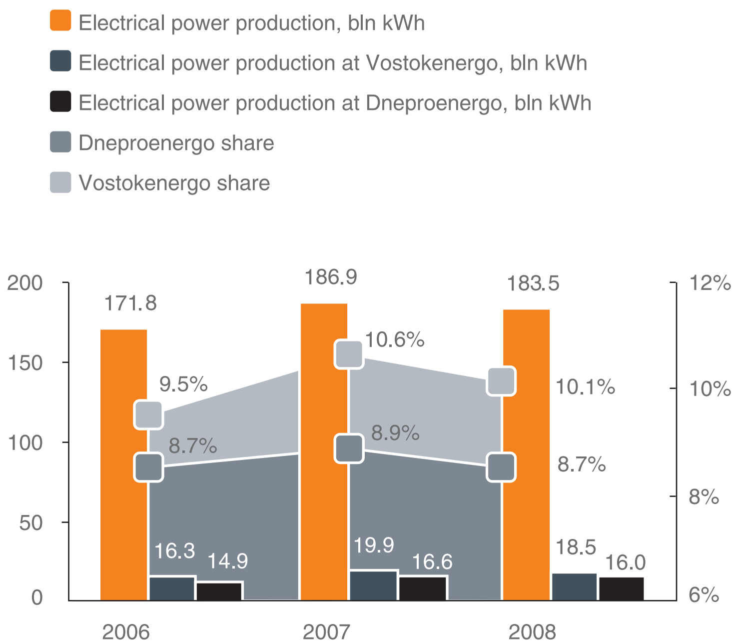
The second largest producer of electricity is thermal power plants. In 2008, they supplied 66 bln kWh of electricity, or 38% of the total amount. The installed capacity utilization rate (ICUR) is around 35%. Thermal power generation is used to maintain base loads as well as balance loads during peak periods.

Electricity market

At present, as per to the 1996 law "On the Electricity Industry", the wholesale electricity market is organized on the basis of a 'single buyer' model. The operator on the market is SE Energorynok, a state-owned company that buys all the electricity from producers and sells it to suppliers.

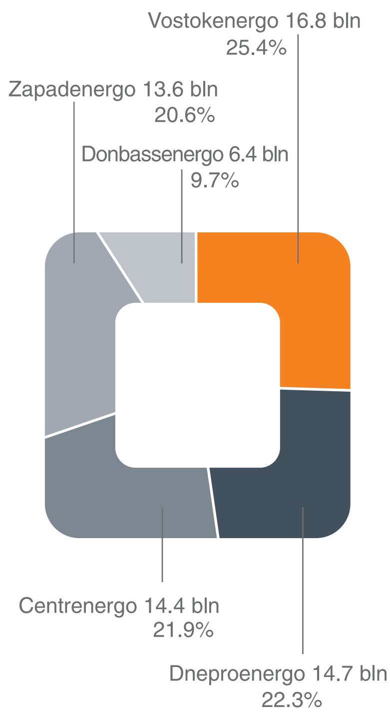
Producers in the wholesale market operate in the competitive and regulated segments.

Dynamics of electricity production in Ukraine



Electricity supply in Ukraine in 2008, bln kWh, %

Thermal electricity supply in Ukraine in 2008, bln kWh, %



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The regulated segment makes up about 68% of the market. It consists of electricity produced at nuclear power plants, combined heat and power plants, thermal power plants and wind-power plants. Tariffs on the regulated market are set by the National Electricity Regulatory Commission (NERC).

The competitive segment, which accounts for about 32% of the overall market, consists of electricity from thermal power plants and some co-generation plants (the Kievskaya CHPP #5 and #6, and the Kharkovskaya CHPP #5). The wholesale price here is established using a maximum price system, based on hourly price bids for each power unit.

The wholesale price for energy suppliers is set using the average weight of the price for energy purchase from producers, allocations for SE Energorynok and NEC Ukrenergo, an investment component, the prices of exported and imported supplies, and subsides certificates. The latter are instruments that enable the electricity rates for households to be subsidized by tariffs charged for other types of consumers.

Tariffs for transmission and supply are regulated and approved by the NERC based on the economically justifiable expenditures of a distribution company (a cost-plus system). Tariffs can be reviewed at the initiative of both the NERC and the distribution companies. The NERC monitors the use of the funds built into tariffs and can decide to lower rates if the funds are not properly spent. As a rule, the transmission and supply rates are established for the calendar year.

Electricity industry reform

Despite the evident advantages such as simplicity of management and price formation, as well as having a sole buyer and purchaser, the existing regulation system is in many ways inefficient. Inherent in the system is a high level of administrative influence, hands-on approach, cross-subsidies, and an imperfect system for contractual relations and price formation. A market for auxiliary system services does not exist. All of this undermines the stimulus for competition and increasing operating efficiency. But most importantly, it deters investment in the industry.

With the goal of finding a solution to these problems in Ukraine, a concept for reforming the electricity market was adopted. The objectives are liberalization of the market, transfer to a market-based method of price formation, and limiting the state interference. The reform envisages transferring to a system of bilateral agreements between producers and consumers. In addition, during implementation of the reform, a capacity market, an auxiliary (system) services market, and an exchange for trading one day ahead in order to balance the market should all emerge.

As the system operator, NEC Ukrenergo determines the general system load schedule, carries out dispatch management of the electrical system, maintains reserve capacity, regulates the frequency and voltage in the system, coordinates the restoration of the system following outages and accidents, and manages the balancing mechanism.

The functions of the state as a regulator should be reduced to monitoring market activity and intervening when violations of the rules occur.

There are plans to create an electricity exchange for trading one day ahead. This is essentially a market for short-term agreements that establish an indicative price for bilaterial agreements market, where electricity is bought and sold to minimize the risks of an imbalance emerging. Imbalances will be regulated in real time via a balancing market.

Such a system is seen as more progressive than the current one, as it allows market participants to forecast demand and supply through market mechanisms, make long-term plans and invest in modernizing and expanding production capacity.

In connection with the deterioration of the economic situation in Ukraine, radical reform of the electricity market will not take place in 2009. However, this does not put the long-term prospects for development into doubt.

The time for tariff-setting reform has also come in the transmission and supply segments of the electricity market, insofar as the existing cost-plus system does not create the prerequisites for reducing costs and investment in developing production capacity. Additionally, the process for establishing tariffs is hard to predict and does not create the incentive for long-term planning. Because of this, active discussion is under way in Ukraine about transferring to a system of incentive tariff setting.

Overview of Financial Results

This overview of the financial results, prepared in accordance with IFRS, is based on DTEK's audited financial statements for 2008.

Profit and loss statement

Summary of financial results

In 2008, saw an improvement in DTEK's financial results. The consolidated earnings rose by 44.6%, from UAH 8.9 bln to UAH 12.9 bln. The gross profit increased by 50.8%, from UAH 2.0 bln in 2007 to UAH 3.0 bln in 2008, while the gross margin grew from 22.5% to 23.5%, respectively. EBITDA* rose by 43.3%, from UAH 2.4 bln to UAH 3.4 bln, with the EBITDA margin dropping slightly from 26.9% to 26.6%. EBIT was up 23.2%, from UAH 1.6 bln to UAH 2.0 bln, while the EBIT margin fell from 18.3% to 15.6%. In 2008, the net profit was UAH 119 mln, significantly less than the UAH 1.2 bln in 2007. The adjusted net profit (adjusted for non-operating and extraordinary expenses and revenues) rose by 66.4% to UAH 2.0 bln.

Revenues.
Types of activity

DTEK's revenues consist of electricity sales to SE Energorynok, the operator of the electricity market; coal sales (thermal coal to power generation businesses and coking coal to companies in the metals sector); and sales and transmission of electricity to end consumers. In 2008, consolidated earnings rose by 44.6% to UAH 12.9 bln, versus UAH 8.9 bln in 2007. Electricity sales (to SE Energorynok) account for the bulk of consolidated earnings, their share being 44% of the total in 2008. The electricity distribution and coal production and enrichment segments contributed 29% and 26%, respectively.

Summary of DTEK's financial results, UAH mln

	2008	2007	Change, 08/07
Sales revenue	12,969	8,969	44.6%
Production cost	(9,921)	(6,948)	42.8%
Gross profit	3,048	2,021	50.8%
Gross margin	23.5%	22.5%	
EBITDA	3,453	2,410	43.3%
EBITDA margin	26.6%	26.9%	
EBIT	2,019	1,639	23.2%
EBIT margin	15.6%	18.3%	
Net profit	119	1,193	-90.0%
Net margin	0.9%	13.3%	
Adjusted net profit	1,985	1,193	66.4%
Adjusted net margin	15.1%	13.3%	

* EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

In 2008, saw an improvement in all areas of the Company's business. Revenues from coal sales grew by 112.0% to UAH 3.4 bln, against UAH 1.6 bln in 2007. Such rapid growth was due to an increase in the volume of coal shipped resulting from an increase in coal production, as well as from the insignificant drop in domestic use. An important factor in the growth of revenues from the sale of coal products was a rise in prices in the first half of 2008 due to the favorable economic climate worldwide. Figures from the management's financial statements indicate that rising volumes of various grades of coal shipped boosted DTEK revenues by UAH 0.7 bln, while increase in the average sales price (raised them by) to UAH 1.1 bln.

Revenues from electricity generation rose by 26.2% in 2008, from UAH 4.5 bln to UAH 5.7 bln, despite a drop in electricity supply by 7.3%. The greater revenues from generation were due mainly to an increase in electricity supply tariffs of 34.1%. An additional UAH 93.4 mln was received as an investment component in electricity supply tariffs.

DTEK's revenues by category, %

DTEK's revenues by category, UAH mln

	2008	2007	Change, 08/07
Sales of electricity to SE Energorynok	5,665	4,489	26.2%
Sales of steam and coking coal	3,407	1,607	112.0%
Sales and transmission of electricity to end consumers	3,736	2,400	55.7%
Other sales	161	473	-66.0%
Total revenues	12,969	8,969	44.6%

Revenues from DTEK's distribution business in 2008 rose by 55.7%, from UAH 2.4 bln to UAH 3.7 bln. The factors driving this growth were greater volumes of electricity supplied via the Company's networks and a rise in electricity transmission tariffs.

Cost of sales

In 2008, the cost of sales rose by 42.8%, from UAH 6.9 bln to UAH 9.9 bln, less than the growth in revenues. Due to this, the gross profit rose by 50.8% to UAH 3.0 bln, versus UAH 2.0 bln in 2007. The gross margin rose from 22.5% to 23.5%. The largest item in the cost of sales is the cost of electricity purchased by distribution companies from SE Electrorynok for subsequent sales to end consumers. Other significant items are staff expenses (27%), raw shitt and materials (18%) and depreciation (11%).

The cost of purchasing electricity in 2008 rose by 57.5% to UAH 3.4 bln. This was due to a rise in the volume of electricity purchased and higher tariffs.

Staff costs rose by 59.2% to UAH 2.7 bln, mainly because of higher wages in the coal segment in accordance with legislation and greater coal production. In other segments, salaries rose insignificantly.

DTEK's cost by category in 2008,%

The cost of raw materials rose by 42.4%. DTEK was able to mitigate this effect by using resources efficiently.

The main factors driving the rise in depreciation were property, plant and equipment revaluations and new facilities being brought into operation.

Operating expenses.
General, commercial and administrative expenses

The most significant items in the operating expenses were administrative expenses and costs relating to sales and distribution: in 2008, these rose by 45% and 54%, respectively, to UAH 532 mln and UAH 77 mln. Meanwhile, in 2008, a loss of UAH 354 mln was incurred from the depreciation of property, plant and equipment following the revaluation. These expenses are non-recurring, non-operational and of a non-monetary nature.

The increase in general and administrative expenses stemmed mainly from the rise in wages. The cost of

DTEK's cost by category in 2008, UAH mln

	2008	2007	Change, 08/07
Cost of electricity purchased	3,482	2,211	57.5%
Staff cost, including payroll taxes	2,675	1,680	59.2%
Raw materials	1,799	1,263	42.4%
Depreciation of property, plant and equipment, net of amortization of government grants	1,060	762	39.1%
Cost of purchased merchandise	83	375	-77.9%
Cost of merchandise	37		
Production overheads	178	217	-18.0%
Taxes, other than income tax	141	119	18.5%
Transportation services and utilities	384	243	58.0%
Equipment maintenance and repairs	102	79	29.1%
Change in finished goods and work in progress	-35	-14	150.0%
Other costs	15	13	15.4%
Total cost of sales	9,921	6,948	42.8%

DTEK's operating expenses, UAH mln

	2008	2007	Change, 08/07
Other revenues	117	259	-54.8%
Sales and distribution expenses	-77	-50	54.0%
Administrative expenses	-532	-368	44.6%
Non-operating loss (profit) from exchange rate fluctuation	112	0	n/a
Write-off of property, plant and equipment	-354	-5	6,980.0%
Other expenses	-322	-223	44.4%

EBITDA, UAH mln

	2008	2007	Change, 08/07
Gross profit	3,048	2,021	50.8%
General, administration and sales expenses	(609)	(418)	
Other revenues and expenses (net)	(420)	36	
EBIT	2,019	1,639	23.2%
EBIT margin	15.6%	18.3%	
Amortization	1,080	771	
Revaluation of property, plant and equipment	354	—	
EBITDA	3,453	2,410	43.3%
EBITDA margin	26.6%	26.9%	

distribution and sales rose due to transportation costs, themselves driven by the increase in sales volumes.

EBITDA

EBITDA is an important figure for internal management control and a key indicator of value creation for the Company's business in the long term.

In 2008, DTEK EBITDA was up 43.3%, or UAH 1.0 bln, year-on-year. The main reasons for the rise were favorable market conditions in the first half of 2008 (when coal and electricity prices and the consumption of DTEK's products shot up) and management efforts to control specific expenses relating to industrial production.

In 2008, DTEK continued to make operational improvements at its enterprises (more detailed information can be found in the sections regarding business segments and in the Investment activity section):

- Roof-bolting was introduced at Pavlogradugol's mines;
- A project for the degassing and recycling of methane was introduced at the Komsomolets Donbassa mine;
- The latest shearers and scraper conveyers were acquired from Ostroj and TMachinery;
- Modern automated process control systems were installed at the Company's generation facilities;
- A programme to rebuild and modernize generation equipment and networks was implemented;
- Commercial electricity accounting systems are being introduced at the distribution enterprises.

These measures taken by management allowed DTEK to maintain coal production growth in the second half of 2008 and keep reductions in the electricity supply to a minimum compared with competitors.

Net profit. Adjusted net profit

According to the audited financial statements, net profit totaled UAH 119 mln in 2008, versus UAH 1,193 mln in 2007, while the net profit margin was 0.9%, versus 13.3% in 2007. The sharp decline was caused by non-monetary losses and write-offs.

In 2008, there were non-operating losses caused by exchange rate fluctuations of UAH 1.3 bln. This was mainly caused by the recalculation of dollar- and euro-denominated loans into Ukraine's national currency for accounting purposes. In addition, in 2008, there was a loss from the devaluation of property, plant and equipment of UAH 354 mln.

In 2008, DTEK reported non-recurring expenses of a non-monetary nature of UAH 205 mln connected with recognizing pension payment obligations for future periods. This was due to changes in Ukrainian pension legislation, which significantly increased Company payments under pension plans.

Adjusted net profit in 2008 rose by 66.4% year-on-year to UAH 1,985 mln. The adjusted net profit margin increased from 13.3% in 2007 to 15.3% in 2008.

Assets. Significant changes in the asset structure

In 2008, Company assets grew by 34.8% to UAH 18.1 bln. Non-current assets grew by 36.9% to UAH 15.6 bln. Fixed assets rose by 66.6%, from UAH 6.3 bln to UAH 10.6 bln. The significant rise in the value of property, plant and equipment was primarily caused by UAH 1.8 bln worth of new facilities coming into operation and an increase in balance sheet value of UAH 3.8 bln following a revaluation.

The increase in non-current financial investments from UAH 85 mln to UAH 1.3 mln is linked to the classification of investments in Dneproenergo as investments in associated companies (in 2007, these investments were reflected as investments available for sale).

Adjusted net profit, UAH mln

	2008	2007	Change, 08/07
Net profit	119	1,193	-91.8%
Net profit margin	0.9%	13.3%	
Adjustments:			
(+) Non-operating losses from exchange rate fluctuations	1,307	0	n/a
(+) Write-offs of property, plant and equipment	354	0	n/a
(+) Non-recurring effect from implementation of new labour legislation	205	0	n/a
Adjusted net profit	1,985	1,193	66.4%
Adjusted net profit margin	15.3%	13.3%	

Financial Ratios

	2008	2007	Change, 08/07
Adjusted net profit, UAH mln	1,985	1,193	66.4%
Total assets (at year end), UAH mln	18,070	13,402	34.8%
Total assets (year average), UAH mln	15,736	11,085	42.0%
Return on assets (ROA), %	12.6%	10.8%	1.8%
Equity (at year end), UAH mln	9,989	8,475	17.9%
Equity (year average), UAH mln	9,232	6,828	35.2%
Return on equity (ROE), %	21.5%	17.5%	4.0%
EBIT, UAH mln	2,019	1,639	23.2%
Capital employed (at year end), mln	13,625	10,627	28.2%
Capital employed (yearly average), mln	12,126	8,889	36.4%
Return on capital employed (ROCE), %	16.7%	18.4%	-1.8%

In 2008, current assets grew by 22.9%, from UAH 2.0 bln to UAH 2.5 bln. The main items included here are inventories, trade receivables and cash and cash equivalents.

Reserves rose by 30.4%, from UAH 471 mln to UAH 614 mln, on the back of an increase in remaining coal products at TPP storage facilities and greater volumes, as well as a rise in value.

Accounts receivable consisted of SE Energorynok's debt for electricity supplied and money due from large and medium-sized Ukrainian enterprises. In 2008, receivables from trading operations remained essentially unchanged, increasing by 0.7% from UAH 688 mln to UAH 935 mln. Taking into account the other types of receivables and pre-payments for supplier services, the total receivables in 2008 amounted to UAH 1,274 mln, up 7.8% over the UAH 1,182 mln in 2007.

Cash and cash equivalents in 2008 came to UAH 595 mln, up 62.1% year-on-year.

Liabilities and equity

Changes in the Company's liabilities were caused mainly by an increase in debt. Non-current loans and borrowings rose by 181.0%, from UAH 353 mln to UAH 992 mln, while current loans climbed by 71.8%, from UAH 1.6 bln to UAH 2.7 bln.

DTEK has pension plan obligations with fixed payments of UAH 1.0 bln. In 2008, this non-current liability grew by 55.0% due to changes in labour legislation.

In 2008, trade and other payables increased by 31.0% to UAH 1.2 bln.

Financial ratios

In 2008, practically all the main results used by the Company management to analyze efficiency exceeded the 2007 figures. Return on assets (ROA) was 12.6%, 1.8% higher than in 2007. Return on equity (ROE) was 21.5%, 4% year-on-year.

ROCE (return on employed capital) totaled 16.7%, 1.8% lower than in 2007.

The main reasons for the decrease in this figure were the increase of non-current borrowings and equity.

Cash flow, liquidity and financial solvency

Cash flow

In 2008, cash flow from all business areas increased, helping the Company boost its cash balances and keep liquidity high.

Cash flow from DTEK's operating activities increased by 91.7% year-on-year to UAH 2.9 bln. Free cash flow was UAH 1,159 mln, up 115.4% year-on-year.

Cash flow from financing activities was down 80.0% year-on-year. This was due to the UAH 1 bln additional share issue in 2007 and to the debt repayments in 2008, which were up 136.2% year-on-year at UAH 2.3 bln. At the same time, additional proceeds from borrowings totaled UAH 2.7 bln, up 27.4% over 2007.

Company debt

In 2008, DTEK borrowed actively to finance the modernization of production capacity and acquire new assets. Its debt grew by 91.6%, from UAH 1.9 bln to UAH 3.7 bln. Non-current debt rose by 181.0%, from UAH 353 mln to UAH 992 mln, while current debt rose by 71.8%, from UAH 1.6 bln to UAH 2.7 bln.

A large part of the debt is denominated in US dollars and Euros, while borrowings in hryvnia are relatively small. The total debt denominated in US dollars equals UAH 2.4 bln, or 64% of total borrowings. Borrowings in Euros total UAH 1 bln, or 27% of the total. Debt in the Ukrainian currency totals UAH 337 mln, or 9% of the total.

DTEK's debt is mostly current, with repayment terms of up to one year: current borrowings make up 73% of the debt portfolio. The majority of DTEK's borrowings are at a floating rate that is fixed to LIBOR.

In 2008, for the first time in its history, DTEK took out an international syndicated loan for $150 mln. According to the terms of the deal, the debt was borrowed at LIBOR+3% for two years, with the option to extend by one year. In 2008, DTEK also successfully closed its first deal on the international capital markets by repaying a Deutsche Bank loan of $100 mln.

Borrowings, UAH mln

	31 December 2008		31 December 2007	
	UAH mln	**%**	**UAH mln**	**%**
Non-current	992	26.6%	353	18.1%
Bank borrowings	992		353	
Current	2,739	73.4%	1,594	81.9%
Bank borrowings	2,726		1,578	
Interest accrued	13		16	
Total borrowings	3,731	100.0%	1,947	100.0%
Borrowings denominated in:				
Ukrainian hryvnia	337	9.0%	173	8.9%
US dollar	2,387	64.0%	1,774	91.1%
Euro	1,007	27.0%	—	—

Liquidity and financial solvency

The management considers DTEK's financial condition to be stable. The solvency and liquidity figures for 2008 changed little versus 2007. Current liquidity was 0.56, compared with 0.73 in 2007, while absolute liquidity stayed on the 2007 level at 0.13.

The financial solvency figures remained stable in 2008, primarily due to the increase in cash flows from operating activities. The net debt/EBITDA ratio increased slightly from 0.66 to 0.91, which overall is a conservative number for companies in the coal and energy field. The EBITDA/interest payments ratio in 2008 halved to 11.95, which is still high for an industrial company. The debt to equity ratio in 2008 was 0.37, slightly higher than the 0.23 in 2007.

Credit ratings

In 2007, the Moody's Investors Service Intarnational Ratings Agency assigned DTEK Holdings Limited ("DTEK") a 'B2' long-term corporate rating (Corporate Family Rating)

DTEK's borrowings by currency, UAH mln

DTEK's liquidity and financial solvency, UAH mln

	2008	2007
EBITDA, UAH mln	3,453	2,410
Equity (at year end), UAH mln	9,989	8,475
Net debt, UAH mln	3,136	1,580
Net debt / EBITDA	0.91	0.66
Net debt / Equity	0.31	0.19
Total debt, UAH mln	3,731	1,947
Total debt / EBITDA	1.08	0.81
Total debt / Equity	0.37	0.23
Interest payments, UAH mln	289	108
EBITDA / Net interest payments	11.95	22.32
Liquidity:		
Current liquidity	0.56	0.73
Absolute liquidity	0.13	0.13

with a 'stable' outlook. The same year, the Fitch Ratings agency awarded DTEK Holdings Limited a 'B+' long-term issuer default rating (IDR), a 'B' short-term IDR and an 'AA-'(Ukr) national long-term rating with a 'stable' outlook.

On September 23, 2008, Fitch affirmed its ratings for DTEK Holdings Limited: a 'B+' long-term IDR, a 'B' short-term IDR and an 'AA-'(Ukr). The long-term IDR and national long-term rating were given a 'positive' outlook.

On October 17, 2008, Fitch affirmed DTEK's 'B+' long-term rating for obligations held in foreign currency, but changed the outlook from 'positive' to 'negative' due to the revision of Ukraine's Sovereign rating from 'Positive' to 'Negative'.

On November 26, 2008, Moody's affirmed its 'B2' Corporate Family Rating for DTEK with a 'stable' outlook.

On February 12, 2009, Fitch lowered its long-term currency rating for DTEK from 'B+' to 'B' with a 'negative' outlook. This was mainly due to the revision of Ukraine's Sovereign rating. At the same time, DTEK's national long-term rating was raised from 'AA-' to 'AA+' with a 'stable' outlook. The main reason for the revision was the significant improvement in the Company's borrowing portfolio.

DTEK is a responsible borrower and reliable partner for banks. The Company has always honored its interest payments, repaid borrowings on time in accordance with the terms of loan agreements, and has not fallen into arrears for any one of its debts.

Moody`s credit ratings

Long-term (international)	B2 stable
Long-term (national)	—

Fitch credit ratings

Long-term (international)	B stable
Long-term (national)	AA+ stable

DTEK's approach to risk management encompasses a comprehensive system of internal control and risk management based on strategic planning. The Company has adopted a policy on internal control risk management that establishes the main principles of activity in this area:

- Managing key risks on the basis of regular detection and assessment
- Monitoring the effectiveness of risk management measures
- Management responsibility at all levels for the condition of the internal control system and proper risk management in their area of authority
- Employees adhering to established internal control requirements
- Integrating risk management in management decision-making
- Unified methodology for all DTEK enterprises
- Independent assessment of the internal control and risk management system efficiency
- Constantly improving the internal control and risk management system in accordance with changing external and internal conditions

Since 2007, DTEK has detected and assessed risks on a regular basis, as well as developed measures to respond to risk. Risk management is built into the decision-making process of the Company: analyzing risk of investment projects and improving the system of budget control.

Risk management and monitoring is carried out by DTEK's management and at the level of the individual businesses. Decisions relating to risks are made by DTEK and the collegial management bodies of DTEK and the enterprises. A subdivision of internal audit also exists within the Company, assessing the effectiveness of the internal control and risk management system.

According to the 2009 risk assessment results, the most significant risks for DTEK are market and financial risks.

Market risks

The Company is exposed to changes in the market prices of coal and electrical power supplied to the wholesale market. Market risk is reduced by changing the sales structure and broadening the markets for coal and electrical power.

In addition, market risk is minimized by the vertical structure of DTEK's business, which mitigates risk by supplying raw materials for the company's generating capacities.

Financial risks

The Company is exposed to the following financial risks: credit, currency and liquidity risk.

Credit risk

Credit risk is connected with the supply of electrical power to SE Energorynok and sales to end consumers. Management of credit risk is conducted at the level of separate businesses, with overall supervision at the DTEK level.

Regarding electricity supply to industrial clients, the Company monitors the account receivable terms and has the right to cut power to consumers in arrears. A significant factor in the risk is the existence of an environmental reserve* of power for individual categories of consumers, which does not allow for cutting off power to them.

An impairment reserve has been created at DTEK's enterprises, as per a management assessment, based on losses from outstanding accounts receivable.

Currency risk

DTEK's exposure to currency risk is limited, since a large part of Company sales and expenses are in the national currency. Currency risk occurs mainly as regards DTEK's debt obligations, which are partly denominated in foreign currency, and purchases connected with investment projects. Management of currency risk includes reducing open currency positions by balancing the asset and liability structure in one currency. This is achieved by diversifying monetary balances in various currencies and by increasing the share of foreign exchange in the Company's total revenues.

Liquidity risk

Liquidity risk is reduced by diversifying the cross-section of counterparties and optimizing contractual conditions for payment terms, implementing programmes for lowering operational expenses and raising the efficiency of DTEK processes. This risk is also reduced by maintaining the assigned level of absolute liquidity. The Company has introduced a mechanism for planning and managing cash flows, which permits it to react rapidly to changes in the domestic and external environment.

Regulatory risks

As pricing on the coal and electricity markets is regulated by the state, DTEK is subject to regulatory risks. To minimize these, the Company actively participates in the lawmaking process, including developing a new model for the energy market.

Operational risks

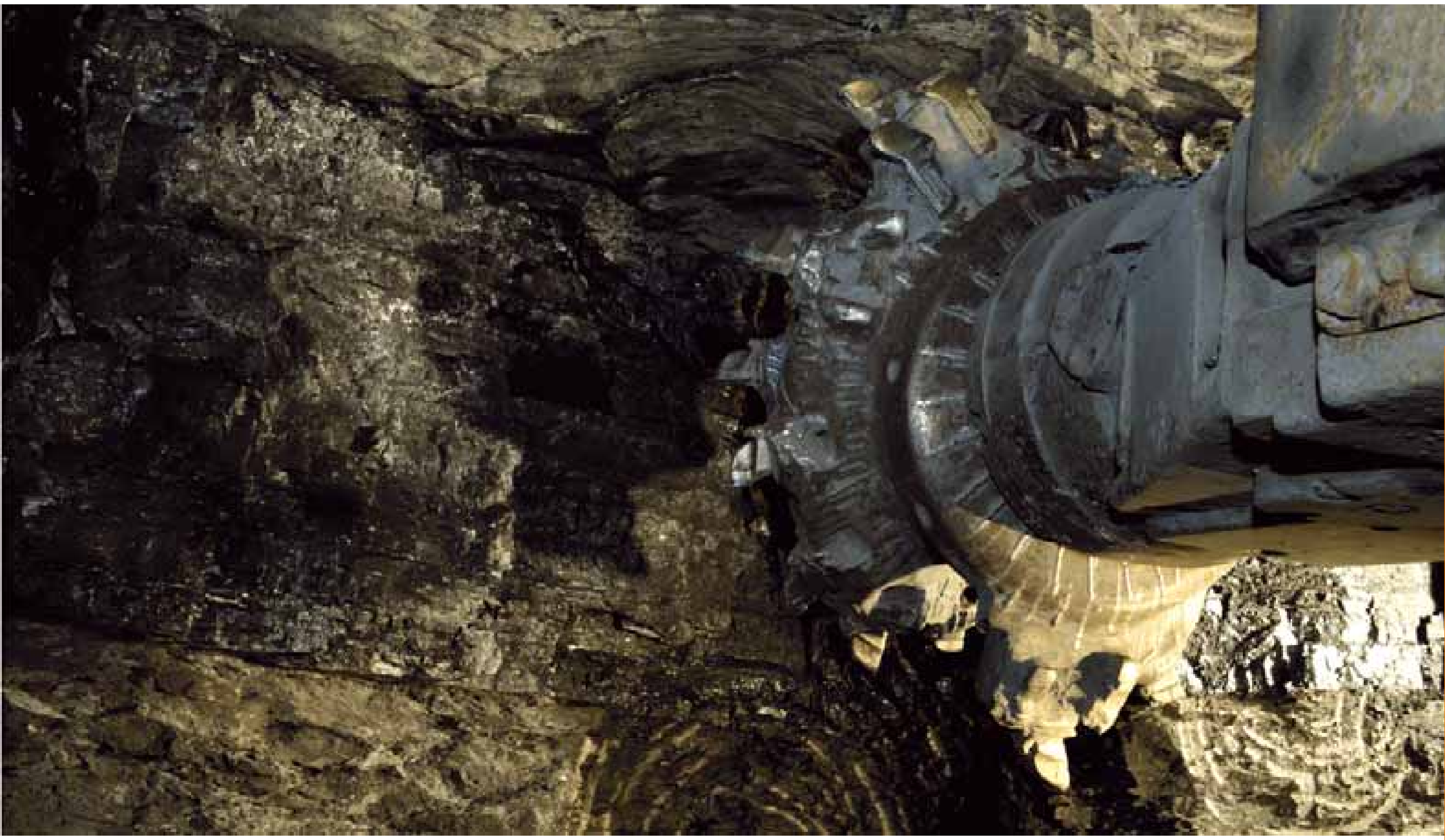
As a production company, DTEK pays special attention to monitoring and minimizing operational risks. The Company runs programmes to reduce operational expenses and to raise the efficiency of production processes, as well as having developed plans to deal with emergency situations at the enterprises.

As regards operational activity, DTEK's priorities are risk management regarding labour protection, environmental protection and ensuring uninterrupted activity.

The Company uses insurance to manage operational risks. An insurance concept has been developed and is implemented by a centralized subdivision for the entire business. This provides a unified approach for interacting with insurance companies and enables the size of insurance deductions to be optimized.

The insurance system protects the Company's interests and includes insuring property to cover losses in the event of a disruption in production, and also for fulfilling mandatory insurance requirements. The organization of insurance at DTEK takes into consideration complete coverage, the optimization of insurance terms and the security of allocated risks.

* The environmental reserve of power is the minimum level of electricity supplied to consumers, besides households, which prevents potential technical and environmental emergencies from arising.



Production capacity of the coal production segment

The DTEK coal production segment consists of the two largest enterprises in the sector — Pavlogradugol OJSC and Komsomolets Donbassa Mine OJSC.

During 2008, Pavlogradugol was and remained the leader in coal production in Ukraine with 14.2 mln tons of coal produced and a market share of 18.2%. The Komsomolets Donbassa also had one of the best results, producing 3.4 mln tons of coal, or 4.4%* of the coal production market.

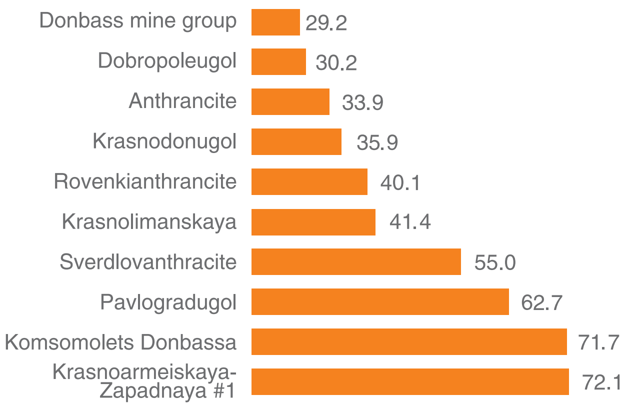
The enterprises in DTEK's coal production segment are characterized by their high rates of operational efficiency, low production cost in terms of each ton of coal produced and demonstrate significantly higher results for labour productivity than on average for this sector.

Reserves of Pavlogradugol and Komsomolets Donbassa Mine

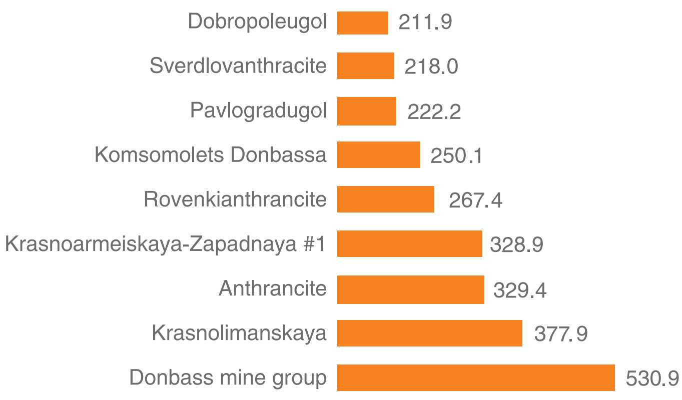
	Commercial reserves, mln tons	Coal grade
Pavlogradugol	716.6	DG, G
Komsomolets Donbassa Mine	120.3	T

* Data from the Ministry of Coal Industry of Ukraine.

Average monthly labour productivity of output
t/person



Production cost per ton of rough coal
UAH/t



Key production indicators at DTEK coal production enterprises

Indicators	2008	2007	2006	Change, 08/07
Pavlogradugol Consolidated Coal production, ths tons				
thermal	11,107	9,790	9,672	13.5%
coking	3,056	2,572	2,557	18.8%
Total	14,163	12,362	12,229	14.6%
Ash content of mined rough coal	36.9%	37.6%	36.6%	
Komsomolets Donbassa Mine Coal production, ths tons				
thermal	3,432	3,428	3,094	0.1%
coking	0	0	0	
Total	3,432	3,428	3,094	0.1%
Ash content of mined rough coal	33.7%	33.1%	32.7%	
Total coal production, ths tons				
thermal	14,539	13,218	12,766	10.0%
coking	3,056	2,572	2,557	18.8%
Total	17,595	15,790	15,323	11.4%
Ash content of mined rough coal	36.3%	36.6%	35.8%	

Pavlogradugol

Pavlogradugol conducts mining in an area of vast coal deposits located in the Pavlogradsko-Petropavlovskiy coal area of the Western Donbass. Commercial reserves total 716.6 mln tons. Based on existing production levels, Pavlogradugol's reserves will last for around 50 years. This company has ten mines as well as divisions for transport and production infrastructure. During 2008, there were, on average, 28.3 ths people on Pavlogradugol's employment rolls.

Pavlogradugol's mines produce thermal (G, DG grades) and coking (G grade) coal. Thermal coal grade composes up to 80% of the total. The total volume of output in 2008 was 14.2 mln tons, which is 14.6% higher than the previous year. The ash content of mined coal in 2008 was 36.9% (37.6% in 2007). Practically all of the coal produced goes to the domestic market. Consumers of steam coal are Ukrainian power generation companies — Vostokenergo, Dneproenergo and Zapadenergo. The main consumers for coking coal are coking chemical plants belonging to the SCM Mining Holding Company. The total export volume of coal in 2008 was 113.7 ths tons.

At the end of 2008, 32 longwalls were being worked in Pavlogradugol's mines, and the overall length of mines worked totaled 977 km. In 2008, 35 new longwalls were put into use and 113.6 km of mines were tunneled. Labour productivity rates at Pavlogradugol's mines are some of the highest in Ukraine. In 2008, they totaled 62.7 t/person per month, which is 21% higher than in 2007.

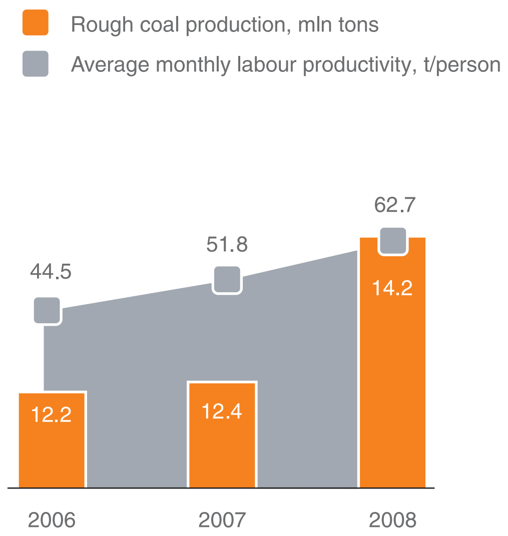
According to the long-term development plan for Pavlogradugol, yearly coal production should rise by one-third to 18 mln tons by 2012 in comparison with 2008. Mine tunneling will total 129.2 km and labour productivity will rise by 57% from a current 62.7 t/person per month to 98.7 t/person per month. This significant production volume growth and increase in labour productivity at the business will be driven by the complete modernization of production capacity and implementation of a set of operational improvements.

As part of the modernization programme at the Pavlogradugol mines, implementation of coal plowing technology is planned beginning in 2009. The average production capacity of a plow installation reaches 3,300 t/day. At present, a contract has been concluded for the manufacture and delivery of coal production equipment with Bucyrus DBT Europe GmbH, the worldwide leader in producing plow installations. The equipment will be put into use in 2010 at Stepnaya mine.

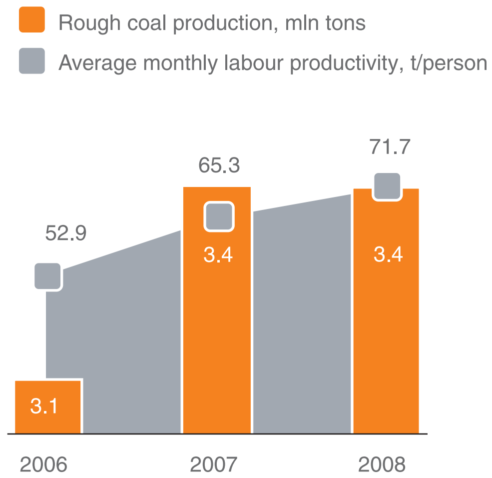
In addition, contracts were signed with Czech companies, Ostroj and TMachinery, and the following equipment was delivered to the Dneprovskaya and Stepnaya mines: sections of powered roof support, breakage machines and chain-and-flight conveyors for outfitting newly created longwalls. This equipment has a greater service life than the technology currently being used at the mines. In 2009, equipment produced by Ostroj and TMachinery will also be delivered to the Ternovskaya and Pavlogradskaya mines.

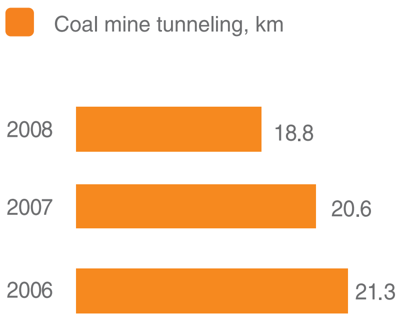
At present, roof bolting is applied increasingly at the mines raising the stability of coal production and allowing for increasing the rate of preparatory work while reducing maintenance costs. The use of roof bolting has helped to significantly decrease the cost of coal production operations.

Pavlogradugol production rates



Komsomolets Donbassa Mine production rates





Under the long-term development plan, it is planned to invest around UAH 7.7 bln in maintaining production capacity and modernizing ten Pavlogradugol mines through end of 2013.

The Komsomolets Donbassa Mine

The Komsomolets Donbassa mine, which is the main enterprise in the town of Kirovskoye in the Donetsk region, is the largest producer of thermal coal in Ukraine. Commercial mine reserves total 120.3 mln tons. Based on the existing output level, reserves will last for more than 35 years. Its own coal-processing facility ensures a low level of ash content for shipped coal. In 2008, an average of 5.2 ths people were on Pavlogradugol's employment rolls.

Komsomolets Donbassa produces "T" (lean) grade coal, which belongs to the group of steam coals and has a high specific heat. The production volume in 2008 was 3.4 mln tons of coal, and the ash content of produced coal was 33.7%. All Komsomolets Donbassa products are shipped to the Ukrainian power generating enterprises Vostokenergo and Dneproenergo.

As of the end of 2008, six longwalls were being worked in the Komsomolets Donbassa mine, and the overall length of mine tunneling totaled 181.9 km. During the year, five new longwalls were put into use and 18.8 km of mines were tunneled. Labour productivity rates at the Komsomolets Donbassa mine increased by 9.8% and reached 71.7 t/person per month, which is one of the highest rates in this sector.

Production capacity for the coal enrichment segment

The production capacities of the DTEK coal enrichment segment consists of a group of enrichment plants Pavlogradskaya Coal Enrichment Plant LLC, Kurakhovskaya Coal Enrichment Plant LLC, Oktyabrskaya Coal Enrichment Plant OJSC, Dobropolskaya Coal Enrichment Plant OJSC, Mospinskoye Coal Refinery LLC and also Ecoenergoresource LLC, which cleans the tailings storage for the Pavlogradskaya Coal Enrichment Plant. The Dobropolskaya and Oktyabrskaya enrichment plants were acquired by DTEK in 2007.

The aggregate amount of processed coal by the DTEK coal enrichment plants in 2008 was 11.7 mln tons of rough coal, and the production volume of coal concentrate for combustion by TPPs was 8.4 mln tons. The growth of the performance indicators against the level of the previous year has reached 80%. Such an intensive growth is explained by DTEK`s consolidation of new enterprises with the total annual capacity of 7 mln tons, and by increase of the production capacites` utilization in roof from 63.6% to 67.9%.

The key enterprise in the enrichment segment is the Pavlogradugol Central Coal Enrichment Plant. This is one of the biggest coal enrichment enterprises in Ukraine, with a production capacity of 5.25 mln tons per year. The Pavlogradugol Coal Enrichment Plant processes grade G and DG rough coal and produces concentrate for thermal power plants. The applied enrichment methods are heavy medium and jigging. The level of capacity utilization in 2008 was 72.3%. The volume of enrichment was 3.8 mln tons, and the concentrate production totaled 2.9 mln tons.

The Kurakhovskaya central coal enrichment plant, with a capacity of 2.5 mln tons, enriches grade G and DG coal through heavy-medium separation and jigging methods. In 2008, 2.2 mln tons of coal were processed at the plant, and also 1.5 mln tons of concentrate was produced for combustion at thermal power plants. In 2008, the production capacity utilization rate at the plant grew to 86.6% in comparison to the previous year. The volumes of processed and produced concentrate in 2008 grew by 19.9% and 18.7%, respectively.

The Mospinkoye Coal Enrichment Plant enriches grade G, DG, T and KS of rough coal, and also anthracites by means of heavy medium and jigging. In 2008, the plant processed 0.8 mln tons of coal and produced 0.6 mln tons of concentrate. The production capacity utilization rate in 2008 was 32.7% with a yearly capacity of 2.5 mln tons.

The Dobropolskaya central enrichment plant, with a production capacity of 4.5 mln tons, enriches grade G and DG of rough coal and processes concentrate for at thermal power plants. Jigging and flotation technology is used in enrichment. In 2008, the enterprise processed 3.2 mln tons of coal and produced 2.3 mln tons of concentrate. The capacity utilization rate at the enterprise was 72.2% in 2008.

The Oktyabrskaya central enrichment plant, with a production capacity of 2.6 mln tons, produces grade G and DG of rough enriched coal through heavy medium, jigging and flotation methods. In 2008, the enterprise processed 1.7 mln tons of coal and produced 1.1 mln tons of concentrate. The capacity utilization rate at the enterprise was 66.7% in 2008.

Key performance indicators of the coal enrichment segment of DTEK, ths tons

Indicators		2008	2007	2006	Change, 08/07
Pavlogradskaya Coal Enrichment Plant	Rough coal enrichment	3,798	3,207	2,853	18.4%
	Production of (natural) concentrate	2,881	2,164	2,101	33.1%
	Production capacity utilization	72.3%	61.1%	54.3%	
Kurakhovskaya Coal Enrichment Plant	Rough coal enrichment	2,166	1,807	1,528	19.9%
	Production of (natural) concentrate	1,494	1,258	1,078	18.7%
	Production capacity utilization	86.6%	72.3%	61.1%	
Mospinskoye Coal Enrichment Plant	Rough coal enrichment	818	1,502	1,260	-45.5%
	Production of (natural) concentrate	565	1,014	889	-44.3%
	Production capacity utilization	32.7%	60.1%	50.4%	
Dobropolskaya Coal Enrichment Plant	Rough coal enrichment	3,247			
	Production of (natural) concentrate	2,298			
	Production capacity utilization	72.2%			
Oktyabrskaya Coal Enrichment Plant	Rough coal enrichment	1,705			
	Production of (natural) concentrate	1,129			
	Production capacity utilization	66.7%			
Total	Rough coal enrichment	11,733	6,516	5,640	80.0%
	Production of (natural) concentrate	8,367	4,436	4,068	88.6%
	Production capacity utilization	67.9%	63.6%	55.0%	

Production capacity of the power generation segment

DTEK's production capacity in the power generation segment consists of Vostokenergo LLC and Dneproenergo OJSC[*]. Vostokenergo is the first private power generation company in Ukraine and one of the largest power generation producers in Ukraine with a market share of 9.7%[**]. The market share of Vostokenergo in thermal generation is 25.4%[**]. Dneproenergo OJSC is one of the leading Ukrainian producers of electrical power and heat. Its share of thermal generation in Ukraine in 2008 amounted to 22.1% and 8.5% for the power industry as a whole.

Vostokenergo

Vostokenergo's production capacity includes three thermal power plants — Zuevskaya, Kurakhovskaya and Luganskaya TPPs. Zuevskaya and Kurakhovskaya TPPs are located in the Donetsk region, one of the largest industrially developed regions of Ukraine, Luganskaya TPP is located in the Lugansk region. 17 power generation units, with the installed generating capacity of 4,085 MW, are in use at DTEK's three plants. The total volume of Vostokenergo's supply in 2008 totaled 16.8 bln kWh[**], which is 7.3% lower than the previous year. The rate of installed capacity used in 2008 stood at a level of 51.8%, which is higher than the majority of other thermal power generation enterprises in Ukraine.

The Vostokenergo power generation plants use coal for fuel, with a small portion of other types of fuel (gas and fuel-oil) comprising not more than 2% of the total. Practically all coal is delivered from DTEK's coal production enterprises, which ensures that the company is not dependent on outside suppliers.

Since 2007, a modernization programme has been under way at Vostokenergo and due to run until 2016. During this period, the company plans to invest around UAH 8.4 bln in its generation companies. The modernization should lead to lower production costs in power production, increase the capacity of power generation units, increase their capacity maneuverability and lower their fuel consumption rate.

* DTEK owns a 47.5% shareholding in Dneproenergo OJSC.
** According to the data of the Ministry of Fuel and Energy of Ukraine.

Luganskaya TPP

Power generation unit #	Installed capacity, MW	Date put into use/ overhaul date	Comments
8	—	1961 / —	2009-2012 — reconstruction planned for CFB boiler
9	200	1962 / 2007	2014-2016 — reconstruction planned
10	175	1962 / 1999	2008-2009 — reconstruction planned
11	200	1963 / 2004	2004 — complete overhaul of unit - restoration of designed capacity 200 MW; 2010-2011 — reconstruction planned for unit
12	—	1967 / in shutdown	2014-2017 — reconstruction planned
13	175	1968 / 2003	2009-2011 — reconstruction planned
14	200	1968 / 2006	2007 — remarking unit — restoration of designed capacity 200 MW; 2012-2014 — reconstruction planned
15	200	1969 / 2005	2006 — remarking unit — restoration of designed capacity 200 MW; 2001-2013 — reconstruction planned
Total	1,150		

Kurakhovskaya TPP

Power generation unit #	Installed capacity, MW	Date put into use/ overhaul date	Comments
3	200	1972 / 2007	2015-2017 — reconstruction planned
4	210	1973 / 2004	2008 — full overhaul 2013-2015 — reconstruction planned
5	210	1973 / 1998	2007-2009 — reconstruction — planned raise of installed capacity to 221 MW
6	210	1973 / 2005	2010-2012 — reconstruction planned
7	210	1974 / 2004	2008-2010 — unit reconstruction
8	210	1974 / 2003	2009-2011 — reconstruction planned
9	210	1975 / 2006	2011-2013 — reconstruction planned
Total	1,460		

Zuevskaya TPP

Power generation unit #	Installed capacity, MW	Date put into use/ overhaul date	Comments
1	300	1982 / 2004	2008-2010 — reconstruction
2	300	1982 / 2003	2007-2009 — reconstruction — raise of installed capacity to 320 MW
3	300	1986 / 2006	2010-2012 — reconstruction planned
4	300	1988 / 2005	2009-2011 — reconstruction planned
Total	1,200		

Generation and power supply

In 2008, Vostokenergo remained the leader on the Ukrainian market for thermal generation despite a 7%* decrease in electric power production volume to 18.5 bln kWh. Its market share was 25.4%*, a fall from 27%* in 2007. Electric power supply in 2008 amounted to 16.8 bln kWh, which was 7.3% lower than in comparison with the last yaer.

Supply at Zuevskaya TPP was 5.1 bln kWh (15.9% less than in 2007), and 5.8 bln kWh at Kurakhovskaya TPP (8% less than in 2007). Supply at Luganskaya TPP rose by 2.3% and totaled 5.9 bln kWh. Own electric power consumption for technical needs at all of Vostokenergo totaled 1.7 kWh, or 9.3%.

The reduction in electric power generation and supply at Kurakhovskaya and Zuevskaya TPPs is maily explained by the units shut-down during reconstruction. Accordingly, from June to December reconstruction work was carried out at power generation unit #2 at Zuevskaya TPP. Unit #5 at Kurakhovskaya TPP was shut down on July 1, 2008 for reconstruction. A work stoppage also occurred at #4 unit of Kurakhovskaya TPP for half a year (from April to August) while a complete overhaul was carried out.

In addition, the reduction of supply at Vostokenergo's electric power generation enterprises, similar to other Ukrainian power generation plants, was caused by the reduction in demand due to the drop in industrial production that took place during the fourth quarter of 2008.

* According to the the Ministry of Fuel and Energy of Ukraine.

The Installed Capacity Utilization Rate (ICUR) at Vostokenergo was 51.8% in 2008. This is 4.2 percentage points lower than the previous year. However, even taking into account this drop, Vostokenergo's ICUR remains the highest among generating companies in Ukraine. The average ICUR factor for power units with a 200 MW capacity in Ukraine is 42%, and 30% for 300 MW units. By contrast, the ICUR did not fall below 50% at any of Vostokenergo's electric power plants during 2008.

In view of the fact that Vostokenergo provides additional services for power capacity maneuverability, the company's power generation units are essential for the electrical power system and are in operation.

Provision of fuel

One of DTEK's key advantages is its ability to provide its own coal. This does not only ensure stable suppies and the possibility of coal quality control, but also allows DTEK to be the leader in terms of production cost among the companies of thermal generation of Ukraine.

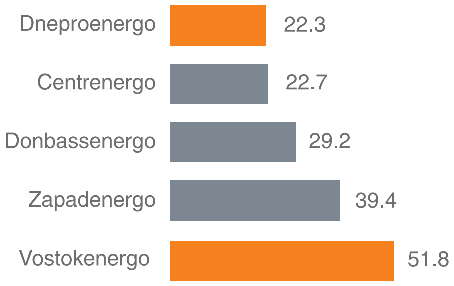
The main fuel for Vostokenergo is coal, produced by DTEK's coal production enterprises. According to 2008 results, the volume of coal purchased was 9.5 mln tons, of this amount, 78% (7.4 mln tons) was supplied by DTEK's enterprises and the remaining quantity was bought from third party suppliers. Zuevskaya and Kurakhovskaya TPPs use gas grade coal, while Luganskaya TPP uses anthracite and lean coal.

Strict quality control over the coal it uses provides Vostokenergo with the capability of supplying coal products of sufficient quality. As a result, gas and fuel oil are not needed in the coal combustion process. Since 2005, gas at

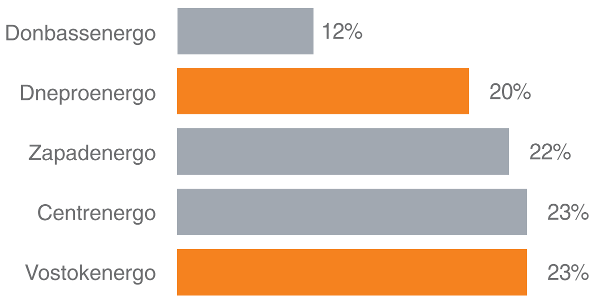
Key performance indicators of Vostokenergo, mln kWh

Indicators		2008	2007	2006	Change, 08/07
Zuevskaya TPP	Electric power generation	5,459.2	6,470.6	6,013.1	-15.6%
	Supply	5,071.2	6,026.6	5,597.2	-15.9%
	Power consumption for own needs	387.1	443.2	414.9	-12.7%
	— in %	7.09	6.85	6.90	
	ICUR, %	51.79	61.55	57.20	
Kurakhovskaya TPP	Electric power generation	6,469.6	7,000.7	6,396.2	-7.6%
	Supply	5,806.6	6,314.7	5,779.9	-8.0%
	Power consumption for own needs	657.3	679.1	608.3	-3.2%
	— in %	10.16	9.70	9.51	
	ICUR, %	50.45	54.74	50.01	
Luganskaya TPP	Electric power generation	6,590.0	6,436.3	5,541.9	2.4%
	Supply	5,911.0	5,777.5	4,954.3	2.3%
	Power consumption for own needs	676.1	655.9	584.1	3.1%
	— in %	10.26	10.19	10.54	
	ICUR, %	53.11	52.55	46.05	
Vostokenergo	Electric power generation	18,518.8	19,907.6	17,951.1	-7.0%
	Supply	16,788.8	18,118.8	16,331.3	-7.3%
	Power consumption for own needs	1,720.4	1,777.8	1,606.6	-3.2%
	— in %	9.29	8.93	8.95	
	ICUR, %	51.77	56.00	50.80	

Installed capacity utilization rate at thermal generation enterprises in 2008, %



Share of potential capacity maneuverability at Ukrainian thermal generation companies



Vostokenergo TPPs has only been used to start power units, and in the period of gas crisis the company completely rejected the use of gas, having replaced it with mazut (oil fuel).

Vostokenergo is one of the most efficient Ukrainian companies in terms of fuel consumption. Specific fuel consumption at Vostokenergo units is 390,6 g/kWh, one of the lowest rates in Ukraine.

Natural gas accounts for a very small portion of the company's fuel mix. In 2008, natural gas use amounted to only 1.06%, while it reached 6% at other Ukrainian power generation companies, and 14% at Centrenergo. With gas prices in Ukraine expected to rise in 2009, the absence of dependence on this type of fuel represents a significant competitive advantage.

Actual coal consumption in 2008 was 9,452.1 ths tons, 42 ths tons of fuel-oil and 61.4 mln m^3 of natural gas. Actual fuel consumption, when recalculated as coal equivalent, amounted to 6,601.4 ths tons in 2008.

In 2008, a number of measures were taken at Vostokenergo enterprises aimed at optimizing equipment, increasing productivity and improving the efficiency of fuel, to a total cost of UAH 49.4 mln. As a result of these measures, 3.76 ths fewer tons of coal were consumed and 6 mln kWh less electrical power was used. The introduction of energy-saving technology gave savings of UAH 2.65 mln.

Maintenance work

Vostokenergo conducts planned maintenance at all of its production facilities on an annual basis. This maintenance work ensures the reliable functioning of power equipment and prolongs its operational life. The maintenance programme is developed on the basis of a preliminary analysis of production facilities, the requirements set out under normative documents and by taking into account many years of experience from operating this equipment.

In 2008, one complete overhaul (power unit #4 at the Kurakhovskaya TPP), seven intermediate maintenance programmes and nine regular maintenance programmes were planned. All planned maintenance work was completed in full. In 2008, the following maintenance work on power units and general plant equipment was performed:

- Intermediate maintenance was performed on power units #1 and #2 at the Zuevskaya TPP, as well as regular maintenance on power units #3 and #4;

- A complete overhaul was performed on power unit #4 at the Kurakhovskaya TPP. Power units #5, #6 and #7 underwent intermediate maintenance and regular maintenance was performed on power units #3, #8 and #9;
- Intermediate maintenance was performed on power units #10 and #11 and regular maintenance was done on power units #9, #13, #14 and #15 at the Luganskaya TPP.

Due to the optimization of production processes, we were able to reduce time required for maintenance work. Intermediate maintenance at Zuevskaya power unit #1 was reduced by 38 calendar days and the intermediate maintenance at Kurakhovskaya TPP power unit #7 was reduced by41 calendar days. Problems discovered added additional work and prolonged intermediate maintenance at Zuevskaya TPP power unit #2 and the complete overhaul at Kurakhovskaya TPP power unit #4. There were no delays during maintenance work at the Luganskaya TPP.

In 2008 at Luganskaya TPP units #10, #13 and #15, Vostokenergo's experts, together with independent experts, conducted an audit on the metal condition of the equipment that had passed its operational life. Boilers, main steam pipes and turbines were all checked.

In light of the large volume of maintenance, Vostokenergo has a hybrid system of maintenance, using its own labour force as well as contracting outside organizations. In 2008, contractors performed 10.5% of the work. The cost of the maintenance campaign in 2008 was UAH 259.5 mln, which is UAH 23.2 mln, or 8.9%, more than was spent in 2007.

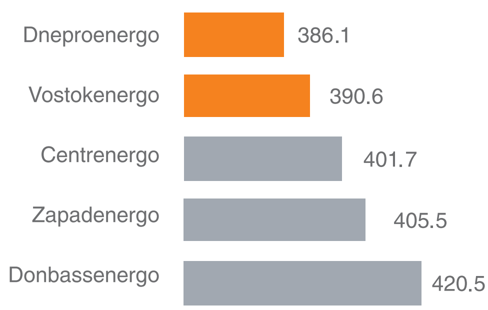
Dneproenergo

Production capacity

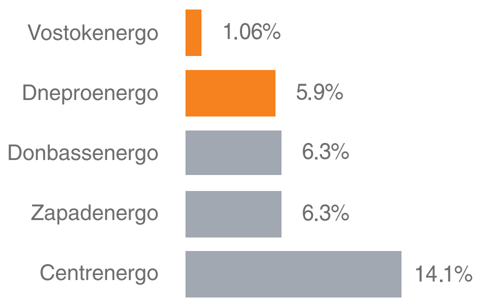
Dneproenergo is second in terms of size for electric power production with a 22.1% market share in thermal generation. The company also supplies a number of population centers in the Dnepropetrovsk region and is one of the largest thermal power companies in Ukraine. DTEK owns 47.5% of the company's shares.

Dneproenergo's production capacity includes three thermal power plants: Zaporozhskaya, Krivorozhskaya and Pridneprovskaya TPP with a total installed capacity of 8,185 MW, which corresponds to 30% of the installed capacity for all thermal power plants. However, a significant part

Specific fuel consumption in 2008, g/kWh



Share of natural gas in the fuel mix for 2008



* According to the the Ministry of Fuel and Energy of Ukraine.

Krivorozhskaya TPP

Power unit #	Installed capacity, MW	Year of last overhaul	Depreciation (hours worked at the end of 2008)	Notes
1	282	1993	275,356	
2	282	1998	272,842	
3	282	1993	252,773	
4	282	2005	212,127	
5	282	1994	257,604	
6	282	1995	231,872	
7	282	1991	190,390	Shut down
8	282	1996	235,676	
9	282	1994	178,750	Shut down
10	282	1992	172,112	Put into operation in December 2008 after long-term shutdown. A re-marking to 300 MW is planned
Total	2,820			

Pridneprovskaya TPP

Power unit #	Installed capacity, MW	Year of last overhaul	Depreciation (hours worked at the end of 2008)	Notes
7	150	2000	302,891	District heating co-generation is being implemented for Dnepropetrovsk
8	150	2007	312,819	
9	150	1995	303,583	
10	150	2006	295,308	
11	310	2001	233,958	
12	285	1996	221,579	Shut down
13	285	1997	275,821	
14	285	1993	246,384	Shut down
Total	1,765			

Zaporozhskaya TPP

Power unit #	Installed capacity, MW	Year of last overhaul	Depreciation (hours worked at the end of 2008)	Notes
1	300	1996	242,094	
2	300	2006	228,738	
3	300	1999	235,047	
4	300	2002	216,187	
5	800	1995	148,888	
6	800	1993	127,365	
7	800	1992	133,159	Shut down
Total	3,600			

of the capacity is provided by gas and oil-fired power units (GOU). This type of electrical power has seen weak demand due to the high price of gas in comparison to coal. As a result of this, several units have been closed down.

Thermal and electrical power supply

In 2008, Dneproenergo remained the second largest generating company on the thermal generation market in Ukraine, producing 16.0 bln kWh of electrical power. Its market share of thermal generation in 2008 was 22.1%*.

The electrical power supply on the wholesale electricity market in 2008 was 14.7 bln kWh, which was 3.6% lower than in 2007. Krivorozhskaya TPP supply amounted to 5.8 bln kWh, which is an increase of 0.2% in comparison with 2007. Pridneprovskaya TPP supply was 3.6 bln kWh (an increase of 3.3%in comparison with 2007), and Zaporozhskaya TPP supplied 5.2 bln kWh (-11.4% less compared to the previous year). The total use of electrical power for own needs at Dneproenergo was 1.2 bln kWh, or 7.4%.

The amount of thermal power generated at Dneproenergo enterprises amounted to 828.5 ths Gcal, which represents a 1.0% increase from 2007 levels. Thermal power supplied to consumers reached 625.4 ths Gcal (an increase of 1.1% in comparison to 2007). Supply from the Krivorozhskaya TPP was 65.4 ths Gcal, which is 3.1% lower than in 2007, and supply of thermal power from Pridneprovskaya totaled 439.1 ths Gcal (an increase of 1.2%). Supply from the Zaporozhskaya TPP in 2008 grew by 3.1% to 54.1 ths Gcal. The total use of thermal power for own needs at Dneproenergo was 390.3 ths Gcal, or 47.1%.

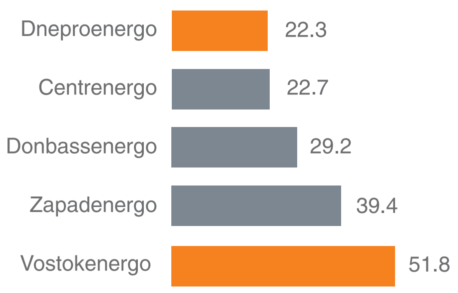
Dneproenergo is a leader among Ukrainian generating companies in terms of fuel efficiency. It has the lowest rate of fuel consumption for output of electrical power, at 385.7 g/kWh. This helps to significantly reduce the level of fuel component in the cost structure.

However, the company is significantly behind other companies in ICUR, which is a result of the significant available capacity at the power plants. Dneproenergo has a large share of gas and oil-fired capacities, which has seen low levels of demand due to the high cost of producing electrical power at these plants. As a result, Dneproenergo's plants have been unable to compete with other producers in the bidding price market. Engaging unused power units by reconstructing them to use coal is one of the potential ways to raise capacity utilization at Dneproenergo's plants.

The main fuel used at Dneproenergo plants is coal, which is delivered from DTEK enterprises as well as from other Ukrainian mines. Natural gas is used at the Pridneprovskaya TPP for start-up and ignition of anthracites and the share of natural gas in the fuel balance is 10.6%.

Natural gas totals 6.4% of the fuel balance at Zaporozhskaya TPP. A large share of gas in the fuel balance is due to 2.4 GW of gas and oil-fired capacities.

Installed capacity utilization rate at thermal generation enterprises in 2008, %



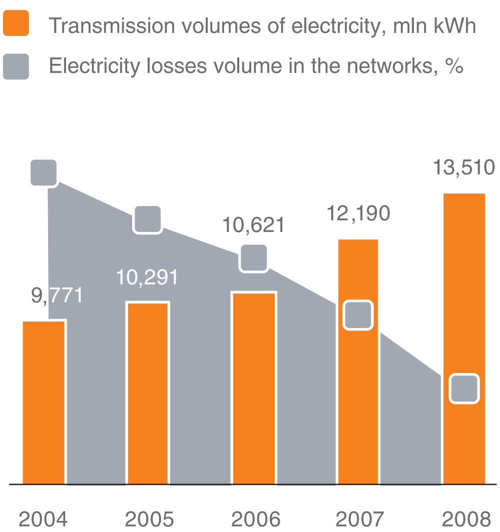
Dneproenergo capital expenditures in 2008, UAH mln

	Type of maintenance	Investments	Comments
Krivorozhskaya TPP	Current maintenance	59.7	Power units #1, 4, 5, 6
	Intermediate maintenance	173.5	Power units #2, 8, 10
	Complete overhaul	9.8	Reconstruction of power unit #3
Pridneproskaya TPP	Current maintenance	53.7	Power units #7, 8, 10, 13
	Intermediate maintenance	17.4	Power unit № 11
	Complete overhaul	7.3	Reconstruction of power unit #9
Zaporozhskaya TPP	Current maintenance	74.4	Power units #1-5, 7
	Intermediate maintenance	5.3	
	Complete overhaul	5.4	
Dneproenergo	Current maintenance	187.7	
	Intermediate maintenance	196.2	
	Complete overhaul	22.6	
	Total	406.5	

Dneproenergo production figures, electrical power production, mln kWh

		2008	2007	Change, 08/07
Krivorozhskaya TPP	Electrical power generation	6,333.8	6,318.0	0.2%
	Supply	5,853.3	5,844.3	0.2%
	Electricity self-consumption	445.3	449.2	-0.9%
	— %	7.0	7.1	
	ICUR	25.6%	25.6%	
Pridneprovskaya TPP	Electrical power generation	4,066.6	3,942.7	3.1%
	Supply	3,638.4	3,523.6	3.3%
	Electricity self-consumption	367.2	359.2	2.2%
	— %	9.0	9.1	
	ICUR	26.2%	25.5%	
Zaporozhskaya TPP	Electrical power generation	5,661.1	6,327.8	-10.5%
	Supply	5,234.1	5,910.6	-11.4%
	Electricity self-consumption	375.3	368.9	1.7%
	— %	6.6	5.8	
	ICUR	17.9%	20.1%	
Dneproenergo	Electrical power generation	16,061.5	16,588.5	-3.2%
	Supply	14,725.9	15,278.5	-3.6%
	Electricity self-consumption	1,186.9	1,177.8	0.8%
	— %	7.4	7.1	
	ICUR	22.3%	23.1%	

Growth of electricity transmission and reduction of losses in the networks of PES-Energougol and Service-Invest



Production capacities of the distribution segment

DTEK ellectricity distribution is carried out by Service-Invest LLC and the Electric Networks Enterprise — Energougol OJSC. They are located in the Donetsk and Dnepropetrovsk regions, both of which are industrially-developed regions. The aggregate length of the networks is 3,791.3 km, and the total transmission capacity amounts to 2,767.4 MVA. The companies became part of DTEK in 2006.

Service-Invest is an important enterprise for the DTEK distribution segment and manages 67 transformer substations with a total capacity of 2,323.1 MVA and above-ground electric transmission lines with a total length of 2,575.9 km. At the end of 2008, 690 people were employed at the company.

PES-Energougol assets include 10 transformer substations with voltages of 100, 35 kV, and 377 transformer substations with a voltage of 6,10 kV and total power of 444.3 MVA, as well as 1,215.4 km of overhead and cable transmission lines. The company also maintains a department for production support, a metrological labouratory and a fleet of special transport vehicles.

Production capacity of the DTEK distribution

	Number of distribution substations			Transmission capacity, MVA			Line lengths, km		
Voltage	110 kV	35 kV	6-10 kV, 6/0.4 kV	110 kV	35 kV	6-10 kV	154 kV, 110 kV	35 kV	6-10 kV, 0.4 kV
Service-Invest	33	13	21	2,010.5	295.9	16.7	1,961.9	494.8	119.2
PES-Energougol	5	5	377	159.0	89.8	195.5	17.9	4.8	1,192.7
Total	38	18	398	2,169.5	385.7	212.2	1,979.8	499.6	1,311.9

Reduction of electricity losses in the company's networks, %

	2008	2007	2006	2005	2004
Service-Invest	1.10	1.54	1.67	1.69	1.87
PES-Energougol	7.10	6.80	7.96	9.46	9.62
Company average	1.55	2.00	2.33	2.55	2.82

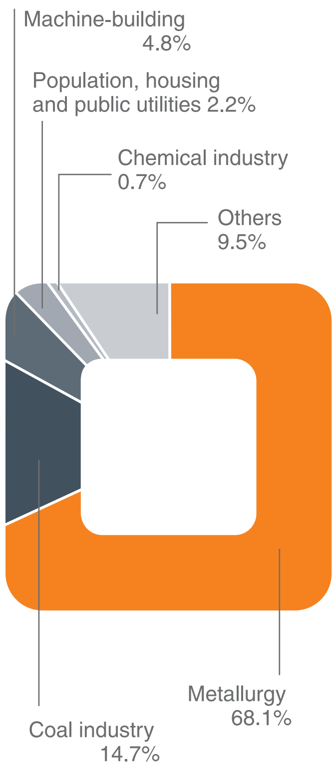
Besides supply of electrical power, PES-Energougol tests electrical equipment and designs utility networks, as well as providing assembly, repair and maintenance services for electrical equipment and conducts installation and commissioning work. Some 957 employees were on the company's rolls in 2008.

During the past few years, the companies in DTEK's power distribution segment have seen growth in productive supply of electrical power. Over the last five years, transmission volumes in the networks have risen by 38%. At the same time, the level of electric power losses in the networks has fallen from 2.82% to 1.55%, which is one of the lowest rates in Ukraine.

In 2008, measures were taken at PES-Energougol and Service-Invest enterprises aimed at the reduction of electricity losses in the networks, including maintenance work and major upgrades to electric transmission lines and transformer substations, installation of new electric meters (including implementation of an Automated Commercial Energy Metering System for electric power), and measures to ensure that consumers follow the rules when using electric power. In 2008, the entire Service-Invest network was outfitted with this system. Full installation of the system at PES-Energougol is planned to be completed by 2011.

Expenditures on planned maintenance at Service-Invest totaled UAH 5,143 ths. Maintenance was conducted on 314.9 km of overhead transmission lines and electric equipment at transformer substations with a capacity of 92.7 MVA. In 2008, the maintenance budget at PES-Energougol totaled UAH 4,683 ths, which was used for maintenance on 58 transformer substations, 193.7 km of 6-10 kV transmission lines and 8.5 km of 0.4 kV transmission lines. In addition, reconstruction of the base equipment occurred at 28 transformer substations and maintenance at 61 substations. In total, 1,289 units were repaired.

Electrical power consumption in distribution by sectors in 2008



The biggest consumers of electrical power from DTEK's power-supply companies were industrial enterprises such as MK Azovstal OJSC, Enakievskiy Metals Plant OJSC, MMK Ilyicha, MMZ Istil CJSC and Severniy GOK OJSC.

In 2008, new consumers connected to the company's networks included Krivorozhskiy Plant for Mining Equipment CJSC, METRO Cash and Carry Ltd., as well as others.

On the basis of 2008 results, the total volume of electric power transmission in DTEK's networks rose by 10.8% from 12.1 bln kWh to 13.5 bln kWh. However, it should be noted that , due to the drop in production in Ukraine at the end of 2008 and the consequential fall of demand for electric power, the transmission volumes in the DTEK networks fell by nearly 30% in the fourth quarter.

Total electrical power purchased from the DTEK distribution segment in 2008 increased by 19.8% from 9.0 bln kWh per year to 11.0 bln kWh per year. The increase was primarily driven by demand from the metallurgy industry, which raised its consumption by 32.4%. Electric power consumption by the coal sector rose by just 1.9%. The consumption of electric power by the machine-building industry rose by 23.1%, but as its portion in DTEK's total distribution volume is not substantial, the rise did not have a material effect on the results of the distribution segment.

Pursuant to provisions of the Ukrainian law regarding the power sector, almost all electricity is purchased by companies from SE Energorynok. In 2008, Service-Invest and PES-Energougol bought 5.9% of the total sold by SE Energorynok, while PES-Energougol bought 0.6%, which amounts to 6.5% of the total accounted for by DTEK. By comparison, the analogous figure in 2007 was 5.4%.

DTEK's main targets for the distribution business are to sell at least 70% of the electricity produced by the company's generation business; to ensure that actual losses are lower than normal levels; to ensure that 100% of electricity bills are paid; to set up a network of customer service centers; and to adapt the distribution companies' business to the new energy market model. Active efforts in this direction have already allowed the company to increase its share of purchasing in the wholesale electricity market from 4.9% to 6.5% from 2006-2008, and jump from 6th to 4th place.

Purchase and transmission of electrical power

The main consumers of electrical power supplied by the Service-Invest and PES-Energougol networks are large industrial enterprise. For the most part, these are companies working in metallurgy, coal production, the chemical industry and machine-building. The portion of sales in DTEK's distribution sector to metallurgical companies totals 68.1%, while coal mining enterprises comprise 14.7%. The portion sold by the company to machine-building enterprises is smaller, totaling 4.8%.

On October 15, 2008, the first service center for consumers of PES-Energougol opened in Ugledar in the Donetsk region. Its task was to increase the efficiency and quality of the company's customer service in the city. The services provided by the center include dealing with and processing enquiries and complaints, providing information and

Electric power transmission volumes in DTEK networks, mln kWh

	2008	2007	2006	2005	2004	Change, 08/07
Service-Invest	12,493	11,143	9,511	9,158	8,579	12.1%
PES-Energougol	1,018	1,047	1,110	1,133	1,192	-2.8%
Total	13,510	12,190	10,621	10,291	9,771	10.8%

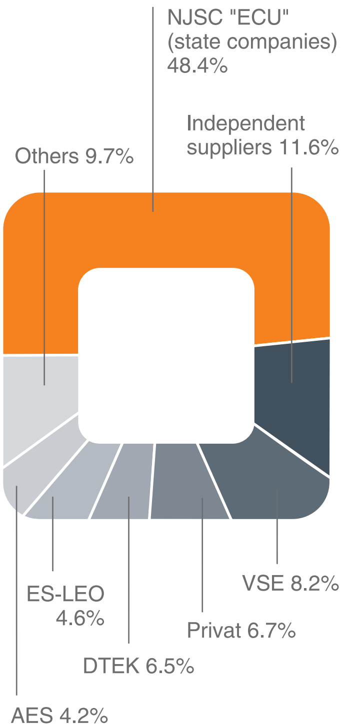
Tariffs for electric power transmission and supply, UAH/MWh

	2008	2007	2006	Change, 07/06	Change, 08/07
Service-Invest Ltd.					
Transmission tariff					
1 class	7.56	5.79	4.89	18.40%	30.57%
2 class	20.67	14.65	12.05	21.58%	41.09%
Supply tariff					
1 group	0.83	0.68	0.60	13.33%	22.06%
2 group	4.12	3.45	2.99	15.38%	19.42%
PES-Energougol					
Transmission tariff					
1 class	15.38	11.28	9.83	14.75%	36.35%
2 class	71.47	47.10	36.22	30.04%	51.74%
Supply tariff					
1 group	3.46	2.43	1.97	23.35%	42.39%
2 group	12.25	12.15	9.84	23.48%	41.98%

Consumption of electrical power across DTEK distribution segment, mln kWh

	2008	2007	Change, 08/07
Metallurgy	7,400.4	5,587.6	32.4%
Coal industry	1,591.7	1,561.6	1.9%
Machine-building	517.3	420.2	23.1%
Population, housing and public utilities	235.3	201.7	16.6%
Chemical industry	79.4	85.2	-6.8%
Other	1,037.6	1,210.6	-14.3%
Total	10,861.6	9,066.9	19.8%

Electric power purchasing from SE Energorynok in 2008



consulting services, and ensuring that consumers can communicate directly with management. The service center works on a "one window" principle, whereby consumers can obtain the answers to all their questions from one desk.

The opening of the service center will strengthen PES-Energougol's competitive position amid the reform of Ukraine's electricity market. The company plans to open a similar center in Donetsk.

This project is also aimed at developing client-oriented policies for management in providing services to electric power consumers, as well as monitoring and control of client service.

Attracting new consumers is a very relevant issue for PES-Energougol, where 60% of supplies are made to mines. The enterprise is focused on diversifying its supplies, which will assist in obtaining higher payments for electric power.

One more company policy objective for clients is the creation of a "one window" for new clients. DTEK plans to introduce a transparent and understandable procedure for customer connection, which will unify cost calculation, simplify the procedure and reduce the time necessary for connection.

Information technology

The year 2008 was a turning point in the development of the technology potential of the Company. A number of projects were completed as part of the development of DTEK's IT infrastructure. Also, a five-year Strategy for Development of Information Technology was developed and approved.

The most important achievement in 2008 in the implementation a unified accounting policy was the completion of a two-year project to introduce an automated accounting system. 1C, a specialized system configuration, was chosen as the tool for record-keeping and generating reports at all enterprises. This system works on the base of unified normative and reference information. Introducing this solution helped to unify record-keeping. It will raise the reliability of reports and provide timely accounting information to the economic and technical departments at each enterprise.

A project was completed in autumn of 2008 to build primary channels of communication between the enterprises and unite them in a single communication space. In particular, the successful implementation of this project has made it possible to teleconference between businesses, which has helped to make the decision-making process more efficient. In addition, this solution helps to significantly reduce costs for employee business travels.

DTEK's information technology development strategy was developed in collabouration with Deloitte & Touche and was adopted in August 2008. This event was preceded by extensive work by Deloitte consultants with the directors and experts from all of the Company's enterprises, during which an audit was conducted of the DTEK system and telecommunication infrastructure, the business applications and IT management processes. The requirements of business subdivisions were consolidated and international experience was examined.

In accordance with DTEK's business strategies, as well as taking into account the current situation in the IT arena and best business practices, the decision was made to create a centralized IT-structure for the Company. The Corporate IT Service Centre and Project Management Office are part of this structure. At present, the Service Centre provides support for five DTEK enterprises, and the Project Management Office participates in all significant Company IT projects. The approved work model strengthens the project portfolio, which is aimed at developing a service-oriented approach and introducing new information services.

One of the key parts of the IT Development Strategy is a project to build a unified management information system for the Holding Company. The project envisages introducing an ERP (Enterprise Resource Planning) system with a corporate model for business processes at all DTEK enterprises, as well as building a centralized analytical system for planning and consolidation. A contract was signed in September 2008 to use SAP programming solutions.

At the same time, a Corporate Licensing Agreement was signed between Microsoft and DTEK to use Microsoft software at all of the Company's enterprises. In addition to restructuring the licenses and the creation of a transparent licensing system, this development creates opportunities to use Microsoft solutions and products in order to build an effective IT infrastructure.

DTEK is running a large-scale investment programme aimed at expanding and modernizing its production capacity, lowering production costs and enhancing workplace safety. The current economic situation creates additional opportunities for growth through acquisitions in Ukraine as well as abroad. The Company is interested in coal and generating assets, the integration of which can create synergies with other DTEK enterprises.

INVESTMENTS AND STRATEGIC ASSETS

Since 2006, DTEK has conducted a wide large-scale investment programme directed at increasing production volumes, raising productivity of PPE, lowering production costs, improving workplace conditions and protecting the environment. In 2008, the value of the Company's investment programme increased by 81.1% in comparison with 2007 and totaled UAH 1.8 bln. There was growth in investments in 2008 in all of DTEK's business segments, but the largest portion of investments went to the most capital-intensive key segments of coal production and electrical power generation. Their share in the investment programme was 67.5% and 20.5%, respectively.

DTEK plans to expand its business in the next five years through the acquisition of other businesses in Ukraine, as well as other countries. The main focus will be on thermal power generation enterprises that can be integrated in the Company's value-added production chain. Modernization of existing production capacity is also planned. DTEK will invest about UAH 16 bln in the modernization of its assets till 2013.

A revision of internal investment programmes may be undertaken in view of the deterioration of the macroeconomic situation in 2009. Existing investment projects will be maintained, but implementation timeframes for certain projects may be reviewed.

Investment projects for the coal production and enrichment segment

Coal production

In 2008, the investment programme in the coal production segment totaled UAH 1.2 bln, a 78.6% increase compared to 2007. The main volume of investment went to Pavlogradugol, where a series of major mine modernization projects continued to be implemented.

Pavlogradugol

In 2008, introduction of a progressive roof-bolting method for strengthening mine workings continued at Pavlogradugol mines. In 2008, with the application of such technology, 133 mines were tunneled with a length of 64.8 running km, 26.99 running km were tunneled in 2007, and 2.3 running km in 2006. 61.3 running km of tunneling is scheduled under plans for 2009. Investments in the project totaled UAH 1.7 mln in 2006, UAH 3.4 mln in 2007 and UAH 4.3 mln in 2008. The project the steel-arch method, which has numerous disadvantages, including reduced installation speed and the relatively higher cost of reinforcement per meter. Work is under way to introduce the progressive roof-bolting method at mines throughout the Western Donbass area.

DTEK investment programme, UAH mln (excluding VAT)

	2008	2007	Change, 08/07
Coal production	1,196	670	78.6%
Coal enrichment	42	28	48.7%
Electrical power generation	364	119	205.9%
Electrical power distribution	110	69	59.2%
Other	61	93	-34.4%
Total	1,773	979	81.1%

Capital expenditures in the coal production segment, UAH mln (excluding VAT)

	2008	2007	2006	Change, 08/07
Pavlogradugol	999.6	551.4	316.4	81.3%
Komsomolets Donbassa	196.5	118.2	51.1	66.2%
Total	1,196.1	669.6	367.5	78.6%

Main investment projects in the coal production segment, UAH mln (excluding VAT)

	2008	2007	2006
Pavlogradugol			
Acquisition of mining equipment for mining reserves at Stepnaya mine	152.4		
Construction of a rock complex for the ventilation mine shaft at the Stepnaya mine unit #2	12.6	9.9	5.3
Transfer of thermal capacity		23.7	0.3
Acquisition of drilling equipment for the mines	4.3	3.4	1.7
Acquisition and installation of overall mine security system	2.0	4.6	0.6
Replacement of automated telephone stations at the mines	3.4	1.8	
Komsomolets Donbassa			
Comprehensive work for methane degassing and recycling	18.2	7.6	
Acquisition of a MB-280-E shearer with a CZD190/800 conveyer	18.2	0.6	
Acquisition of mining equipment for the 8th L3 southern longwall seam			13.0
Replacement of electric parts of the MK 5x4 coal winding machine			6.3
Replacement of mechanical parts of the MK 3.25x4 rock winding machine			3.5

In 2008, physically antiquated and obsolescent automated telephone stations continued to be replaced with new digital Meridian 1 Opt. 61 equipment. As a result of the installation of new systems, the quality of communication inside the business will improve, and stations at the mines will have the ability to talk with other Pavlogradugol stations in an automated mode.

Beginning in 2006, the installation of an emergency mine alarm system at Pavlogradugol has been carried out. This apparatus is installed at places where work is being conducted and is essential for sending prompt and quick alarm to workers about the origin of an accident. Emergency alarm systems were acquired in 2008 within the programme for the Samarskaya, Yubileinaya, Blagodatnaya and Ternovskaya mines. A comprehensive dispatcher telephone line and alarm system (CAT) was installed at Stashkova mine, and a UTAS system was installed at Stepnaya mine.

In 2008, construction of the rock complex for the #2 ventilation unit at Stepnaya mine was continued. By the end of the accounting period, over 90% of the work on the project was completed. Work was completed on laying a foundation for the rock winding machine building, the rock gallery and loading dock. The shell and metal construction of the building was assembled, as well as the electric motor for the rock winding machine. The the bridge crane was also installed. The hardware for the above-mine shipment facilities were prepared and assembled. Investment in the project in 2008 totaled UAH 12.6 mln.

The next step will be the acquisition of loading equipment, adjustment of electrical equipment and construction of reloading facilities. Construction of the rock complex for the #2 ventilation segment will resolve many issues relating to the near-term development of the mine. It will boost coal output and increase tunneling, resulting in expected additional production of up to 600 ths tons a year from the #2 unit. It will also help reduce cost of mailtaining the production and the machinery and technology used to transport rock today.

Additionally, in 2008, Ostroj and TMachinery equipment was acquired for the Stepnaya and Dneprovskaya mines. Sections of powered supports, shearers and scraper conveyors were acquired. The volume of investment in the project was UAH 274.5 mln in 2008.

The main benefits from the project are expected to come from the greater loads at the coalface, longer working lives of equipment and lower operating costs. Acquiring next-generation equipment will help to boost daily loads by 30% resulting in a savings benefit of around UAH 600 mln from implementation.

Komsomolets Donbassa

In 2008, a new MB-280E shearer was acquired in a set with a CZR 190/800 conveyor, both of which were of TMachinery manufacture. The new equipment will be assembled in the 10th southern face of the L4 seam. The total investment in the project in 2008 totaled UAH 18.2 mln.

Beginning in 2007, the “Comprehensive Work for degasing and Recycling Methane” project had been carried out at the mine. A number of this project’s parameters are innovative not only for DTEK enterprises, but also for Ukraine. Reconstruction of an underground degassing system, introduction of new technologies for capturing methane, and modernization and replacement of equipment that will degas mines and recycle methane are planned within the project. The volume of capital investment in the project in 2008 totaled UAH 18.2 mln. More detailed information about this project can be found in the “New Strategic Projects” section.

Coal enrichment

In 2008, the capital investment in DTEK subdivisions for coal enrichment grew by 22% and totaled UAH 42.1 mln. Two central enrichment plants acquired in 2007, Dobropolskaya and Oktyabrskaya, were incorporated in DTEK. In 2008, a total of UAH 16.7 mln was invested in the modernization and development of these assets, which is the main factor in the increase in the amount of the investment programme.

Beginning in 2007, an investment project for the modernization of the hydro-sludge system at the Pavlogradskaya Coal Enrichment Plant has been implemented. It is expected that the realization of the project will raise the efficiency of enriching rough coal. Specifically, it will help reduce the discharge of silts into the tailings storage by 1.7% and will lower the ash content of finished product by 2.6%. In 2007, UAH 1.4 mln was spent on project implementation, while UAH 1.1 mln was spent in 2008. The sum of investment necessary for project implementation in 2009 is UAH 2.2 mln. The project is planned to be completed by 2010.

Work is also continuing on the reconstruction of the tailings storage at Pavlogradskaya Coal Enrichment Plant, which was originally built in 1974. The sum of investment in the project in 2007 totaled UAH 5.1 mln, while UAH 2.2 mln was invested in 2008. Completion of work is planned for 2010.

In 2008, an automated pneumatic cave-in suspension system for loose soils was assembled in the bunkers at the Pavlogradskaya coal enrichment plant. The application of the system for impulse pneumatic cave-in of bunkers

Capital expenditures in the coal enrichment segment, UAH mln (excluding VAT)

	2008	2007	Change, 08/07
Pavlogradskaya Coal Enrichment Plant	16.1	20.5	-21.5%
Kurakhovskaya Coal Enrichment Plant	8.1	2.8	189.3%
Dobropolskaya Coal Enrichment Plant	10.8		n/a
Oktyabrskaya Coal Enrichment Plant	5.9		n/a
Mospinskoye Coal Refinery	0.2	6.5	-96.9%
Ecoenergoresource	1.0	4.7	-78.7%
Total	42.1	34.5	22.0%

Main investments in the coal enrichment segment, UAH mln (excluding VAT)

	2008	2007	2006
Pavlogradskaya Coal Enrichment Plant			
Modernization of the hydro-sludge system	1.1	1.4	
Reconstruction of the tailings storage to ensure accident-free operation	2.2	5.1	
Introduction of separation system for dry residue of 0-2 mm		2.5	
Introduction of a automated impulse pneumatic suspension system for loose soils in the bunkers	0.5		
Modernization of the ventilation system for the coal-receiving facility	0.2		
Work to increase the section capacity of tailings storage #1a		0.2	6.4
Restoration and refitting the #2 drying aggregates			2.3
Oktyabrskaya Coal Enrichment Plant			
Construction of a 1st line soil collector	0.2		
Total for the coal enrichment segment	4.2	9.1	8.6

(the collapse of deposits with the help of air flow introduced into the bunker under high pressure) helps achieve the aim of eliminating deposits without the use of water. It is expected that the introduction of this method will reduce production downtime for proportioning and accumulating bunkers and loss of time spent cleaning bunkers and equipment.

In 2008, equipment was purchased and a significant portion of the work completed, and the system is due to be commissioned in 2009. Total investment in the project amounted to UAH 476.8 ths, with UAH 455.9 ths apportioned for 2008 and UAH 20.9 ths for 2009. In addition, work began at the enrichment plant to modernize the ventilation system that was installed in 1974 in order to comply with the Law of Ukraine “On protection of the atmosphere”. In 2008, work was done to develop design documentation at a cost of UAH 161.8 ths.

In 2008, implementation of a major investment project for the construction of new soil collector began at the Oktyabrskaya Coal Enrichment Plant. The project budget is UAH 17.3 mln and UAH 151.5 ths of that sum was used in 2008.

Investment projects in the electrical power generation segment

Vostokenergo

Vostokenergo is one of few generating companies in Ukraine that is in the midst of a major construction programme. In the last five years the total investment volume in the business rose fourfold, and in 2008 the volume of capital investment doubled in comparison with the previous year, totaling UAH 363.7 mln. This significant increase in capital investment in 2008 is due to the start of a reconstruction project for a power unit at Vostokenergo. In particular, the first step of the programme has been implemented. Reconstruction of power unit #2 at the Zuevskaya TPP and power unit #5 at the Kurakhovskaya TPP has been completed.

Vostokenergo is one of the first power generation companies in Ukraine that has begun to restore generating capacity in its units. As part of this, capital maintenance was performed on unit #11 in 2004, unit #15 in 2006, and on unit #14 at the Luganskaya TPP. After maintenance of the power units, the designed capacity was restored from 175 MW to 200 MW. As a result, the installed capacity of the Luganskaya TPP increased by 75 MW, while at the same time electrical power production costs fell.

In 2008, reconstruction of the unit #2 was completed at the Zuevskaya TPP, which lasted 6.5 months. On January 8, 2009, the unit was plugged into the Ukrainian energy system. After work was finished, the installed capacity increased from 300 to 320 MW. During reconstruction, work was done to modernize the turbine, boiler, electric precipitator, distribution equipment, electric equipment and electric wires for the raw coal feeders. During reconstruction, new technical solutions were applied to running parts of the turbine.

In addition to raising the installed capacity as a result of unit reconstruction, the reliability of work performed by equipment significantly increased, and the maneuverability range of the unit was raised by 45 MW. Reconstruction helped to lower the production cost of electrical power at the Zuevskaya TPP by 1.7% and expenses on coal equivalent consumption by 16 g/kWh. The service life of the unit’s main nodes was extended from 15 to 25 years.

Capital expenditures in the generation segment (Vostokenergo and Tekhrempostavka), UAH mln (excluding VAT)

	2008	2007	2006	Change, 08/07
Management bodies	2.1	2.1	2.0	0
Zuevskaya TPP	142.8	9.4	25.5	1,419%
Kurakhovskaya TPP	194.7	60.8	34.8	220%
Luganskaya TPP	24.1	46.5	41.0	-48%
Total	363.7	118.9	103.3	206%

In 2008, reconstruction of power unit #5 at the Kurakhovskaya TPP was conducted. Reconstruction of this unit included modernizing the low-pressure cylinder of the turbine, the turbine regulation system, the boiler, the generator, the feeder pump and the transformer, as well as the electric precipitator and control and management system of the unit. A progressive automated system for managing technological process was also installed. Introducing this equipment at an old model of a typical unit with a capacity of 200 MW is the first experiment of its type in Ukraine. This will help to reduce manual work in the power unit management process. In turn, this raises the reliability and life of the equipment, and well as the quality of function. After the modernization project is finished, the installed capacity of the unit will increase from 210 MW to 221 MW, and the dust emissions in the environment will be decreased twofold.

Another major project in 2008 was the complete overhaul with the restoration of elements of cooling stack #2 at the Zuevskaya TPP. Maintenance was performed over 7.5 months on the monolith reinforced concrete shell of the 150 m. cooling stack. The water distribution system and the spray blower were completely replaced, and the asbestos-concrete sprinkler was replaced with a durable polymer.

It is expected that, as a result of the maintenance, the cooling efficiency of the cooling stack will increase by 3% from its designed level and this will reduce the consumption of coal equivalent by 3.9 g/kWh. The modernization of both cooling stacks (complete overhaul on cooling stack #1 was performed in 2006), will reduce coal consumption by 26.4 ths tons per year, which will reduce expenses at Zuevskaya TPP for producing electrical power by UAH 10 mln a year.

Main Vostokenergo investment projects, ths UAH (excluding VAT)

	2008	2007	2006
Zuevskaya TPP			
Complete overhaul of unit #3			15.8
Complete overhaul of cooling stack #1			5.8
Reconstruction of power unit #2	90.9	3.2	
Complete overhaul with minor reconstruction to cooling stack #2	30.9		
Kurakhovskaya TPP			
Complete overhaul of power unit #9			18.2
Construction of section #1 of the second level of the ash dump at the Sukhaya Balka		6.6	5.7
Complete overhaul of power unit #3		32.6	
Reconstruction of power unit #5	135.3	4.9	
Complete overhaul of power unit #4	34.5		
Luganskaya TPP			
Construction of section #2 at ash dump #3			9.4
Complete overhaul of power unit #14			24.9
Complete overhaul of power unit #9		35.6	

Since 2007, a large-scale reconstruction programme for the power units at Vostokenergo TPP has been under way. Modernization will help to increase the capacity of power units, raise their maneuverability and also significantly improve environmental indicators.

It is expected that implementation of the entire programme will give the company a significant rise is energy efficiency figures. Specific fuel consumption will reduce to 366 g/kWh from the current 390 g/kWh and, as previously, gas will be used only for power unit startup and supporting its work in a maneuverable mode. Its specific weight in the fuel balance will not exceed 1%.

As part of the reconstruction programme, the first step of modernizing the DTEK electricity generating enterprises was completed in 2008. Reconstruction of power unit #2 at Zuevskaya TPP was finished, and modernization of unit #5 at the Kurakhovskaya TPP is in its final stage. This year, work was commenced on the second step of the programme, which will include reconstruction projects for unit #1 at Zuevskaya TPP, unit #7 at Kurakhovskaya TPP and the #10 unit at Luganskaya TPP. At present, favorable conclusions on feasibility studies for these projects have been received from the regulatory authorities. Tender procedures have been partially undertaken already. Documents have been prepared and presented to the NERC in order to obtain investment contributions for the third step of reconstruction.

Through 2016, DTEK plans to invest around UAH 8.4 bln in modernizing its generating enterprises, based on the assumption that reconstruction will take place at 2-3 Vostokenergo power units annualy. Despite the difficult economic situation in Ukraine, the company is not abandoning plans to modernize its assets.

Dneproenergo

Expenditures on maintenance and reconstruction of power units at Dneproenergo enterprises in 2008 totaled UAH 406.5 mln. In 2008, the following maintenance work was conducted:

- Intermediate maintenance was performed on power units #2, #8 and #10, as well as regular maintenance on power units #1, #4, #5 and #6 at the Krivorozhskaya TPP.
- Intermediate maintenance was completed at power unit #11, and regular maintenance was performed at power units #7, #8, #10 and #13 at the Pridneprovskaya TPP.
- Current maintenance was performed on power units #1-5 and #7 at the Zaporozhskaya TPP(i.e. at all power units, with the exception of power unit #6., which has been closed down).

The average length of regular maintenance at a power unit in 2008 was 31 days, while intermediate maintenance lasted an average of 98 days. In 2008, reconstruction began on power unit #3 at Krivorozhskaya TPP with an installed capacity of 282 MW. The total capital investment was UAH 9.8 mln.

Reconstruction is planned to continue in 2009-10 and be completed in 2011. After the complete overhaul, it is planned to restore generating capacity for the power unit equal to 300 MW.

Reconstruction began on power unit #9 at Pridneprovskaya TPP with an installed capacity of 150 MW. The total investment in 2008 was UAH 7.3 mln. Reconstruction will continue in 2009 and finish in 2011.

In addition, in 2008, the power unit #10 of Krivorozhskaya TPP was put into operation after being shut for 12 years. As a result of the unit coming on line, Ukraine's energy system acquired an additional 300 MW of capacity and the installed capacity of Krivorozhskaya TPP reached 2,820 MW. Around UAH 132 mln was spent on the re-activation of the unit.

Investment projects in the electrical power distribution segment

The companies in DTEK's distribution segment, Service-Invest and PES-Energougol, conduct a number of investment programmes aimed at raising efficiency of their assets. In 2008, the DTEK investment programme for the distribution segment increased by 59.2% and totaled UAH 110 mln.

Key areas of capital investments are:

- Reconstruction and major construction of electricity transmission lines;
- Reconstruction of substations and distribution libes;
- Renovation of the record-keeping equipment;
- Introduction of an Automated Commercial and Energy Accounting System (ACEAS) and Automated System of Dispatch Control (ASDC).

In addition, as part of the programme, service centers have been created within DTEK's companies in order to develop a client-centered business.

The primary sources of capital expenditures are tariffs, amortization, loans and the companies' own funds. For each company, detailed plans for technical upgrades have been developed for the next 10 years. Investment programmes are developed on the basis of long-term plans, which are subject to approval by the NERC.

Service-Invest

In 2008, reconstruction was completed of the Enakievo substation with a capacity of 110 kW. Investment in the project totaled UAH 11.8 mln, which was used to replace the power transformer and the reconstruction of the 35 kW outdoor switchgear, the 6kW apparatus for relay protection and automation as well as the circuitry for secondary commutation. The total amount of investment in the project was UAH 29.7 mln.

Reconstruction work began on the Konstantinovka substation with a capacity of 110 kW. Within the first step of the project, the power equipment and the apparatus for relay protection and automation were replaced. The project had a total cost of UAH 31.8 mln and was aimed at supporting production capacity in the industrial areas in the city Konstantinovka. UAH 28.9 mln was spent in the first step of the project.

The company finished the first step of the project to transform the Rutchenkovo substation from a 35 kW voltage level to 100kW, where 35 kW overhead lines from Donetsk to Rutchenkovo with a length of 8.7 km were reconstructed. This project represents a cost of UAH 47.7 mln and has strategic significance for the city of Donetsk. The implementation of the project will help lighten the centers in the electric grid, and also will provide for further development in the industrial and urban sectors. The total cost for the first step of the project was UAH 9.8 mln.

Obligations to SE Energorynok to bring metering points for accounting for electric power that are part of the acquired network in the Dnepropetrovsk region into regulatory compliance have been fulfilled. Investment totaled UAH 0.9 mln. This project is one of the steps in building and automated commercial and energy accounting system for electrical power.

Work was done to introduce local automated dispatcher control systems at the company's energy facilities. The investment totaled UAH 3.8 mln.

PES — Energougol

In 2008, the first stage of the project for construction of the Budenovskaya 35/6 kW substation was successfully completed. This project is aimed at increasing the reliability in the energy center and for providing growth in the electric load for regions in Donetsk and Makeevka. Capital investment in 2008 totaled UAH 8.0 mln. Project completion is planned for 2009.

Investments in the DTEK distribution segment, UAH mln (excluding VAT)

	2008	2007	2006	Change, 08/07
Service-Invest	74.3	52.1	33.5	41.5%
PES-Energougol	36.3	17.0	11.9	113.5%
Total	110.0	69.1	45.4	59.2%

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Main investment projects in the distribution segment, UAH mln (excluding VAT)

	2008	2007	2006
Service-Invest			
Reconstruction of the Konstantinovka 110 kW substation	28.9	0.5	
Reconstruction of the Enakievo 110 kV substation	11.8	17.8	0.2
Transfer of the 35xB Rutchenkovo substation to a voltage of 110 kW	9.8	0.4	
Organization of the ASDC	3.8	1.7	1.3
Introduction of the Automated Control and Energy Accounting System (ACEAS)	0.9	2.1	7.1
Reconstruction of the 110 kW Donetskaya substation		1.4	9.0
PES-Energougol			
Construction of a new Budenovskaya 35 kW substation	8.0		
Improving the accounting for electrical power	2.0	1.7	1.6
Introduction of the Automated Control and Energy Accounting System (ACEAS)	0.3		
Reconstruction and major construction of 0.4 kW overhead and cable lines	3.8	1.3	0.1
Technical refitting of 110 kW outdoor switch-gear and contral current sources for YUD-1 110/6 kW substation		2.0	0.1
Connecting new consumers ("Amstor")	0.2	2.8	
Total	72.8	39.2	23.0

Work continued on the project to bring all of the metering complexes for accounting for electrical power into accordance with normative documents and legislation in the energy sector. Investment in 2008 totaled UAH 2 mln with a total project cost of UAH 12.7 mln.

In 2008, work continued on the project to introduce an automated control and energy accounting system for electrical power with a total cost of UAH 3.3 mln. Investment in the project in 2008 totaled UAH 0.3 mln.

The projects mentioned above are aimed at reducing both technical and commercial losses of electrical power.

With the goal of improving the electrical network grid and its development, a project is being implemented for restoration and major construction of 0.4 kW electric power lines, which should reduce technical losses of electrical power and provide the necessary level of voltage for home consumers. In 2008, investment for this stage of the project totaled UAH 3.8 mln.

Donetskoblenergo

DTEK is the largest minority shareholder of Donetskoblenergo, with a stake of 30.59%.

As of January 1, 2009, Donetskoblenergo had 69,700 km of transmission lines providing electricity to the Donetsk region, of which 7,500 km had loads of 35-110 kW. The company owns 371 transformer substations with an overall capacity of 8,310 MVA.

In 2008, its electricity purchases on the wholesale market totaled 11.1 bln kWh, 2.5% lower year-on-year.Meanwhile, transmission through the network of Donetskoblenergo came to 9.2 bln kWh, down 2% year-on-year. The main reason for the fall was that in June, Donetsk Railways obtained a license in June and began to independently deliver electricity at the regulated tariff. Another cause was the drop in demand from the metals and chemicals industries as of October due to the general decline in industrial activity in Ukraine.

In 2008, electricity losses amounted to 23.25%, down 2.8 percentage points year-on-year and 10.44 percentage points lower than in 2006. Over the last few years, the company has introduced various measures aimed at reducing losses across its networks. These include replacing old electricity meters, certifying metering points for consumers, and ending the practice of meter-free consumption by individuals.

Donetskoblenergo's main consumers are individuals (34.5%), the metallurgy industry (11.8%) and the company Donbass Water (9.0%).

Donetskoblenergo's tariffs are regulated by the state. In 2008 , the tariffs changed four times due to initiatives by the NERC, after Donetsk Railways began supplying electricity and when Donetskoblenergo's wage pool increased.

In 2008, repairs were carried out on 786.76 km of high-voltage lines (35-110 kW), 1,785.9 km of lines with loads of 0.4-10.0 kW, and 691 transformers (35-110 kW) with

Production capacity of Donetskoblenergo

	2008	2007	2006
Length of lines, km			
110 kW	3,768	3,761	3,732
35 kW	3,710	3,703	3,687
0.4-10 kW	62,227	62,369	64,216
Total	69,706	69,833	71,635
Number of substations			
35 kW	259	260	257
110 kW	112	112	113
Total	371	372	370
Transformer capacity, MVA			
35 kW	2,945.5	2,951.7	2,944.3
110 kW	5,364.2	5,355.7	5,415.7
Total	8,309.7	8,307.4	8,360.0

Tariffs for electric power transmission and supply at Donetskoblenergo, UAH/MWh

	01.11.2008	01.07.2008	01.06.2008	01.01.2008
Transmission tariff				
1 class	26.34	24.81	21.84	20.40
2 class	114.52	107.62	94.28	91.95
Supply tariff				
1 group	5.60	5.11	4.16	4.06
2 group	28.00	25.54	20.80	20.29

Financial indicators for Donetskoblenergo, UAH mln*

	2008	2007	2006
Revenue	3,002.9	2,373.1	1,974.6
EBITDA	21.4	- 230.1	—
Operating profit	- 49.1	- 290.0	- 614.1
Net profit	-4.0	- 295.3	- 618.6

an overall capacity of 411.4 MVA. Spending on repairing transformer substations and high-voltage lines came to UAH 22.8 mln, while repairs to distribution networks cost UAH 44.3 mln.

In 2008, revenues totaled UAH 3 bln, up 27% year-on-year. EBITDA finished in the black at UAH 21.4 mln, following the loss of UAH 230.1 mln in 2007. Operating losses amounted to UAH 49.1 mln, which is 5,9 times less than the similar figure for 2007. The bottom line moved closer to being positive, with a net loss of UAH 4 mln, compared with losses of UAH 295 mln in 2007 and UAH 619 mln in 2006.

* Financial data provided according to the Ukrainian accounting standards.

Wind power

Sector

The development of renewable and environmentally clean sources of energy, including wind power, is one of the strategic government objectives in Ukraine. Today, the national economy is one of the most power-consuming economies in the world and a large part of the fuel balance in the country is made up of imported gas. The government plans to systematically increase the share of renewable sources in the balance and bring it up to a level of 13% from the current level of 0.83% by 2030.

As of today, wind power in the country is not sufficiently developed. At the end of 2008, the total installed capacity of wind power plants (WPP) was 83 MW. Commercial development of wind power takes place, but with outdated equipment and with low efficiency.

In order to stimulate the production of wind power from environmentally clean sources, the Ukrainian legislation stipulates a special regime of tariff formation for WPPs.

At the current time, the cost of wind power produced at a WPP is higher than cost of power produced using traditional sources of energy. However, the cost calculation does not usually account for hidden cost factors, under which expenses for restoring the natural environmental balance rise, such as recycling radioactive waste from nuclear power plants and mitigating the impact of man-made emissions at coal power plants. In addition, the obligatory environmental payments associated with thermal generation are not applicable to WPPs.

"Wind Power" Project

DTEK's strategy envisions development of wind power as an independent and one of the most promising direction for business. In 2008, the DTEK Development Strategy Concept was approved for this segment. To implement this strategy, the company "Wind Power" was created, which will run the entire project chain: from the design stage to operation of the completed WPP.

With the scale of production and scale of technology and turbine power, the project is a new one both for DTEK and the Ukrainian power industry as a whole. Over the long term, design and construction are envisioned with an overall generating capacity of 2000 MW. The project will be carried out gradually in several stages.

The first step foresees the selection of a site that is potentially suitable for locating the WPP, as well as beginning the procedure for measuring wind potential. According to generally accepted international practice, the period required for conducting wind monitoring should range from 12-24 months. During the second stage, the plan envisages agreement on the location of the WPP, the development of design documentation, selection of contractors and equipment suppliers and obtaining of the necessary permits. The third stage is planned for construction. Consequently, the process should take 2-3 years from deciding to begin construction to operational launch of the WPP.

In 2009, DTEK intends to begin monitoring wind at sites that permit locating a first phase WPP with an overall capacity of 800 MW. The estimated expenditures for the project in 2009 are minimal. They are limited to operational and administrative expenses, expenditures for selecting potentially suitable sites and obtaining meteorological equipment for measuring wind potential.

Social consequences

The development of environmentally clean types of energy from renewable sources has large social significance that cannot always be represented in financial terms, but is nonetheless important for Ukraine. First and foremost, it involves the reduction of emissions of greenhouse gases, carbon dioxide and nitrogen oxide into the atmosphere. 1 MW of wind power reduces yearly atmospheric emissions by 1,800 tons of CO_2, 9 tons of SO_2 and 4 tons of nitrogen oxide. In addition, developing alternative energies creates jobs in scientifically intensive fields, helps in the adoption advanced manufacturing technologies and protects natural resources. According to DTEK calculations, the construction of a WPP with a capacity of 800 MW will create around 1,500 jobs, and the average annual contributions to the budget on all levels will total around UAH 665 mln.

DTEK views wind power as a strategic project that will allow the Company to diversify its assets in the long-term and take a leading position on the quickly growing market of alternative energy.

Recycling methane gas

A pilot project for degassing and recycling methane gas was launched in 2007 at the Komsomolets Donbassa mine. Its main goal is to achieve a significant reduction in gas emissions into the atmosphere, provide additional revenues from economizing coal by capturing mine energy, and also raising the level of industrial safety in the mine.

The reconstruction of an underground and surface degassing system, introduction of new technologies for mining gas, and modernization and replacement of mine degassing equipment is planned under the project. The development and approval of an emission plan, assembly of a gas-recycling installation, transfer of a shaft boiler to methane and installation of a cogeneration thermal power plant (CTPP) are all provided for within the project for recycling methane emitted from the mine.

In 2008, the Company completed work on modernizing the degassing system, transferring the boilers to gas (at 90%), and methane flaring installations were put into use. The aggregate investment total in the project under year-end results was UAH 18.2 mln. This year DTEK plans to complete the transfer of boilers to gas, complete design work for installing cogeneration plants, and also conduct the first verification of emission reduction units (ERU). The final completion of modernizing the mine degassing system is also planned. In 2009, the Company intends to invest UAH 12 mln in the project, and also install a CTPP from the sale of produced ERU up until 2012.

The DTEK emission project was registered by DTEK with the UNFCCC Secretariat in 2008. During the accounting period, 1.2 mln m^3 of methane was recycled, which equals 18 ths tons of CO_2-(equivalent). By 2012, the volume of recycled gas will total 15.5 mln m^3 yearly and the amount of coal saved will reach 20 ths tons a year. Methane flaring in the shaft boilers will help reduce emissions in the atmosphere 21-fold.

The mine methane recycling project is a shining example of economically efficient projects aimed at protecting the environment. At the present time, the company is conducting preliminary work for the implementation of a similar project at the Zapadno-Donbasskaya mine (Pavlogradugol).

Corporate social responsibility

The year 2008 was a period of steady development and a systematic approach for integrating corporate social responsibility (CSR) principles into DTEK's strategy and current operations. Today the Company divides its social responsibilities into three main areas:

- Responsibility to its employees: creating optimal conditions for development and career growth, providing the safest possible working conditions and appropriately appreciating each employee's contribution to our overall success;
- Responsibility to the communities of the region where our business is present — making a long-term contribution to the social and economic development in the areas where we conduct business;
- Responsibility to society as a whole — lowering the man-made impact on the environment by implementing safe technologies.

During the reporting period, DTEK made significant steps in developing its CSR. According to expert evaluations, DTEK became one of the leaders in the field of CSR among Ukrainian businesses. This was made possible by the launch of innovative social partnership programmes in the regions where the Company is present, the implementation of targeted programmes for environmental and workplace safety, enhancing the attention paid to our personnel in changing conditions, and also making active efforts to widen a constructive dialogue with interested parties.

Important benchmarks set by the Company in 2008 in the CSR field were:

- Approving and putting into effect a CSR Policy and Code of Corporate Ethics;
- Preparing and issuing the DTEK Social Report, which was the first non-financial report issued by a Ukrainian industrial company, and which was prepared on the basis of international standards and subjected to an independent review;
- Developing and signing the DTEK Declaration on Social Partnership, which is the core document defining goals, principles and methodology for the Company's interaction with local communities and government bodies

CSR Policy

DTEK views CSR as (1) an integral tool for managing risks, (2) a way to raise management efficiency and (3) relationship with local communities with the goal of effectively cooperating in the social and economic development of the country and regions where we have a presence. The Company's activities in the CSR field are closely linked with its business strategy and one of the most important factors in our long-term stability.

After publishing DTEK's CSR Policy draft at the end of 2007, discussions were organized among employees during the reporting period. The Polisy draft was also discussed in course of the company discussions with the most active segment in society — representatives of non-governmental organizations (NGOs). The finelezed text was presented at the Corporate Governance Conference and after a final discussion was approved by DTEK management.

The Policy defines CSR goals and strategy that are directly linked to Company strategy and measures to provide for its steady development. According to the Policy, one of such of measures is to identify interested parties and influential groups which are a priority for the Company, determining their expectations and developing effective forms of communication ranging from dialogue to potential joint projects and programmes. The Policy formulates goals and principles of DTEK activities in such fields as corporate governance and business ethics, working conditions, environmental protection, relationships with the local community, sponsorship and charity. With the goal of integrating CSR Policy into the governance system, a section is dedicated to its implementation, adherence to and responsibilities. The CSR Policy is published on the company's site in three languages.

Simultaneously with the CSR Policy in 2008, a Code of Corporate Ethics was approved by DTEK that had been published in draft form and circulated for widespread discussion until its final approval at the Corporate Governance Conference. The Code is the first document in which regulated norms and principles of corporate ethics are brought together and approved at the level of top management. In addition, the Code of Ethies is also aimed at both DTEK's employeers and outside stakeholders. The Code contains principles of ethical behavior for both the Company itself and its employees.

Social reporting

The DTEK Social accountability Report, 'Energy of a Leader: Social Dimension', released in 2008, was the first wide-scale report by an industrial company in Ukraine about corporate social responsibility. The report was prepared on the basis of internationally recognized systems and standards of social reporting (Global Reporting Initiative — GRI, and series AA1000) and subjected to an independent audit by Ernst & Young. The report was released and distributed in both print and electronic versions. In the future, DTEK intends to release social responsibility reports every two years.

Social partnership, development and introduction of better practices

A DTEK Social Partnership Declaration was developed and signed in 2008. This is a core document that defines the goals, principles and methodology for cooperation with local government bodies. In order to ensure the transparency and effective implementation of the Declaration, the Coordination Committee for Social Partnership was created as a mechanism for participants to plan join action and discuss their results. The Social Partnership Declaration is a long-term document, open for third parties, who share the principles of dialogue, openness and respect of mutual interests, to join (the text is published on the DTEK site).

Encouragement of social and economic development

As part of the practical realization of the Declaration, more than UAH 6 mln were directed toward implementing social programmes in 2008, a two-fold increase compared to 2007. In Pavlograd, the building housing the children's wing of city hospital #1 was completely renovated; modern computer and multimedia equipment were acquired for city schools and grants were established for gifted children. In the city of Pershotravensk, a programme for collection, transport, processing and recycling of solid domestic waste was extended. With the Company's financial support, a mobile digital fluorograph was acquired in the Pavlograd region. A full renovation was carried out of the Center for Children's Creativity in Ternovka. Modern electric stoves were installed in the canteens of twelve comprehensive schools in the Pavlograd region, an electronic catalogue was created in the Kirovskoe city library, the gym in the Yubileiniy Stadium was renovated and a stationary sound system was acquired for the cultural center. Funds were allocated for the development of Youth Sports School #5 in the city of Kurakhavo; equipment for the surgery section in the local city hospital was replaced and a rehabilitation center for handicapped children was built. In the city of Zurges, a large part of the funds was directed to the development of housing facilities: providing a stable reserve of potable water supply and heating for social institutions.

DTEK partner projects

In October 2008, at a joint conference on Local Economic Development (LED) was held in Kiev to present the preliminary results of a joint project between DTEK and the United States Agency for International Development (USAID). As part of the project, expert and practical assistance was provided to local government bodies in seven cities and two regions where the Company is present. Assistance was provided in organizing the strategic planning process with the goal of increasing competitiveness and attracting investment.

In 2008, together with the Eastern Europe Fund, the Clean Park project was implemented, which was aimed at organazing the inhabitants of the town of Zurges to clean and improve the Pevchaya Balka city park and rebuild the recreation area on the banks of the reservoir. To attract more people, the project presentation was organized as a theatrical show with contests between schoolchildren and local inhabitants. The project laid the foundation for the resulting improvement of the environmental situation in the town. The geological research conducted during the project provides the opportunity to plan for development of the land, formulate an appropriate budget and attract investment in the future.

DTEK devotes considerable attention to the development and implementation of best CSR practices. The Company provided sponsorship support for the Second International Conference 'CSR: a Civilized Economy is a Civilized Society' (Kiev, April 2008). DTEK acted as the general sponsor for the publication of 'Corporate Social Responsibility. Expert Evaluation and Practice in Ukraine', which is intended for top and middle managers, government and municipal workers, employees in social organizations, and journalists writing about CSR.

Business and human rights

In 2007, DTEK joined the UN Global Compact and in 2008, became chairman of the Business and Human Rights working group within the Ukrainian network of the Global Compact, which unites leading Ukrainian companies. DTEK took the initiative for developing the Joint Declaration of Ukrainian business leaders that was published in the leading Ukrainian of mass media in recognition of the 60th anniversary of the adoption of the Universal Declaration of Human Rights by the UN. The Declaration confirms the commitment to respect and promote the internationally recognized principles of human rights. The document puts forward practical objectives for the activity of companies in sphere of human rights as an indispensible part of the corporate responsibility of a business.

With the support of DTEK, together with the non-governmental organization Center for Development of Corporate Citizenship and the UN Representative Office, the first study seminar dedicated to the difficult issues of human rights and their effect on modern business was organized in 2008. During the seminar, specialists from the Danish Institute of Human Rights acquainted Ukrainian companies with tools for evaluating risk connected with human rights violations, and helped to establish a system for understanding the interrelation between human rights and business operations.

Personnel

Maintaining effective relationships with employees and the development of human resources are one of DTEK's strategic priorities. The Company is highly aware that the growth, retention and strengthening of our leading market positions are impossible without highly-qualified and motivated personnel. Therefore, a key direction in the overall development strategy for DTEK is implementing a long-term policy in the area of employee relations.

Long-term priorities for DTEK employment policy are:

- Attracting, motivating and retaining talented specialists and specialists who take the initiative;
- Constantly refreshing employee knowledge and skill development;
- Developing management potential and providing highly-qualified and stable management of the Company;
- Creating and supporting favourable working conditions that protect the health of all employees;
- Forming the Company reputation as best employer.

Social protection of personnel

Company employment policy is based on strict adherence to Ukrainian legislation in the sphere of labour relations and also following the best international standards in this area. DTEK constantly supports a dialogue with trade unions, which enables an effective balance of interests between employees and the Company.

DTEK is a partner to industry agreements in the coal and energy industries. Collective bargaining agreements have been concluded between employees and the production enterprises, which is one more guarantee of protection of staff interests, as salary conditions, social benefits, payments to employees and retired pensioners, Company obligations for training personnel and labour protection are all reflected in the document, and apply to all employees that signed the collective agreement.

As a result of a planned raise in pay levels as stipulated by the industrial agreements for 2008-2010, the average wage during the accounting period overall in the Company rose by 41%.

Dynamics of DTEK headcount, ths people

Personnel development

In striving to provide avenues for further professional growth for all specialists, DTEK continued development of a training system and enhancing employee qualifications in 2008. During the reporting period, the Company carried out training and retraining for around 7,000 specialists in various fields. Against the backdrop of the situation occurring on the market and the need to optimize expenses, the DTEK adjusted its approach to training personnel, giving the priority to use of internal educational resources.

In 2008, through the efforts of employees in DTEK's department for assessment and development, the 'Skills for Effective Communication training programme was developed, organized and carried out. 112 directors from various management levels took part in the training. Accoding to plans, by the end of 2009, about half of training sessions on the development of DTEK employees' competences will be conducted by using internal resourses and top company managers (many of whom have teaching experience) will be enlisted to conduct a series of traning sessions. Similar practices will allow the Company to accomplish key objectives in the training field by incorporating all personnel in the training process, fine-tuning the developmental system for employees and expanding the practice of cross-training between different divisions, as well as formulating a foundation for DTEK Academy, our own corporate university.

With the goal of forming a stable governance system in the company, the TOP-50 Programme was developed and approved in 2008. This programme will allow the Company to strengthen its personnel potential and will facilitate lower risks for employees appointed to key positions. Work will continue in 2009 that will help, in the long term, to provide the Company with its own professional staff.

Another very important objective in the area of human resources management was the creation of a DTEK personnel reserve. Implementation of this project went on throughout 2008 and successively encompassed PES-Energougol, Service-Invest, the Komsomolets Donbassa mine and Pavlogradugol. In total, more than 5,000 people took part in the project during the year. The most promising employees joined the personnel reserve on the basis of the results of a multi-level selection process.

One more important event in 2008 was the launch of a management system for innovative ideas at DTEK enterprises. This project is intended to stimulate creative potential in employees and give them the opportunity to not only offer their opinions for improving production, but also to receive an appropriate reward for their ideas. The Innovation Committee, a collegial body at the Company, makes decisions about each suggested idea. In the event that one of the innovative ideas is accepted, the Company employee receives a Certificate for Technical Innovation and also is materially awarded for both the idea itself, as well as for the economic benefit that it brings to the Company through its use. At the end of 2008, 14 employees from Pavlogradugol were participating in this innovative programme. In 2009, the management system for innovative ideas will be gradually introduced at other DTEK enterprises.

Personnel headcount

There has been a tendency in the last four years for reduction of the number of personnel, which is linked to the modernization and optimization of the assets. In 2008, the number of DTEK employees decreased by 9%. The largest part of reduction occurred due to a natural outflow of employees (retirement, hiring freeze), and also due to outsourcing non-critical functions. DTEK became one of the few companies that didn't have mass layoffs or send employees on unpaid leave during the heat of the crisis in October-December 2008.

Safety

Just like caring for personnel, labour safety has large social and economic significance for the successful development of business. Therefore, DTEK puts a priority on this area of corporate social responsibility and has introduced a systematic approach for solving current and strategic objectives.

Staring from 2007, the Safety Policy has been in effect at DTEK for workplace and industrial safety, in addition to unified corporate standards that were developed within the framework of implementing a modern safety managment system in accordance with OHSAS 18001:2007 international standards. In October 2008, this management system successfully underwent a pre-certification audit, and in February 2009 a certified audit was conducted for the main industrial enterprises of the Company (Pavlogradugol, the Komsomolets Donbassa mine and Vostokenergo). Moody International conductedthe audit.

Targeted safety efforts have resulted in a significant reduction in industrial injuries at the Company's enterprises. According to 2008 results, the overall level of injuries fell by 36% and the frequency of accidents for every 100 workers during the year dropped by 35%. The number of major accidents fell by 65%. Today, the rate of industrial accidents at DTEK is significantly lower than rates at analogous Ukrainian businesses.

Policy and investment in workplace safety

DTEK has implemented a full range of measures in order to avoid and minimize injury-causing situations and employee actions. Adherence to labour safety regulations was put under the control of Company top management, who sees this as a strategic direction for industrial operations and the Management Committee for Labour Safety reviews progress of established goals and objectives under the direction of the Company CEO.

A system of internal audits and behavioral audits is in place at the Company's enterprises. An internal investigation takes place in regard to all incidents, including near misses. Also, all industrial risks are evaluated. Effective measures are developed according to the results of the evaluation in order to lower such risks to an acceptable level.

In addition, there is strict control over safety of contractors. A motivational system for employees has been implemented for accomplishments in the area of safety, as well as many other innovative management tools. A direct telephone line has been esteblished in the company where any employee can contribute suggestions for improving labour safety conditions as well as receive any type of consultation in this area. A special section was created in the corporate newspaper where the causes of incidents are analyzed.

DTEK invests the full amount of funds needed in order to support and modernize safety (a system of fire, lighting, alarms, degassing and control over containing mine gases, etc.) and also health services. A large amount of work is done in the field of labour medicine. "Risk groups" have been identified at our enterprises, including workers with cardiovascular and hypertension diseases that can lead to other health consequences when subjected to harmful and dangerous industrial conditions. Employees in this risk group are obligated to undergo a medical check-up prior to their shift. Only after the check-up are employees allowed to work.

Much attention is paid to education. All line directors at our industrial enterprises are trained annually on the corporate standards for labour safety, along with a follow-up evaluation of the effectiveness of the knowledge gained. Essential training equipment, offices for accident prevention, training and graphic materials and safety markers are renewed on a regular basis. All Company employees are completely equipped with modern and effective special clothing, footwear and general and individualized protective equipment.

Environment

DTEK operations are connected with production technologies that have a significant effect on the environment. An environmental balance is a necessary condition not only for constructive cooperation with government bodies and local communities, but also for the overall prospects of business development for the Company.

Ukraine's plans to integrate into the European energy space, as well as synchronize the energy systems of Ukraine and UCTE make it essential to abide by the most advanced environmental norms. The requirements for monitoring the environment are increasing. National legislation is changing significantly to bring it into line with European norms and environmental taxes and fees are growing.

For this reason, the Company devotes special attention to questions regarding environmental protection. Environmental risks within the DTEK unified system of risk management have been identified as a priority. DTEK has a Safety and Enviromental Department. There is an environmental service at all our enterprises that develops programmes with environmental protection measures and then coordinates the programmes with local executive governmental bodies and regional environmental inspectors.

The strategic goal of DTEK in the area of environmental protection is to raise the level of environmental safety and increase the capitalization of assets by providing reliable and non-hazardous production. The Company has outlined the following areas for achieving this established goal:

- introduction of a unified system of environmental management;
- implementation of a programme for fulfilling the requirements of Directive 2001/80/EU;
- execution of an environmental programme for coal and generating assets;
- implementation of projects to reduce greenhouse gas emissions into the atmosphere under the Kyoto protocol.

Environmental management system

In 2008, at DTEK enterprises, work began to introduce an environmental management system in accordance with international standards ISO 14001:2004. The system should become a component of the corporate governance system and an important tool for managing non-financial risks occurring in the Company.

The anticipated effects from the introduction of an environmental management system are:

- reduction of the negative impact on the environment;
- increase in the level of environmental safety at the Company's enterprises;
- more favourable conditions for attracting investment by reducing environmental risks;
- economizing energy and resources;
- engaging highly-qualified personnel.

All work to create the environmental management system at DTEK is due to be completed within two years.

Environmental programme

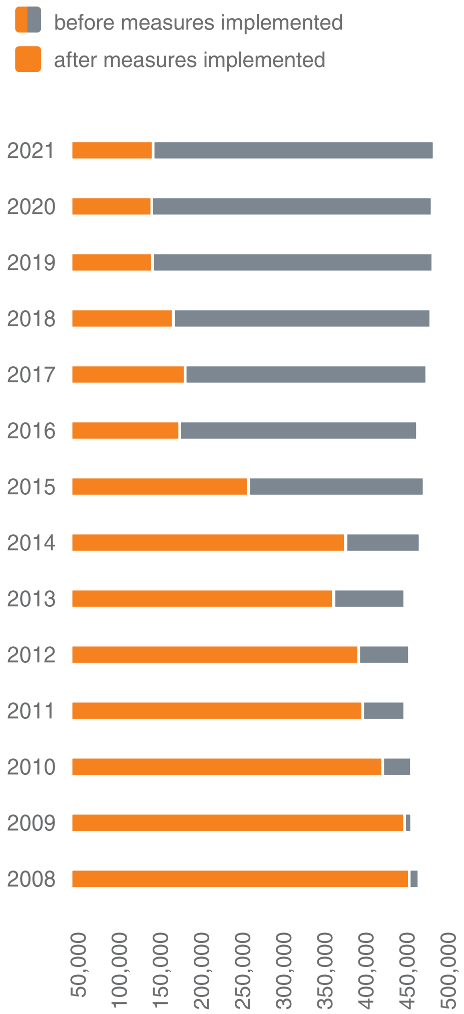
As of today, the DTEK environmental programme is aimed at solving the following problems that were inherited as a result of the privatization of state-owned enterprises:

- unsatisfactory condition of gas treatment equipment;
- outdated equipment and facilities for treating, transmission and discharge of sewage;
- significant volumes of extracted mine water in passing;
- flooded territory and affected land;
- waste disposal.

At present, these problems are in the process of being solved. Investment is being directed toward the renewal of environmental protection and production equipment, as well as modernizing the technological processes at our enterprises. In 2008, the overall amount of Company environmental expenditures grew 1.95 times in comparison with 2007 and totaled around UAH 178 mln.

A long-term programme for protecting the environment, designed to last until 2021, was developed and launched in the segment for electrical power generation. The sum of the proposed investment in the programme will total UAH 6,881.7 mln, including UAH 813.3 mln as part of the programme for the reconstruction of power generation units and UAH 356.8 mln for the reconstruction of electrical precipitators for the power generation units.

Total volume of harmful emissions tons/yr



Company profile
Business overview
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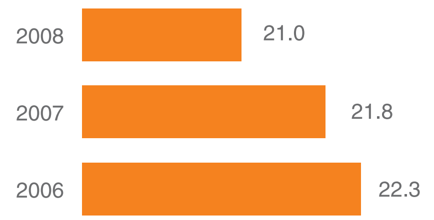
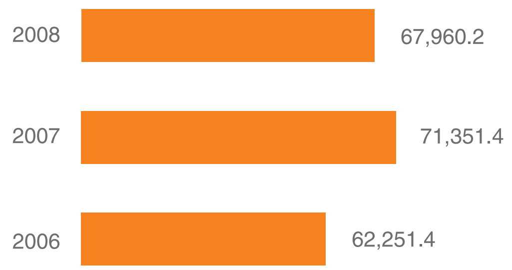
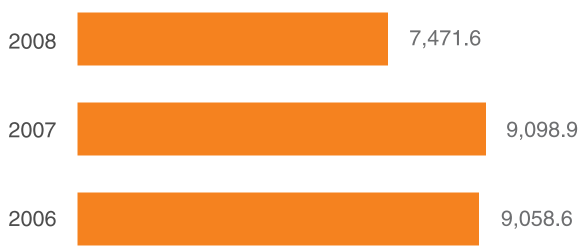
Greenhouse gas emissions recalculated as carbon dioxide, mln tons



Water consumption for industrial use, mln m³



Water consumption for regular drinking use, mln m³



Outcomes of environmental protection activity

Cleaning dust from the atmosphere

In 2008, DTEK modernized the electric precipitators in power unit #2 at the Zuevskaya TPP and also reconstructed the electric precipitator in power unit #5 at the Kurakhovskaya TPP. These measures will reduce the amount of dust emissions to 3,870.7 tons per year.

The efficiency of work performed by gas treatment stations has increased at our coal production and enrichment enterprises. At the Kurakhovskaya Coal Enrichment Plant, the industrial ventilation was replaced and a more efficient dust separation equipment was installed, which will reduce dust emissions by up to 9.5 tons per year.

Reduction of greenhouse gas emissions

The Company is developing projects aimed at reducing greenhouse gas emissions. In 2007, at the Komsomolets Donbassa mine, a project was introduced to utilize methane. During the reporting period, 1,200 ths m^3 of methane were utilized. In addition, two boilers from the mining boiler house were converted to methane for heat production. The methane is planned to be put into use in the boiler room during the heating season, as well as for producing electrical power.

In 2008, due to a reduction in use of coal equivalent, greenhouse gas emissions (recalculated as carbon dioxide) were reduced by 3.6% or 802,475.37 tons in comparison to 2007 recalculated as carbon dioxide.

Protection and rational use of water resources

One of the most important objectives for areas with limited water resources located in the region where the Company operates (the Donetsk region) is preserving water resources and solving issues for providing the population with potable water. Therefore, for example, the Zuevskaya and Kurakhovskaya TPPs actively participate in providing the neighbouring with potable water.

In 2008, due to renovation and organizational measures at DTEK enterprises, water consumption for household and practical needs was reduced to 1,627 ths m^3 (17.8% lower than in 2007). According to year-end results, water consumption for industrial uses was successfully reduced to 3,391.17 ths m^3 (4.75% lower than in 2007).

At the Komsomolets Donbassa mine, a project was developed to clean regular sewage from two industrial zones by using a new complex coagulant that will allow for maximizing cleanup. Project implementation is scheduled for 2009.

At Pavlogradugol, the mines use incidentally extracted water for technological uses, which helps save about 3 mln m^3 of potable water and reduce the environmental stress on the Samara river. With the goal of introducing methods of water decontamination, project documentation has been developed and old chlorine installations dangerous to the environment have begun to be replaced with new Flame decontamination equipment.

Waste disposal

The majority of waste produced by DTEK enterprises is not dangerous. However, due to a shortage of land, disposal of a large tonnage of coal variety waste is a very real problem. At the current time, ash waste from the Zuevskaya and Kurakhovskaya TPPs are transferred to consumers for use in construction. Coal enrichment waste from the Komsomolets Donbassa mine is used for fuel, which helps to greatly reduce its dispersal into the environment.

The Company is conducting work to enlarge the collection reservoirs for the coal enrichment plants and to clean them. This eliminates the need for allocating extra land for disposal of liquid coal enrichment waste. At the Pavlogradskaya Coal Enrichment Plant, a project is being implemented to modernize the hydro-sludge system, which will lead to a reduction of enrichment waste in the tailings storage by 724.2 ths tons from 2009–2017 (on average 80.5 t/yr).

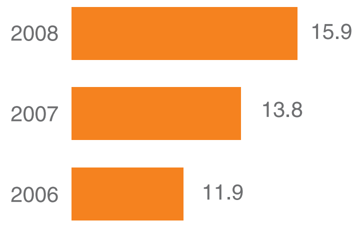
Rational land use

In Western Donbass, the coal deposits are located under the Samara river basin. Therefore, excavation is coupled together with sinking of the topsoil, flooding and waterlogged land. To restore the affected land, a specialized unit works within Pavlogradugol to remove mine waste and re-cultivate the land. Re-cultivating sinking and flooded land parcels occurs simultaneously with industrial operations. In 2008, 90 mln tons of earth was used for re-cultivation. Today, thanks to the re-cultivation work, half the Company's mines are without mine waste and, consequently, without additional allocated land.In addition, Pavlogradugol conducts compensatory planting of woodlands.

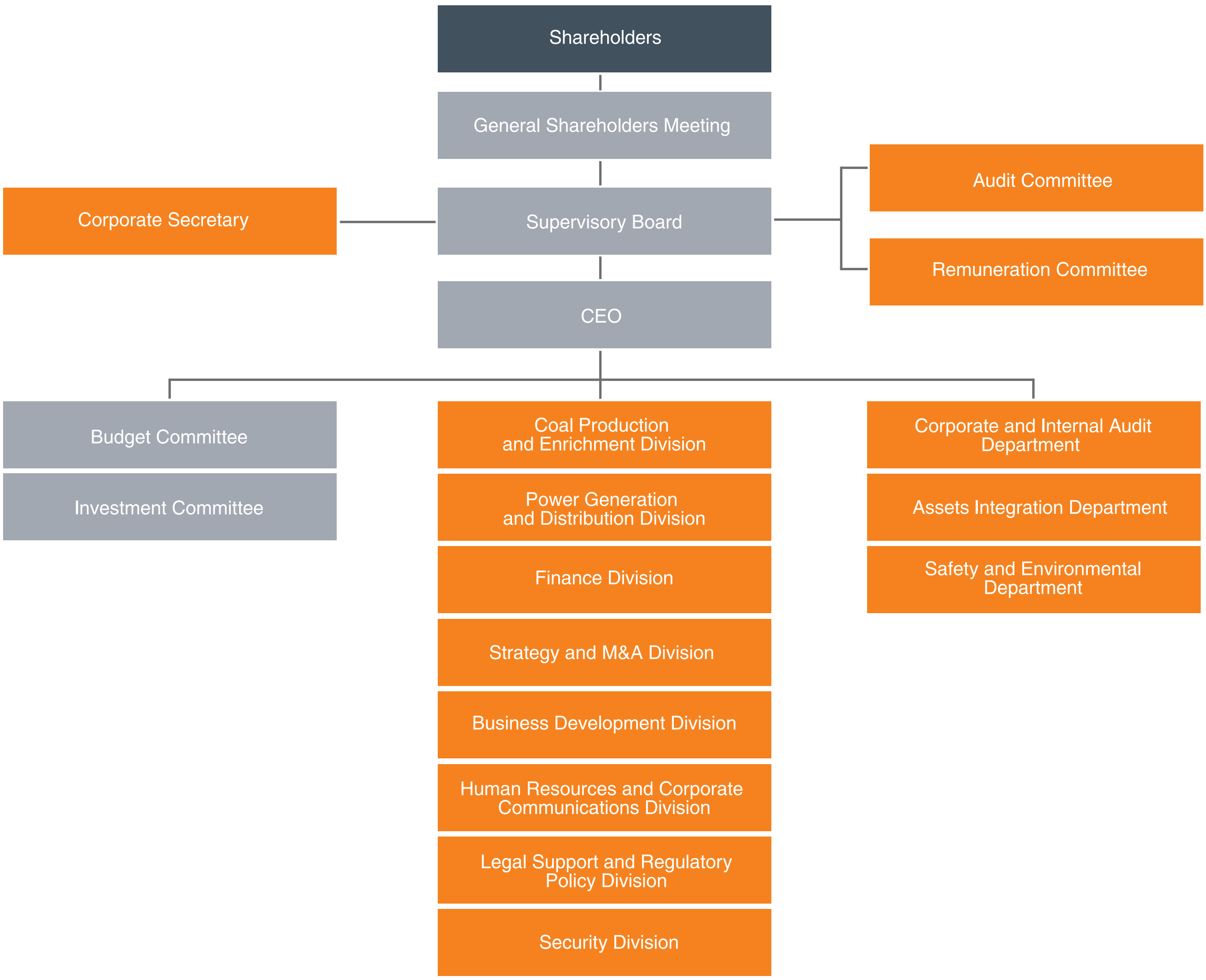
There is a drainage system to lower the level of groundwater in the area of the Verbky village in the Dnepropetrovsk region that protects 1,295 ha of woodlands from flooding.

The re-cultivated area of land in 2008 totaled 15.9 ha.

Re-cultivated land from 2006-2008, ha



Organizational Structure



In conjunction with introducing modern business processes and CSR standards, DTEK is building an effective system of corporate governance that is guided by the best international practices in this field. The Company views the creation of a management infrastructure as one of the most important factors for high level of competitiveness, dynamic growth and growth of Company shareholder value.

The system of corporate governance functioning within DTEK allows for a balance of interests between all interested parties, including the shareholders, management, employees and investors. The key objective for the system is the maximally effective interaction in the corporate relationships between the various parties, transparency in the decision-making process, and subordinated accountability in the management bodies. The existing system provides for timely and precise disclosure of information regarding all significant issues, stability in operational and financial activity, a transparent ownership structure and strategic developmental priorities for the Company. Taking into account DTEK's volume of business, one of the most important tasks for the Company is enhancing the management of the vertically-integrated structure, first and foremost by having coordinated interaction between the management bodies of the corporate centre and subsidiary companies.

The Company's intention to follow the highest ethical standards of business practices gave rise to adopting a DTEK Code of Corporate Ethics in 2008. In addition, during the accounting period, internal Company documents were developed and supplemented that regulate the competencies of a series of structural subdivisions and applied DTEK procedures, which have been approved in new editions by the Supervisory Board. Work on the Corporate Governance Code will be concluded in 2009.

Supervisory Board

The Supervisory Board is responsible for the overall management of DTEK's business activity, including actions related to representing the interest of shareholders, strategic management of the Group, forming and approving investment policy, approving deals and reports and also approval for the hiring and dismissal of top managers at the Company.

During 2008, the composition of Board members changed, while the overall number of members stayed the same. As of December 31, 2008, there were five directors on the Board. In line with international standards for organizing a Supervisory Board, one of the members is an independent director. In 2008, a new position of Corporate Secretary was created within the Supervisory Board in an effort to enhance the transparency and efficiency of the activities of the Supervisory Board on behalf of shareholders and investors.

In total, the Supervisory Boards reviewed 40 issues concerning approval of DTEK production and financial results for 2008, the results of work and plans in the area of corporate social responsibility, investment programmes, fundraising and integration results as well as restructuring of subsidiary companies. In addition, the Supervisory Board approved the work results of the executive management bodies and also internal documents regulating the organizational structure and activities of DTEK internal control bodies.

Committees under the Supervisory Board

The Audit Committee and the Nomination and Remuneration Committee work under the DTEK Supervisory Board. The committees are advisory and consultative bodies that review and prepare recommendations for functional corporate issues within the competency of the Supervisory Board. The committees conduct regular meetings in accordance with the work plan which is approved on an annual basis.

The Audit Committee monitors the system of internal control and risk management and the activities for the internal and external audit. Oversight of the verification of financial and management reports, as well as adherence to the Code of Ethics and legislation also falls within its area of responsibility. In addition, the Audit Committee formulates recommendations for selecting the external auditor to certify the annual financial statements.

The Nomination and Remuneration Committee is tasked with facilitating improvements in DTEK employment policy, with regard to attracting qualified managers to work at the Company and creating the necessary incentives for their successful work. The Committee prepares recommendations for the Supervisory Committee regarding the size of remuneration and compensation paid to DTEK management, the selection and confirmation of candidates for management positions, and also develops motivational programmes for top-managers. In 2008, with the direct participation of the Committee, a TOP-50 Successor Programme was launched. The committee also oversees corporate governance issues.

Oversight of the implementation of decisions by the Supervisory Board and its committees is carried out by the Company's Corporate Secretary.

Chief Executive Officer

DTEK maintains a single-member executive body in the form of the Chief Executive Officer (CEO), who oversees the operational management of the Company. Maxim Timchenko has been the CEO of the Company since its foundation.

Within the CEO's sphere of authority is the right to represent the interests of DTEK, conclude deals, dispose of property, open transactional and other accounts in banks or other credit organizations, issue orders and approve instructions, local normative acts or other internal documents.

The CEO is subordinate to the Supervisory Board.

Internal control system and audit

A multi-level system of internal control and audit functions within the Company, which provides for a high degree of transparency and supervision for financial and operational activity of all structured subdivisions and subsidiary companies. It has been built taking into consideration the best international practices and conforms to the approved policy for internal control and risk management. The Internal Control System is designed to achieve the business goals of the Company, including its strategic goals, ensure the security of its assets and the protection of the operations of DTEK and its subsidiaries and the reliability of its reporting systems and adherence to legislation.

As part of this system, DT EK maintains a Corporate Internal Audit Department that is subordinate to the CEO and which reports to the Audit Committee. These two bodies work in conjunction to approve the yearly audit plan based on an evaluation of the Company's risks. One of the Department's tasks is to conduct reviews in order to provide the Supervisory Board and the executive bodies with information regarding internal control and risk management in DTEK, including the reliability of financial and management reporting. The work of the Department is reviewed by the Audit Committee at its regular meetings.

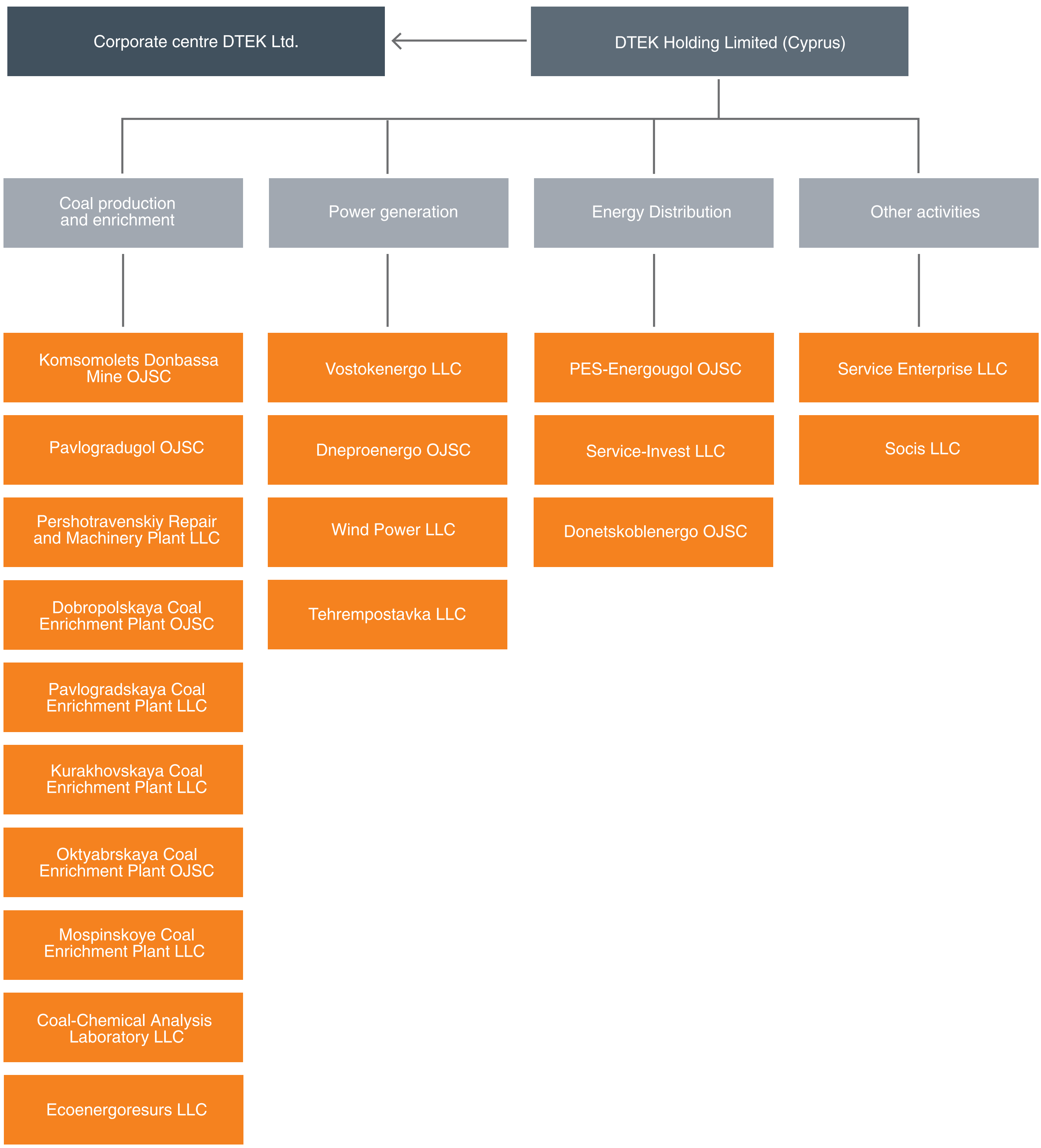
There is also an Internal Control and Risk Management Department in the Company working within the Financial Division. The primary task of the Department is to support the functioning of the system for internal control and risk management, including the conduct of corporate-wide risk assessments, maintaining a unified methodology and help in improving procedures for internal control. The Department also carries out management and coordination work for other divisions regarding issues of insurance as an instrument for offsetting risks.

Overall control over protection of assets as well as Company and subsidiary operations is managed by the Security Division. More over, in 2009 it is planned to implement a set of measures on the Company's regulatory and legal risks management. In 2009, a Policy for Fraud Risk Management is planned to be adopted. The Company will also put a "hotline" into operation for informing about fraud or violations of the Code of Ethics.

External auditor

DTEK engages an independent auditor to certify its financial statements on an annual basis. According to the results of a bid carried out in 2007, the auditing firm PriceWaterhouseCoopers (Audit) LLC was chosen. The Supervisory Board decision to use this company as the external auditor was reaffirmed in 2008 and 2009.

DTEK Assets Structure



MANAGEMENT

Yuriy Ryzhenkov Maxim Timchenko Vitaly Butenko Sergey Kordashenko Sergey Polianskiy
Evgeniy Romaschin Guerman Ainbinder

Maxim Timchenko
Chief Executive Officer

Maxim Timchenko has served as Chief Executive Officer of DTEK since July 2005. Prior to that, he worked as consultant in the multinational PricewaterhouseCoopers (1998-2002) and as a senior manager at System Capital Management. In March 2008, he was named the best top manager in Ukraine by the All-Ukrainian TOP-100 rating.

In 1997, he graduated with honors from Donetsk State Academy of Management with a degree in Production Management. He continued his education at the University of Manchester where he holds a Bachelor degree with honors in Economics and Social Studies. He is a member of the Association of Certified Chartered Accountants (ACCA).

Yuriy Ryzhenkov
Chief Financial Officer

Mr. Ryzhenkov has headed the DTEK Finance Department since September 2007. In 2002–2007 he was the Deputy CFO and CFO of the International Steel and Tube Industries Limited Group (ISTIL) (Donetsk-London). Prior to this, he worked in the financial and economic departments of the ISTIL Mini Steel Mill and the Donetsk Steel Works. In 2000, Mr. Ryzhenkov graduated with honors from King's College London (UK) with a Bachelor degree 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 an MBA with honors at the London School of Business.

MANAGEMENT

Vitaly Butenko
Chief Strategy Officer

Mr. Butenko has headed the Strategy and Mergers and Acquisitions Division since April 2007. Prior to that, he headed the Investment Department at Inter RAO UES, where he was responsible for the development and implementation of company investment strategy in the CIS, Central and Eastern Europe, Turkey, Central Asia, the Middle East and in China. In 1996-2004, he held executive positions at leading investment banks in the USA, Canada and Russia, namely, at Bank of Nova Scotia (Toronto), Credit Suisse First Boston (New York) and IB TRUST (Kyiv / Moscow). In 1993, Vitaly Butenko graduated with honors from the University of Chernovtsy (Ukraine) with a degree in foreign languages. In 1996, he was awarded an MBA from the Asper School of Business, University of Manitoba (Canada).
In 1995, he worked as an associate in the London office of the European Bank for Reconstruction and Development (EBRD).

Evgeniy Romaschin
Coal Production and Enrichment Director

Mr. Romaschin has been the DTEK Coal Production and Enrichment Director since August 2007. He joined DTEK as Finance Director in 2005 from Karelsky Okatysh. In 1995-2002, he worked at Severstal and Stroymaterial-Tulachermet. In 1996, he graduated from Tula State University (Russia) with a degree in Business Economics and Management.
In 1999, he completed postgraduate work with a degree in National Economy and Management. In 2000, Mr. 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).

Sergey Kordashenko

Human Resources and Corporate Communications Director

Sergey Kordashenko has been Human Resources and Corporate Communications Director of DTEK since August 2005. Prior to that, he worked as the Human Resources Director at the Moscow Efes Brewery, the Human Resources Director at AGA (Sweden) and the Deputy General Director on HR at Vesso-Link (Russia).
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.

Guerman Ainbinder

Business Development Director

Mr. Ainbinder is the Business Development Director at DTEK. In 2005–2007 he headed the Strategy and Corporate Development Division of DTEK. Before coming to DTEK he worked at KPMG, the Russian division of Merk Sharp & Dohme Idea and in the management consulting group of Deloitte and Touche CIS. He began his career as a Finance Manager at NERO (Russia).
In 1991, Mr. Ainbinder graduated from Moscow Machine-Tool Institute. (Russia). In 1993, Mr. Ainbinder was awarded an 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).

MANAGEMENT

Sergey Polianskiy

Security Director

Mr. Polianskiy is the DTEK Security Director. He has worked at DTEK since 2005 as the Deputy Head of the DTEK Security Service on Economic Security and as the Head of the Economic Security Department. Prior to that, from 1986 he has worked in various home affairs agencies, specializing in operations. Mr. Polianskiy 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 under international training systems on anti-terrorism and disclosure of crimes that involve explosives and fire-arms in the US, Great Britain and Turkey.

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

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

31 December 2008

DTEK Holdings Limited

CONTENTS

PRICEWATERHOUSECOOPERS

Limited Liability Company Audit Firm
PricewaterhouseCoopers (Audit)
75 Zhylyanska Str.
Kyiv, 01032, Ukraine
Telephone +380 44 490 6777
Facsimile +380 44 490 6738

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 2008 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 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

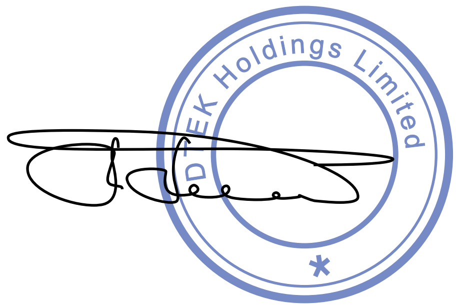
Limited Liability Company Audit Firm
PricewaterhouseCoopers (Audit
Kyiv, Ukraine, 9 April 2009

LLC PricewaterhouseCoopers Audit

Consolidated balance sheet

In millions of Ukrainian Hryvnia	Note	31 December 2008	31 December 2007
Assets			
Non-current assets			
Property, plant and equipment	9	10,583	6,353
Intangible assets	10	674	642
Investments in associates	11	2,811	85
Financial investments	12	1,268	3,952
Deferred income tax asset	34	229	328
Other non-current assets		22	23
Total non-current assets		**15,587**	**11,383**
Current assets			
Inventories	13	614	471
Trade and other receivables	14	995	988
Current income tax prepayments		22	1
Financial investments	12	257	191
Cash and cash equivalents	15	595	368
Total current assets		**2,483**	**2,019**
TOTAL ASSETS		**18,070**	**13,402**
EQUITY			
Share capital	16	—	—
Other reserves	17	7,545	4,775
Retained earnings		2,364	2,265
Net assets attributable to the equity holders		**9,909**	**7,040**
Minority interest in equity		**80**	**29**
TOTAL EQUITY		**9,989**	**7,069**
LIABILITIES			
Non-current liabilities			
Liability to minority participants	18	2	2
Borrowings	19	992	353
Other financial liabilities	20	267	1,533
Indebtedness under amicable agreement	21	116	101
Government grants	22	76	106
Retirement benefit obligations	23	1,051	678
Provisions for other liabilities and charges	24	215	137
Deferred income tax liability	34	917	648
Total non-current liabilities		**3,636**	**3,558**
Current liabilities			
Borrowings	19	2,739	1,594
Other financial liabilities	20	200	—
Prepayments received		55	57
Trade and other payables	25	1,176	892
Current income tax payable		33	58
Other taxes payable	26	242	174
Total current liabilities		**4,445**	**2,775**
TOTAL LIABILITIES		**8,081**	**6,333**
TOTAL LIABILITIES AND EQUITY		**18,070**	**13,402**

Approved for issue and signed on behalf of the Board of Directors on 9 April 2009. Maksym Timchenko. Director



Consolidated income statement

In millions of Ukrainian Hryvnia	Note	2008	2007
Revenue	27	12,969	8,969
Cost of sales	28	(9,921)	(6,948)
Gross profit		**3,048**	**2,021**
Other operating income	29	116	263
Distribution costs	30	(77)	(51)
General and administrative expenses	31	(532)	(368)
Other operating expenses	32	(321)	(232)
Impairment of property, plant and equipment	9	(354)	—
Net foreign exchange gain (other than on borrowings)		112	—
Operating profit		**1,992**	**1,633**
Foreign exchange losses less gains from borrowings		(1,307)	(14)
Finance income	33	64	241
Finance costs	33	(469)	(431)
Share of result of associates	11	(32)	(23)
Profit before income tax		**248**	**1,406**
Income tax expense	34	(129)	(213)
Profit for the year		**119**	**1,193**

Profit/(loss) is attributable to:		
Equity holders of the Company	119	1,288
Minority interest	—	(95)
Profit for the year	**119**	**1,193**

Consolidated statement of changes in equity

In millions of Ukrainian Hryvnia	Attributable to equity holders of the Company					
	Share capital	Other reserves	Retained earnings	Total	Minority interest	Total Equity
Balance at 1 January 2007	**—**	**3,290**	**798**	**4,088**	**1,092**	**5,180**
Financial investments:						
– Fair value gains less losses	—	1,482	—	**1,482**	—	**1,482**
– Disposals or transfer of AFS to associates (Note 17)	—	(270)	—	**(270)**	—	**(270)**
Property, plant and equipment:						
– Realised revaluation reserve	—	(259)	259	**—**	—	**—**
Income tax recorded in equity (Note 34)	—	29	(65)	**(36)**	—	**(36)**
Net income recognised directly in equity	—	982	194	**1,176**	—	**1,176**
Profit for the year	—	—	1,288	**1,288**	(95)	**1,193**
Total recognised income for 2007		**982**	**1,482**	**2,464**	**(95)**	**2,369**
Share issue (Note 16)	—	1,003	—	**1,003**	—	**1,003**
Acquisition of minority interest in Pavlogradugol OJSC (Note 37)	—	(500)	—	**(500)**	(968)	**(1,468)**
Share of results of associate while accounted for as AFS (Note 11)	—	—	(15)	**(15)**	—	**(15)**
Balance at 31 December 2007	—	**4,775**	**2,265**	**7,040**	**29**	**7,069**
Financial investments:						
– Fair value gains less losses	—	(905)	—	**(905)**	—	**(905)**
– Disposals or transfer of AFS to associates (Note 17)	—	(752)	—	**(752)**	—	**(752)**
Property, plant and equipment:						
– Revaluation	—	3,811	—	**3,811**	51	**3,862**
– Change in estimate for asset retirement obligation		(57)	—	**(57)**	—	**(57)**
– Realised revaluation reserve	—	(522)	522	**—**	—	**—**
Income tax recorded in equity (Note 34)	—	(677)	(131)	**(808)**	(13)	**(821)**
Net income recognised directly in equity	—	898	391	**1,289**	38	**1,327**
Profit for the year	—	—	119	**119**	—	**119**
Total recognised income for 2008		**898**	**510**	**1,408**	**38**	**1,446**
Share issue (Note 16)	—	1,872	—	**1,872**	—	**1,872**
Acquisition of subsidiaries	—	—	—	**—**	13	**13**
Share of results of associate while accounted for as AFS (Note 11)			55	**55**		**55**
Dividends declared (Note 16)	—	—	(466)	**(466)**	—	**(466)**
Balance at 31 December 2008	—	**7,545**	**2,364**	**9,909**	**80**	**9,989**

Consolidated cash flow statement

In millions of Ukrainian Hryvnia	Note	2008	2007
Cash flows from operating activities			
Profit before income tax		**248**	**1,406**
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles, net of amortisation of government grants		1,080	771
Excess of interest in fair value of entities' net assets acquired over the cost of investment		(1)	—
Impairment of property, plant and equipment		354	—
Losses less gains on disposals of property, plant and equipment	32	46	5
Assets received free of charge	29	(34)	(1)
Less gain from sale of investments available-for-sale	29	(1)	(138)
Impairment of trade and other receivables	32	97	79
Impairment of financial investments	32	17	—
Change in provisions for other liabilities and charges		16	(58)
Income from previously written off trade and other receivables	29	(5)	(2)
Net increase in retirement benefit obligation	23	348	66
Extinguishment of accounts payable	29	(1)	(5)
Share of result of associates	11	32	23
Unrealised result on associate	11	16	—
Unrealised foreign exchange loss		1,084	—
Realised foreign exchange loss on financing activities		181	14
Finance costs, net	33	405	190
Operating cash flows before working capital changes		**3,882**	**2,350**
Increase in trade and other receivables		(10)	(575)
Increase in inventories		(99)	(114)
(Decrease)/increase in prepayments received		(2)	20
Increase in trade and other payables		50	302
(Decrease) in other financial liabilities		(15)	(21)

Consolidated cash flow statement

In millions of Ukrainian Hryvnia	Note	2008	2007
Increase in taxes payable		68	38
Cash generated from operations		**3,874**	**2,000**
Income taxes paid		(624)	(352)
Defined employee benefits paid	23	(112)	(60)
Interest paid		(289)	(108)
Interest received		43	29
Net cash generated from operating activities		**2,892**	**1,509**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,733)	(971)
Proceeds from sale of property, plant and equipment		4	7
Purchase of financial investments		(1,359)	(1,260)
Prepayment for shares in Dniproenergo OJSC		—	(1,052)
Proceeds from sale of financial investments		34	—
Acquisition of minority interest and subsidiary		(4)	(124)
Deposits placed		(422)	(186)
Deposits received		339	41
Net cash used in investing activities		**(3,141)**	**(3,545)**
Cash flows from financing activities			
Proceeds from borrowings		2,713	2,129
Repayment of borrowings		(2,275)	(940)
Repayment of debts under amicable agreement		(4)	(25)
Issue of ordinary shares		—	1,003
Net cash generated from financing activities		**434**	**2,167**
Net increase in cash and cash equivalents		**185**	**131**
Cash and cash equivalents at the beginning of the year	**15**	**368**	**237**
Exchange gains on cash and cash equivalents		**42**	—
Cash and cash equivalents at the end of the year	**15**	**595**	**368**

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 UAH 1,003 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 8 and 37.

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. The Group's distribution entities then repurchase electricity for supply to final customers.

As discussed in Note 37, 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. In March 2008, the Group acquired additional 10.97% and 16.25% stakes in CCM Dobropolskaya and CCM Oktyabrskaya respectively, and increased its interest in these entities to 60.06% and 60.85% respectively.

The principal subsidiaries are presented below:

Name	% interest held as at 31 December 2008	2007	Segment	Country of incorporation
DTEK LLC	100.00	100.00	Management	Ukraine
DTEK Corporation	98.64	98.64	Management	Ukraine
Pavlogradugol OJSC (Note 37)	99.92	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	99.00	Coal Enrichment	Ukraine
CCM Dobropolskaya OJSC	60.06	49.09	Coal Enrichment	Ukraine
CCM Oktyabrskaya OJSC	60.85	44.60	Coal Enrichment	Ukraine
Pershotravensky RMZ LLC	99.92	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 2008, the Group employed approximately 44 thousand people (31 December 2007: 47 thousand people).

2. Operating environment of the group

Ukraine continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, and high inflation of 22.3% for the year ended 31 December 2008 (2007: 16.6%). The financial situation in the Ukrainian market significantly deteriorated during the fourth quarter of 2008.

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity, which commenced in the middle of 2007 (often referred to as the "Credit Crunch"), has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and the wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other financial sector participants and to bank rescues in the United States of America, Western Europe, Ukraine and elsewhere. Since October 2008 the National bank of Ukraine (NBU) has introduced temporary administration at a number of Ukrainian banks due to their liquidity problems. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

As a result of the global financial crisis, the Ukrainian economy experienced a reduced level of capital inflow and decrease in demand for exports. Additionally, the country's ratings by international rating agencies were downgraded in October 2008. These factors, together with increasing domestic uncertainty, led to volatility in the currency exchange market and resulted in significant downward pressure on the Ukrainian hryvnia relative to major foreign currencies. Since October 2008 the NBU has been entering the market to support the national currency. The official UAH to US Dollar (USD) exchange rate of the National Bank of Ukraine devalued by 58.4% from UAH 4.861 at 30 September 2008 to UAH 7.70 at 31 December 2008.

In the light of the current economic turmoil, the IMF has agreed to issue an SDR 11 billion stabilizing loan to Ukraine if the country complies with certain requirements. The first tranche of SDR 3 billion has been received in November 2008 and the next tranche of SDR 1.25 billion was due in February 2009, however at the time of issue of these financial statements it has not been received. The loan is expected to have a positive effect on the Ukrainian economy, easing the effect of the crisis and promoting financial stability.

The volume of financing has significantly reduced since September 2008. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Deteriorating economic conditions may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in Ukraine.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

3. 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 5, 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 4.

Functional and presentation currency

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

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

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

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

As at 31 December 2008, the exchange rate used for translating foreign currency balances was USD 1 = UAH 7.70 (31 December 2007: USD 1 = UAH 5.05); EUR 1 = UAH 10.86 (31 December 2007: EUR 1 = UAH 7.42). At the date of issuance of these financial statements the exchange rates were as follows: USD 1 = UAH 7.70, EUR 1 = UAH 10.22. 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 April 2005, there was a requirement to convert 50% of foreign currency receipts to UAH. At present, the UAH is not freely convertible outside Ukraine.

Consolidated financial statements

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

The 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. The latest independent valuation of the fair value of the Group's property, plant and equipment was performed as of 1 August 2008. 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 2008, property, plant and equipment are stated at revalued amounts less accumulated depreciation and provision for impairment, if required.

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. However, to the extent that an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is 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 the item is acquired, and corresponding obligation is recognised. Changes in the measurement of an existing asset retirement obligation, that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate used for measurement, are recognised in the income statement or, to the extent of any revaluation balance existence in respect of the related asset other reserves. Provisions in respect of abandonment and site restoration are evaluated and re-estimated annually, and are included in 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 included in Intangible assets 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.

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.

Sale and repurchase agreements and lending of securities

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

Initial recognition of financial instruments

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

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.

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.

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 eserves.

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.

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 and other financial liabilities

Borrowings and other financial liabilities are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. 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.

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.

The Group previously presented cash inflow from interest received in investing activities in the statement of cash flows. In 2008 cash inflow from interest received was presented in operating activities, and corresponding figures of the cash flow statement for the year ended 31 December 2007 were reclassified accordingly. The Group previously presented cash flows relating to overdraft bank accounts and certain bank credit lines on gross basis in the statement of cash flows. In 2008 cash flows relating to overdraft bank accounts and certain bank credit lines were presented on a net basis, and corresponding figures of the cash flow statement for the year ended 31 December 2007 were presented accordingly.

The Group previously presented revenue from sales of coal from coal mining entities to DTEK LLC as intersegment revenue. In 2008 revenue from sales of coal from coal mining entities to DTEK LLC was eliminated within coal mining segment, and corresponding figures of segment information for the year ended 31 December 2007 were reclassified accordingly.

The Group previously presented prepayment for shares of Dniproenergo as asset within coal mining segment basing on the factual ownership of the asset. In 2008 prepayment for shares of Dniproenergo was included into cost of investment in associates and presented within power generation segment. The Group decided to reclassify prepayment for shares of Dniproenergo as at 31 December 2007 to unallocated assets in line with presentation of other available for sale investments.

The Group previously eliminated certain intersegment balances within one segment. In 2008 certain intersegment balances were presented as intersegment elimination, and corresponding figures of segment information for the year ended 31 December 2007 were reclassified accordingly.

The Group previously presented certain income and expenses of DTEK LLC, DTEK Corporation and DTEK Holdings Limited within results of other segment. In 2008 certain income and expenses of DTEK LLC, DTEK Corporation and DTEK Holdings were presented as unallocated income and expenses, and corresponding figures of segment information for the year ended 31 December 2007 were reclassified accordingly.

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

4. 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:

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would have suffered an additional loss for the year of UAH 348 million (2007: nil).

Fair value of available-for-sale equity investments

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

Impairment of property, plant and equipment and goodwill

The 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.

The Group also 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.

The recoverable amount of goodwill and cash-generating units were estimated based on a value in use calculation. Additional information is disclosed in Notes 9 and 10.

Impairment of trade and other accounts receivable

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

Post-employment and other employee benefit obligations

Management assesses post-employment and other employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. Since the plan is administered by the State, the Group may not have full access to information and therefore assumptions regarding when, or if, an employee takes early retirement, whether the Group would need to fund pensions for ex-employees depending on whether that ex-employee continues working in hazardous conditions, the likelihood of employees transferring from State funded pension employment to Group funded pension employment could all have a significant impact on the pension obligation. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the 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. Other key assumptions for pension obligations are based in part on the current market conditions. Additional information is disclosed in Note 23.

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 19 and 20). 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 34).

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 8).

Investment into the shares of Dniproenergo OJSC

As discussed in Note 11, the additional 34.24% share issue of Dniproenergo OJSC made in October 2007 was registered on 11 July 2008, taking the Company's interest to approximately 47.5%, and accordingly the Company has applied the equity method of accounting to its registered interest in Dniproenergo OJSC. However, the additional share issue remains under legal challenge. If the courts ultimately rule against the share issue, the recoverability of the Company's cost, which totalled UAH 1,451 million as at 31 December 2008, may become doubtful. The investment in Dniproenergo OJSC was assessed for impairment using discounted cash flows valuation techniques using the assumptions outlined in Note 11. As at 31 December 2008, no impairment was identified.

5. Adoption of new or revised standards and interpretations

Certain new interpretations became effective for the Group from 1 January 2008:

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); and

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).

These interpretations did not have any significant effect on the Group's consolidated financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

6. 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 2009 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.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that previously met the definition of financial liabilities. The Group does not expect the amendment to affect its financial statements.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.

Improving Disclosures about Financial Instruments — Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

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

- IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008);
- IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16, Hedges of a Net investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008);
- IFRIC 17, Hedges of a Net investment in a Foreign Operation (effective for annual periods beginning on or after 1 July 2009);
- IFRS1 and IAS 27 Amendement, Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (issued in May 2008; effective for annual periods beginning on or after 1 January 2009);
- IAS 39 Amendement, Eligible Hedged Items (effective with retrospective application for annual periods beginning on or after 1 July 2009);
- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).

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

7. 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 inter-dependence between the segments. The primary reporting format, business segments, is based on the Group's management and internal reporting structure. Inter-s egment 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 production assets are located in Ukraine. Majority of the Group's customers are located in Ukraine.

Segment information for the main reportable business segments of the Group for the year ended 31 December 2008 is as follows:

In millions of Ukrainian Hryrvnia	Coal mining and enrichment	Power generation	Electricity distribution	Other	Elimination	Total
2008						
Sales — external	3,450	5,682	3,736	101	—	12,969
Sales to other segments	2,491	2	297	151	(2,941)	—
Total revenue	5,941	5,684	4,033	252	(2,941)	12,969
Segment result	1,099	1,248	(1)	(26)	(135)	2,185
Unallocated expenses						(305)
Unallocated foreign exchange gain operating						112
Operating profit						**1,992**
Segment assets	7,409	4,743	966	162	(341)	12,939
Investments in associates		2,739	51	21		2,811
Available for sale investments						1,268
Current and deferred tax assets						251
Other unallocated assets						801
Total assets						**18,070**
Segment liabilities	2,525	514	142	63	(341)	2,903
Current and deferred tax liability						950
Other unallocated liabilities						4,228
Total liabilities						**8,081**
Capital expenditure	1,352	419	107	12	—	1,890
Depreciation and amortisation	747	233	91	11		1,082
Pension obligations	449	17	—	—		466
Share of result of associates		(26)	(6)			(32)
Impairment of property, plant and equipment	331	(20)	42	1		354
Change in bad debt provision	6	(1)	56	52		113
Other provisions	83	—	—	—	—	83

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

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

In millions of Ukrainian Hryrvnia	Coal mining and enrichment	Power generation	Electricity distribution	Other	Elimination	Total
2007						
Sales — external	1,608	4,505	2,401	455	—	8,969
Sales to other segments	1,881	3	151	176	(2,211)	—
Total revenue	3,489	4,508	2,552	631	(2,211)	8,969
Segment result	431	1,096	147	50	(41)	1,683
Unallocated expenses						(50)
Operating profit						**1,633**
Segment assets	4,398	3,654	540	375	(183)	8,784
Investments in associates	18		55	12		85
Current and deferred tax assets						329
Other unallocated assets						4,204
Total assets						**13,402**
Segment liabilities	1,710	450	128	128	(183)	2,233
Current and deferred tax liability						706
Other unallocated liabilities						3,394
Total liabilities						**6,333**
Capital expenditure	804	123	79	37	—	1,043
Depreciation and amortisation	479	225	62	5	—	771
Pension obligations	130	8	—	—	—	138
Share of result of associates			(23)			(23)
Change in bad debt provision	11	65	3	—	—	79
Other provisions	72	3	(63)	—	—	12

Other unallocated assets primarily relate to available-for-sale securities.

8. 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 2008 are detailed below. At 31 December, the outstanding balances with related parties were as follows:

	2008		2007	
In millions of Ukrainian Hryvnia	**Entities under common control of SCM**	**Associates**	**Entities under common control of SCM**	**Associates**
Gross amount of trade and other receivables	155	186	181	—
Promissory notes receivable	3	3	3	—
Financial aid provided	14	—	2	—
Loans granted	—	2	—	—
Cash and cash equivalents — current account	175	—	26	—
Investment obligation relating to Dniproenergo OJSC — non-current	—	222	—	—
Bonds issued (contractual interest rate: 15%)	—	—	(1,406)	—
Other financial liabilities (effective interest rate: 13.28%)	—	—	(12)	—
Investment obligation relating to Dniproenergo OJSC — current	—	200	—	—
Trade and other payables	(79)	—	(234)	(3)
Promissory notes issued	(5)	—	(42)	—

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

In millions of Ukrainian Hryvnia	2008 Entities under common control of SCM	2008 Associates	2007 Entities under common control of SCM	2007 Associates
Sales of electricity	1,943	—	1,073	—
Sales of coking coal	1,482	—	666	—
Sales of steam coal	5	847	—	—
Sales of inventory	25	1	14	—
Sales of services	15	1	2	3
Purchase of coal	—	(6)	(5)	—
Purchase of goods for resale	(186)	—	(310)	—
Purchase of raw materials and equipment	(133)		(86)	—
Purchase of electricity	—	(4)	—	(3)
Purchase of services	(18)	(11)	(16)	—
Interest income on long-term receivables (Note 33)	—	—	3	—
Interest income on bank deposits	5	—	—	—
Interest expense on promissory notes payable (Note 33)	(1)	—	(8)	—
Interest expense on bonds issued	(52)	—	(2)	—
Interest expense on long-term payables	(3)	—	—	—
Loss on early repayment of bonds issued (Note 33)	—	—	(68)	—
Loss on early repayment of promissory notes (Note 33)	—	—	(67)	—

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

Revenue, trade and other receivable

The trade receivables balances as at 31 December 2008 due from entities under common control and an associates are non-interest bearing. The balances outstanding from related parties as at 31 December 2008 and 2007 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 2008 and 2007.

During 2008, 52% of sale of electricity to final customers was made to companies under common control (2007: 45%).

Purchases, trade and other payables

Purchases and outstanding trade and other payables as at 31 December 2008 and 2007 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 eight top executives (2007: six top executives) of DTEK LLC and three members of the Board of Directors of DTEK Holdings Limited. In 2008 total compensation to key management personnel included in administrative expenses amounted to UAH 28,0 million (2007: UAH 14.9 million). Compensation to the key management personnel consists of salary, bonus payments and termination benefits.

9. Property, plant and equipment

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

In millions of Ukrainian Hryvnia	Mining assets	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
At 31 December 2006						
Cost	1,267	2,455	2,465	205	380	**6,772**
Accumulated depreciation	—	(43)	(508)	(81)	—	**(632)**
Carrying amount at 1 January 2007	1,267	2,412	1,957	124	380	**6,140**
Year ended 31 December 2006						
Opening net book amount	1,267	2,412	1,957	124	380	**6,140**
Acquisition of subsidiaries	—	1	—	—	4	**5**
Additions	42	53	204	34	704	**1,037**
Disposals	(6)	(4)	(6)	(1)	(1)	**(18)**
Depreciation charge	(172)	(177)	(433)	(29)	—	**(811)**
Transfer	256	92	349	14	(711)	**—**
Carrying amount at 31 December 2007	**1,387**	**2,377**	**2,071**	**142**	**376**	**6,353**
At 31 December 2007						
Cost or valuation	**1,533**	**2,580**	**3,015**	**248**	**376**	**7,752**
Accumulated depreciation	**(146)**	**(203)**	**(944)**	**(106)**	**—**	**(1,399)**

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In millions of Ukrainian Hryvnia	Mining assets	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
Carrying amount at 31 December 2007	**1,387**	**2,377**	**2,071**	**142**	**376**	**6,353**
Year ended 31 December 2007						
Opening net book amount	1,387	2,377	2,071	142	376	**6,353**
Acquisition of subsidiaries		24	22	2	2	**50**
Additions	34	140	614	24	1,025	**1,837**
Disposals	(7)	(3)	(24)	(14)	(1)	**(49)**
Depreciation charge	(128)	(228)	(697)	(63)		**(1,116)**
Revaluation surplus	683	1,220	1,725	113	121	**3,862**
Impairment	(99)	(53)	(194)	(6)	(2)	**(354)**
Transfer	161	44	328	45	(578)	**—**
Carrying amount at 31 December 2008	**2,031**	**3,521**	**3,845**	**243**	**943**	**10,583**
At 31 December 2008						
Cost or valuation	**2,088**	**3,644**	**4,227**	**317**	**943**	**11 219**
Accumulated depreciation	**(57)**	**(123)**	**(382)**	**(74)**	**—**	**(636)**
Carrying amount at 31 December 2008	2,031	3,521	3,845	243	943	**10,583**
NBV had no revaluation taken place at 31 December 2007	**1,099**	**632**	**1,210**	**95**	**376**	**3,412**
NBV had no revaluation taken place at 31 December 2008	**1,248**	**762**	**1,942**	**110**	**647**	**4,709**

During 2008 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 Group performed a revaluation of its property, plant and equipment as at 1 August 2008.

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

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

As a result of the revaluation exercise, specific impairments totalling UAH 354 million were recorded.

Impairment of property, plant and equipment

For property, plant and equipment impairment testing management used lower than CGU at segment level.

In assessing impairment of property, plant and equipment management has assumed negative growth for 2009 and 2010 and used a multi-period discount rate ranging from 29% in 2009 to 25% in 2012, which stabilizes at 14% in 2013 and onwards.

Each significant subsidiary was separately assessed for impairment of property, plant and equipment.

Cash flows were projected based on actual operating results and the business plan for 2009. A terminal value was derived at the end of a 10-year interim period.

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

As at 31 December 2008, buildings, plant and machinery carried at UAH 1,265 million (31 December 2007: UAH 2,716 million) have been pledged to third parties as collateral for loans and borrowings (Note 19).

In 2008, the depreciation expense of UAH 1,060 million (2007: UAH 762 million), net of government grant credited to the consolidated income statement, was included in cost of sales, UAH 17 million (2007: UAH 8 million) in general and administrative expenses, UAH 3 million (2007: UAH 1 million) in distribution expenses, and nil (2007: nil) in other operating expenses.

10. Intangible assets

As at 31 December, intangible assets consisted of:

In millions of Ukrainian Hryvnia	2008	2007
Goodwill	633	632
Other intangible assets	41	10
Total	**674**	**642**

Movements in goodwill arising on the acquisition of subsidiaries are:

In millions of Ukrainian Hryvnia	2008	2007
As at 1 January	**632**	**595**
Acquisition of subsidiaries — CCM Oktyabrskaya OJSC	1	
Acquisition of subsidiaries — Mospino CPE LLC	—	2
Acquisition of minority interest in subsidiaries — Pavlogradugol OJSC (Note 37)	—	35
As at 31 December	**633**	**632**

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 Ukrainian Hryvnia	2008	2007
Coal mining	590	589
Energy distribution	43	43
Total	**633**	**632**

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.

	2008	2007
Coal mining		
Pre-tax discount rate	29%-14%	15%
Revenue growth rate 2009 — 2014	(15%)-20%	10-15%
Revenue growth rate 2014 — onwards	1-6%	4%
Gross margin	30%	15%
Energy distribution — PES-Energougol		
Pre-tax discount rate	29% — 14%	15%
Revenue growth rate 2009 — 2014	6% — 29%	10-15%
Revenue growth rate 2014 — onwards	1 -5%	1-5%
Gross margin	7%	7%

The financial crisis and slow down in global growth has had a significant impact on financial markets. In assessing goodwill impairment management assumed revenues would fall in both 2009 and 2010 and used a multiperiod discount rate ranging from 29% in 2009 to 25% in 2012, which stabilizes at 14% in 2013 and onwards.

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.

If the revised estimated discount rate applied to the discounted cash flows of PES-Energougol CGU had been 2% higher than management's estimates, the Group would need to reduce the carrying value of goodwill by UAH 11 million and premises and equipment by UAH nil. Had this impairment been recognised, the Group would not be able to reverse of any impairment losses that arose on goodwill in subsequent periods even if circumstances improve. The recoverable amount of Energy distribution CGU exceeds its carrying amount by UAH 42 million. The CGUs' carrying amount would be equal to its value in use if a discount rate 1.5% higher than management estimate was used for each year.

During 2008 and 2007, the movements of other intangible assets, primary software and associated rights, were as follows:

In millions of Ukrainian Hryvnia	Cost	Accumulated amortisation and impairment	Net book value
As at 1 January 2007	**7**	**(2)**	**5**
Additions / Charge for the year	7	(1)	
Disposals	(1)	—	
As at 31 December 2007	**13**	**(3)**	**10**
Additions / Charge for the year	42	(5)	
Disposals	(6)	—	
As at 31 December 2008	**49**	**(8)**	**41**

11. Investments in associates

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

In millions of Ukrainian Hryvnia	2008	2007
Carrying amount at 1 January	**85**	**—**
Acquisition of associates	1,552	123
Transfer from AFS investment to associate	1,190	—
Transfer of associates to subsidiaries	(23)	—
Share of after tax results of associates	(32)	(23)
Share of results of associate while accounted for as AFS	19	(15)
Share in revaluation reserves of associates while accounted for as AFS	36	—

In millions of Ukrainian Hryvnia	2008	2007
Unrealised profit on operations with associate	(16)	—
Carrying amount at 31 December	**2,811**	**85**

At 31 December 2008, 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 Ukrainian Hryvnia	Country of incorporation	% of ownership	Carrying value	Total assets	Total liabilities	Revenue	Profit/ (loss)
Dniproenergo OJSC	Ukraine	47.50%	2,739	2,544	1,354	4,698	(63)
Donetskoblenergo JSC	Ukraine	30.59%	51	1,150	6,101	3,003	(19)
Other	Ukraine	other	21	21	9	—	—
Total			**2,811**				

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 Ukrainian Hryvnia	Country of incorporation	% of ownership	Carrying value	Total assets	Total liabilities	Revenue	Profit/ (loss)
Donetskoblenergo JSC	Ukraine	30.41%	55	966	5,904	2,373	(92)
Other	Ukraine	—	30	84	21	62	(6)
Total			**85**	**1,050**	**5,925**	**2,435**	**(98)**

During 2006, the Group acquired an 8.3% interest in Dniproenergo OJSC which was recorded at a fair value of UAH 201 million at 31 December 2006. Dniproenergo OJSC, a majority State owned power generating company with a capacity of 8,185 MW located in Zaporizhzhya, 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 Dniproenergo 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 Dniproenergo'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 UAH 1,052 million in cash to a special purpose entity which was then merged with Dniproenergo OJSC. In exchange Pavlogradugol OJSC and Komsomolets Donbassa OJSC each received a 17.12% interest in Dniproenergo

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 Dniproenergo's investment program totalling UAH 1,010 million during the period 2008 through 2012.

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.

On 8 April 2008, the Supreme Court of Ukraine overturned the shareholder decisions on the additional share capital increase. At 31 December 2007, the Group's registered 18.19% interest (before dilution) in Dniproenergo OJSC had been recorded at fair value of UAH 2,067 million. The UAH 1,052 million paid to acquire the additional 34.24% interest had been recorded as a prepayment for shares at cost (see Note 12). In addition, the investment commitment of UAH 1,010 million had not been recorded as a liability as it is linked to the issuance of the additional shares.

In March 2008, a new share registrar was appointed to record the share of Dniproenergo JSC. In June 2008, the Highest Commercial Court of Ukraine found procedural violations related to the 8 April 2008 Supreme Court's hearing and overturned the ruling declaring the additional share issue void. The new registrar completed the recovery of Dniproenergo JSC shareholders' register in July 2008 and on 11 July 2008, Komsomolets Donbassa JSC and Pavlogradugol JSC received their share certificates for the additional 34.24% share issue.

The registration of the additional share issue in July 2008 results in DTEK's effective interest in Dniproenergo JSC increasing to 46.98% (after dilution of the existing interest) and, as result, the accounting treatment for the investment was changed from available for sale investment to investment in associates. Management has also assessed the fair value of 52.50% (share in associate which does not belong to the Group as at 31 December 2008) of its investment commitment at UAH 399 million (total commitment — UAH 1,010 million at nominal value) and has included this in the cost of investments and recorded the associated liability (Note 20). However, the new share issue and associated share certificates issued by the new registrar are being challenged in Court. The management believes that these court hearings will be resolved to their satisfaction.

The Group continues to purchase additional Dniproenergo OJSC shares and as at 31 December 2008, its interest totalled 47.50%.

Representatives of the Company are included in the supervisory board and board of directors and the business of Dniproenergo is being integrated into the vertically integrated operations of the Group.

Impairment Test for investment in associate — Dniproenergo OJSC

As discussed in note 2, due to the global financial crisis, the equity markets in Ukraine have become very illiquid resulting in volatile pricing. As at 31 December 2008, the quoted market price for the Group's interest in Dniproenergo OJSC was UAH 1,219 million (31 December 2007 UAH 5,277 million). The management has, therefore, used the fair value approach involving valuation techniques in assessing impairment of the investment in Dniproenergo OJSC.

The management has used a multiperiod discount rate ranging from 29% in 2009 to 25% in 2012, which stabilizes at 14% in 2013 and onwards.

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

	2008	2007
Post-tax discount rate	29% — 14%	—
Revenue growth rate 2009 — 2014	9 — 19%	—
Revenue growth rate 2014 — onwards	1 — 4%	—
Gross margin	27%	—

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.

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

12. Financial investments

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

In millions of Ukrainian Hryvnia	2008	2007
Equity securities:	1,249	2,866
Dniproenergo OJSC (Note 11)	—	2,067
Other	1,249	799
Prepayment for shares of Dniproenergo OJSC (Note 11)	—	1,052
Prepayment for other shares	19	—
Unquoted securities	—	34
Total	**1,268**	**3,952**

As a result of the recent volatility in financial markets, as discussed in Note 2, there are no longer regularly occurring transactions in certain equity shares quoted on PFTS, the Ukrainian stock exchange market, and accordingly fair value of such Ukrainian electricity distribution companies have been determined by reference to the discounted operating cash flows of the investee and other valuation techniques based on independent third party assessment.

As at 31 December 2008, equity securities with a carrying value of UAH 349 million have been determined by such valuation methods. The fair value of the remaining available or sale securities have been determined based on quoted prices.

The major assumptions used to determine the fair value using the valuation techniques include:

	2008	2007
Post-tax discount rate	28% — 15%	—
Revenue growth rate 2009 — 2011	(41%) — 43%	—
Revenue growth rate 2012 — onwards	3%	—
Gross margin 2009-2011	1% — 4%	—
Gross margin 2012 — onwards	3% — 5%	—

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

In millions of Ukrainian Hryvnia	2008	2007
Deposits placed with a maturity of more than three months	31	186
Loans receivable (net of provision for impairment of UAH 17 million)	226	5
Total	**257**	**191**

	Maturity		Interest re-pricing	
In millions of Ukrainian Hryvnia	**2008**	**2007**	**2008**	**2007**
Deposits and loans receivable:				
— within 1 year	257	191	257	191
Total	**257**	**191**	**257**	**191**

	2008		2007	
In millions of Ukrainian Hryvnia	**Other**	**Deposits**	**Other**	**Deposits**
Rating by Moody's Investors Service				
– Ba2 rated	—	—	—	165
– B2 rated	—	—	—	20
– Caa2 rated	—	30	—	—
– B1	—	1	—	—
Non-rated	226	—	5	1
Total	**226**	**31**	**5**	**186**

During 2008, the Group provided short-term, interest-free loans totalling UAH 193 million to an associate of SCM.

In 2008 and 2007 the Group provided short-term interest-free loans to related parties amounting to UAH 14 million and UAH 2 million respectively (Note 8). As at 31 December 2008 deposits amounting to UAH 30 million (31 December 2007: UAH 163 million) were pledged as collateral for borrowings (Note 19).

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

13. Inventories

As at 31 December, inventories were as follows:

In millions of Ukrainian Hryvnia	2008	2007
Coal	341	240
Raw materials	122	112
Spare parts	109	71
Goods for resale	12	36
Work in process	30	12
Total inventories	**614**	**471**

The amount of inventory write down recognised as an expense in 2008 was UAH 4 million (2007: UAH 4 million). As at 31 December 2008 and 2007 no inventories have been pledged as collateral for borrowings.

14. Trade and other receivables

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

In millions of Ukrainian Hryvnia	2008	2007
Trade receivables	1,297	776
Less impairment provision	(488)	(401)
Trade receivables — net	**809**	**375**
Other financial receivables	147	334
Less impairment provision	(85)	(77)
Receivable for sale of financial instruments	53	1
Total financial assets	**924**	**633**
Prepayments to suppliers	70	343
Less impairment provision	(10)	(10)

(Continued)

In millions of Ukrainian Hryvnia	2008	2007
VAT recoverable	3	15
Other	13	12
Less impairment provision	(5)	(5)
Total non-financial assets	**71**	**355**
Total trade and other receivables	**995**	**988**

All trade and other receivables are denominated in UAH.

Included in prepayments at 31 December 2007 is UAH 265 million advanced to a single supplier to secure the supply of coal in 2008. This amount was settled in 2008.

As at 31 December 2008 no trade receivables and future proceeds from sales agreements (2007: UAH 1,010 million) are pledged as collateral for borrowings (Note 19).

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

In millions of Ukrainian Hryvnia	2008	2007
Provision for impairment at 1 January	**493**	**417**
Provision for impairment during the year	97	79
Amounts written off during the year as uncollectible	(2)	(3)
Provision for impairment at 31 December	**588**	**493**

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

	2008			2007		
In millions of Ukrainian Hryvnia	**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	271	—	—	165	—	—
– Large Ukrainian corporates	153	—	4	112	—	5
– Medium sized companies	86	53	7	19	1	49
Total current and not impaired	**510**	**53**	**11**	**296**	**1**	**54**

(Continued)

In millions of Ukrainian Hryvnia	2008 Trade receivables	2008 Receivable for sale of financial instruments	2008 Other financial receivables	2007 Trade receivables	2007 Receivable for sale of financial instruments	2007 Other financial receivables
Past due but not impaired						
– less than 30 days overdue	92	—	38	30	—	48
– 30 to 90 days overdue	137	—	1	10	—	146
– 90 to 180 days overdue	5	—	2	13	—	2
– 180 to 360 days overdue	21	—	2	13	—	1
– over 360 days overdue	44	—	8	13	—	6
Total past due but not impaired	**299**	**—**	**51**	**79**	**—**	**203**
Individually determined to be impaired (gross)						
– less than 30 days overdue	—	—	—	—	—	2
– 30 to 90 days overdue	—	—	—	—	—	—
– 180 to 360 days overdue	—	—	—	—	—	22
– over 360 days overdue	488	—	85	401	—	53
Total individually impaired	**488**	**—**	**85**	**401**	**—**	**77**
Less impairment provision	**(488)**	**—**	**(85)**	**(401)**	**—**	**(77)**
Total	**809**	**53**	**62**	**375**	**1**	**257**

15. Cash and cash equivalents

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

In millions of Ukrainian Hryvnia	2008	2007
Bank balances payable on demand	373	112
Term deposits with original maturity of less than three months	222	256
Total cash and cash equivalents	**595**	**368**

As at 31 December 2008, of total cash and cash equivalents UAH 309 million was denominated in US dollars (31 December 2007: UAH 26 million). Term deposits have an effective interest rate of 13% for UAH denominated balances and 0.43% for USD denominated balances at 31 December 2008 (31 December 2007: 12.8%)

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:

	2008		2007	
In millions of Ukrainian Hryvnia	**Bank balances payable on demand**	**Term deposits**	**Bank balances payable on demand**	**Term deposits**
Rating by Moody's Investors Service				
– A1 rated	10	—	—	—
– A3 rated	—	212	24	—
– B1 rated	1	10	—	—
– Ba1 rated	74	—	—	—
– Ba2 rated	—	—	19	229
– B2 rated	168	—	34	27
– B3 rated	—	—	15	—
– P1rated	—	—	20	—
– Caa2 rated	120	—	—	—
Total	**373**	**222**	**112**	**256**

16. Share capital

As at 31 December 2006, the authorised share capital comprised 32,272 ordinary shares with a par value of USD 1.00 each (equivalent of UAH 5.05); 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 USD 1.00 each and 17,728 shares were issued for a cash consideration of USD 200 million, (equivalent to UAH 1,010 million). As at 31 December 2007 USD 1.5 million (equivalent to UAH 7.4 million) of the share issuance remains unpaid. The net capital contribution totalling UAH 1,003 million has been recorded in additional paid in capital.

On 11 December 2008, the Company declared a dividend of USD 62 million (UAH 466 million). The shareholders decided to reinvest this dividend and on 11 December 2008, the Company issued 5,600 shares of USD 1 each (equivalent of UAH 7.47) at a premium of USD 11,131.5 (UAH 83,200) per share to the existing shareholders, which was settled by offset against the dividend.

On 23 December 2008 the Company issued 10,000 shares of USD 1 each (equivalent of UAH 7.88) at a premium of UAH 133,716 per share to existing shareholders. The Company acquired its corporate bonds totalling UAH 1,406 million (Note 20) from its shareholders at nominal value and subsequently on 30 December 2008 offset its shareholders payable for these bonds against the shareholders' unpaid capital totalling UAH 1,337, the UAH 69 million difference between the shareholders' balances was recorded as additional paid in capital.

As a result of the additional share issues in 2008 the additional paid in capital of the Company increased by UAH 1,872 million.

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.

17. Other reserves

During 2008, unrealised fair value loss on available-for-sale investments totalling UAH 905 million were recorded directly in other reserves. Gains totalling UAH 752 million related to Dniproenergo OJSC have been derecognised following transfer to equity accounting.

During 2007, unrealised fair value gains on available-for-sale investments totalling UAH 1,482 million were recorded directly in other reserves. Further, gains on available-for-sale investments totalling UAH 138 million (Note 29) were realised and transferred to the income statement while gains totalling UAH 132 million related to Donetskoblenergo JSC have been derecognised following transfer to equity accounting.

In millions of Ukrainian Hryvnia	Additional paid in capital	Revaluation reserve	AFS reserve	Total
Balance at 1 January 2007	**971**	**2,243**	**76**	**3,290**
Financial investments:				
— Fair value gains less losses	—	—	1,482	**1,482**
— Disposals or transfer of AFS to associates	—	—	(270)	**(270)**
Property, plant and equipment:				
— Realised revaluation reserve	—	(259)	—	**(259)**
Income tax recorded in equity	—	65	(36)	**29**
Share issue (Note 16)	1,003	—	—	**1,003**
Acquisition of minority interest in Pavlogradugol OJSC (Note 37)	(500)	—	—	**(500)**
Balance at 31 December 2007	**1,474**	**2,049**	**1,252**	**4,775**
Financial investments:				
— Fair value gains less losses	—	—	(905)	**(905)**
— Disposals or transfer of AFS to associates	—	—	(752)	**(752)**

(Continued)

In millions of Ukrainian Hryvnia	Additional paid in capital	Revaluation reserve	AFS reserve	Total
Property, plant and equipment:				
— Revaluation	—	3,811	—	**3,811**
— Change in estimate relating to asset retirement provision recorded in equity	—	(57)	—	**(57)**
— Realised revaluation reserve	—	(522)	—	**(522)**
Income tax recorded in equity	—	(777)	100	**(677)**
Share issue (Note 16)	1,872	—	—	**1,872**
Balance at 31 December 2008	**3,346**	**4,504**	**(305)**	**7,545**

18. Liability to minority participants

The minority interest in 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 Ukrainian Hryvnia	2008	2007
Balance at 1 January	**2**	**5**
Minority share in profits recognised in finance cost (Note 33)	—	24
Acquisition of minority interest by parent (Note 37)	—	(27)
Balance at 31 December	**2**	**2**

19. Borrowings

In millions of Ukrainian Hryvnia	2008	2007
Non-current		
Bank borrowings	992	353
	992	**353**
Current		
Bank borrowings	2,726	1,578
Interest accrual	13	16
	2,739	**1,594**
Total borrowings	**3,731**	**1,947**

The Group's borrowings are denominated in the following currencies:

In millions of Ukrainian Hryvnia	2008	2007
Borrowings denominated in:		
— UAH	337	173
— US Dollars	2,387	1,774
— Euros	1,007	—
Total borrowings	**3,731**	**1,947**

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

	Maturity		**Interest re-pricing**	
In millions of Ukrainian Hryvnia	**2008**	**2007**	**2008**	**2007**
Loans and borrowings due:				
— within 1 year	2,739	1,594	3,655	1,685
— between 1 and 5 years	992	353	76	262
Total borrowings	**3,731**	**1,947**	**3,731**	**1,947**

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

	2008 год			2007 год		
In % per annum	**UAH**	**USD**	**EUR**	**UAH**	**USD**	**EUR**
Bank borrowings	14%-25%	LIBOR 1m+4%-LIBOR 1m+12%	EURIBOR 1m+4.5%-18%	9,5%-13,5%	LIBOR 1m+4%-10.3%	—
Total borrowings	**337**	**2,387**	**1,007**	**173**	**1,758**	**—**

As at 31 December 2008, borrowings totalling UAH 1,023 million (31 December 2007: UAH 1,335 million) were secured with property, plant and equipment, financial investments, trade and other receivables (Notes 9, 12 and 14).

20. Other financial liabilities

As at 31 December, non-current financial liabilities of the Group comprise:

In millions of Ukrainian Hryvnia	2008	2007
Investment obligation relating to OJCS Dniproenergo	222	—
Payable for shares in Pavlogradugol (Note 37)	—	1,406
Bonds issued	—	75
Restructured trade payables	45	52
Total non-current other financial liabilities	**267**	**1,533**

As discussed in Note 11, upon recognition of the Group's additional 34.24% interest in Dniproenergo OJSC, the Group has recorded 52,5% of its obligation to fund Dniproenergo's investment program at a fair value of UAH 399 million (UAH 1,010 million at nominal value). As at 31 December 2008 UAH 200 million is recorded as short-term. An expense associated with the unwinding of discount on the investment obligation totalling UAH 23 million was included in finance costs (Note 33).

As discussed in Note 37, the Group acquired a 92.11% interest in Pavlogradugol from parties under common control in 2007. This related party non-interest bearing liability was restructured in December 2007 to 15% interest bearing bonds repayable during 2015 — 2019. In December 2008, this obligation was converted to equity (Note 16).

The major part of the restructured trade payables relates to an agreement between PES-Energougol OJSC and Energorynok SE and totals UAH 45 million. This liability is to be settled in monthly instalments through August 2015. The restructured trade payables to Energorynok SE bears no nominal interest, and have been discounted to their net present value using an effective interest rate of 13%.

21. 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 UAH 386 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 at 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:

	2008 год		2007 год	
In millions of Ukrainian Hryvnia	**Nominal value**	**Amortised cost**	**Nominal value**	**Amortised cost**
Promissory notes issued	236	116	240	101
Total indebtedness under amicable agreement		**116**		**101**

During 2008, included in finance costs is UAH 16 million (2007: UAH 17 million) related to the unwinding of the discount on this restructured obligation.

22. 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 2008 and 2007 are summarised as follows

In millions of Ukrainian Hryvnia	**2008**	**2007**
As at 1 January	**106**	**142**
Expenditures incurred	(1)	(1)
Amortisation of government grants to match related depreciation	(29)	(35)
As at 31 December	**76**	**106**

23. 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 2008 the defined benefit plan covers 46,717 people, including 6,002 ex-employees (2007: approximately 48,113 and 4,513 respectively)

None of the employee benefits plans stated below are funded.

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

In millions of Ukrainian Hryvnia	2008	2007
Present value of unfunded defined benefit obligations	2,041	1,320
Unrecognised net actuarial loss	(695)	(642)
Unrecognised past service cost	(295)	—
Liability in the consolidated balance sheet	**1,051**	**678**

In millions of Ukrainian Hryvnia	2008	2007
Retirement benefits	1,658	994
Retirement benefits — coal support	310	262
Lump sum payments	73	64
Total balance sheet obligations	**2,041**	**1,320**

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

In millions of Ukrainian Hryvnia	2008	2007
Current service cost	67	49
Interest cost	118	72
Recognised past service cost	205	—
Recognized actuarial losses	76	17
Total	**466**	**138**

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

In millions of Ukrainian Hryvnia	2008	2007
Defined benefit obligation as at 1 January	**1,320**	**831**
Current service cost	67	49
Past service cost	500	—
Acquisition of subsidiaries	19	—
Actuarial losses	129	428
Interest cost	118	72
Benefits paid	(112)	(60)
Defined benefit obligation as at 31 December	**2,041**	**1,320**

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

In millions of Ukrainian Hryvnia	2008	2007
As at 1 January	**678**	**600**
Acquisition of subsidiaries	19	—
Benefits paid	(112)	(60)
Net expense recognised in the income statement	466	138
As at 31 December	**1,051**	**678**

Past service cost arose as a result of changes in 2008 in the pension legislation, which increased the benefits payable. To the extent that the benefits were already vested immediately following the changes to a defined benefit plan, past service cost was recognized in 2008 financial statements in the amount of UAH 205 million. The remaining UAH 295 million past service cost will be recognised as an expense on a straight-line basis over the average period until the benefits become vested.

The principal actuarial assumptions used were as follows:

	2008	2007
Nominal discount rate	11%	9%
Nominal salary increase	9%	9%
Nominal pension entitlement increase	9%	9%

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

	2008	2007
Nominal discount rate increase/decrease by 1%	(7.83%) / 9.00%	(8.36%) / 9.65%
Nominal salary increase increase/decrease by 1%	7.17% / (6.37%)	6.90% / (6.15%)
Employee turnover increase/decrease by 1%	(0.06%) / 0.07%	(0.15%) / 0.16%

Experience adjustments for 2008 do not exceed UAH 402 million (2007: UAH 543 million). Payments in respect of post-employment benefit plan obligations expected to be made during the year ending 31 December 2009 are UAH 163 million (2008: UAH 66 million).

24. Provisions for other liabilities and charges

Movements in provisions for liabilities and charges are as follows:

In millions of Ukrainian Hryvnia	Assets retirement provision	Provision for legal claims	Other provisions	Total
At 1 January 2007	**63**	**66**	**7**	**136**
Change in estimates	58	—	—	58
Arising during the year	11	4	—	15
Unwinding of discount	1	—	—	1

(Continued)

In millions of Ukrainian Hryvnia	Assets retirement provision	Provision for legal claims	Other provisions	Total
Reversal of provision	—	(62)	—	(62)
Utilised	(4)	—	(7)	(11)
At 31 December 2007	**129**	**8**	**—**	**137**
Change in estimates	57	—	—	57
Arising during the year	12	8	7	27
Unwinding of discount	5	—	—	5
Utilised	(3)	(1)	(7)	(11)
At 31 December 2008	**200**	**15**	**—**	**215**

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 2008 the Group has estimated the present value of the mines retirement obligation at UAH 166 million (31 December 2007: UAH 98 million). The mines are planned to be closed at the end of their estimated useful lives.

The increase of the asset retirement obligation was recorded in other reserves as the Group uses the fair value model to measure property, plant and equipment (Note 17).

The Group's obligation to remediate disturbed soil as a result of underground works or ash dumps is estimated at UAH 34 million as at 31 December 2008 (31 December 2007: UAH 23 million).

During 2007, PES-Energougol OJSC and Energorynok SE reached an agreement on restructuring of PES-Energougol's obligation (Note 20). Accordingly the provision for penalties and interest totalling UAH 42 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, in 2007 the Group's subsidiary Servis-Invest has reversed provisions totalling UAH 20 million associated with claims made by one of its customers in connection with supply of electricity.

25. Trade and other payables

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

In millions of Ukrainian Hryvnia	2008	2007
Trade payables	572	498
Wages and salaries payable	136	100
Liabilities for purchased securities	102	113
Promissory notes payable	11	12
Liabilities for purchased property, plant and equipment	183	18
Accrued liabilities and other creditors	21	40
Total financial payables	**1,025**	**781**
Accruals for employees' unused vacations	148	106
Other payables	3	5
Total non-financial payables	151	111
Total	**1,176**	**892**

	2008					
In millions of Ukrainian Hryvnia	Trade payables	Wages and salaries payable	Liabilities for purchased securities	Promissor notes payable	Liabilities for purchased property, plant and equipment	Accrued liabilities and other creditors
Currency analysis:						
UAH denominated	570	136	100	11	37	18
USD denominated	2	—	2	—	—	—
EUR denominated	—	—	—	—	146	3
Total	**572**	**136**	**102**	**11**	**183**	**21**
Future undiscounted cash flow analysis:						
Up to 3 months	570	136	76	11	149	17
From 3 to 6 months	—	—	26	—	34	4
From 6 to 12 months	2	—	—	—	—	—
Total	**572**	**136**	**102**	**11**	**183**	**21**

In millions of Ukrainian Hryvnia	2007					
	Trade payables	Wages and salaries payable	Liabilities for purchased securities	Promissory notes payable	Liabilities for purchased property, plant and equipment	Accrued liabilities and other creditors
Currency analysis:						
UAH denominated	491	100	101	12	14	39
USD denominated	7	—	—	—	—	1
EUR denominated	—	—	12	—	4	—
Total	**498**	**100**	**113**	**12**	**18**	**40**
Future undiscounted cash flow analysis:						
Up to 3 months	490	100	38	—	18	40
From 3 to 6 months	3	—	75	—	—	—
From 6 to 12 months	5	—	—	12	—	—
Total	**498**	**100**	**113**	**12**	**18**	**40**

26. Other taxes payable

As at 31 December other taxes payable were as follows:

In millions of Ukrainian Hryvnia	2008	2007
Value-added tax	139	85
Payroll taxes	52	42
Other taxes	51	47
Total other taxes payable	**242**	**174**

27. Revenue

Analysis of revenue by category is as follows:

In millions of Ukrainian Hryvnia	2008	2007
Sale of electricity to electricity pool	5,665	4,489
Sale of electricity to final customers	3,736	2,400
Sale of steaming and coking coal	3,407	1,607
Sales of merchandise products	89	441
Other sales	72	32
Total	**12,969**	**8,969**

Analysis of revenue by regions is as follows:

In millions of Ukrainian Hryvnia	2008	2007
Domestic sales	12,883	8,969
Export sales	86	—
Total	**12,969**	**8,969**

28. Cost of sales

In millions of Ukrainian Hryvnia	2008	2007
Cost of electricity purchased for resale	3,482	2,211
Staff cost, including payroll taxes	2,675	1,680
Raw materials	1,799	1,263
Depreciation of property, plant and equipment net of amortisation and government grants	1,060	762
Cost of merchandise	83	375
Cost of coal purchased for resale	37	—

(Continued)

In millions of Ukrainian Hryvnia	2008	2007
Production overheads	178	217
Taxes, other than income tax	141	119
Transportation services and utilities	384	243
Equipment maintenance and repairs	102	79
Change in finished goods and work in progress	(35)	(14)
Other costs	15	13
Total	**9,921**	**6,948**

29. Other operating income

In millions of Ukrainian Hryvnia	2008	2007
Realised gains less losses from investments available-for-sale	1	138
Reversal of reserve for legal claims (Note 24)	—	62
Gain on sales of inventory	21	14
Extinguishment of other accounts payable	1	5
Sales of services	32	—
Assets received free of charge	34	1
Income from recovery on previously written off trade receivables	5	2
Other	22	41
Total	**116**	**263**

30. Distribution costs

In millions of Ukrainian Hryvnia	2008	2007
Transportation	46	31
Staff cost, including payroll taxes	16	16
Depreciation	3	1
Other costs	12	3
Total	**77**	**51**

31. General and administrative expenses

In millions of Ukrainian Hryvnia	2008	2007
Staff cost, including payroll taxes	324	217
Professional fees	99	70
Office costs	31	28
Transportation	14	10
Depreciation	17	8
Taxes, other than income tax	11	6
Other costs	36	29
Total	**532**	**368**

32. Other operating expenses

In millions of Ukrainian Hryvnia	2008	2007
Maintenance of social infrastructure	17	22
Social payments	80	76
Charge for impairment of trade and other receivables and prepayments made	114	79

(Continued)

In millions of Ukrainian Hryvnia	2008	2007
Charitable donations and sponsorship	10	25
Non-recoverable VAT	12	10
Net loss on disposal and write-off of equipment	46	5
Increase in provision for legal claims	7	4
Other	35	11
Total	**321**	**232**

33. Finance income and finance cost

In millions of Ukrainian Hryvnia	2008	2007
Interest income		
— bank deposits	43	29
— other (Note 8)	7	3
Gain on early repayment of promissory notes issued	14	—
Gain on initial recognition of promissory notes issued	—	109
Gain on initial recognition of bonds issued	—	60
Gain on extinguishment of financial liabilities	—	30
Gain on early repayment of promissory notes receivable	—	6
Other finance income	—	4
Total finance income	**64**	**241**
Interest expense		
— borrowings	225	122
— promissory notes payable	18	10
— bonds issued	65	2
— long-term payables	11	—
— investment obligation relating to OJCS Dniproenergo (Note 11)	23	—

(Continued)

In millions of Ukrainian Hryvnia	2008	2007
Loss on early repayment of long-term promissory notes (Note 8)	—	126
Unwinding of discounts on pension obligations	118	72
Loss on early repayment of bonds issued (Note 8)	—	68
Minority interest of participants	—	24
Loss on early repayment of long-term payables	1	3
Other finance costs	8	4
Total finance costs	**469**	**431**

34. Income taxes

Income tax expense comprises the following:

In millions of Ukrainian Hryvnia	2008	2007
Current tax	577	449
Deferred tax	(448)	(236)
Income tax expense	**129**	**213**

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

In millions of Ukrainian Hryvnia	2008	2007
Revaluation of property, plant and equipment	(921)	—
Unrealised gain on available for sale financial assets	100	36
Income tax reported in equity	**(821)**	**36**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine). In 2008 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2007: 25%). In 2008, the tax rate for Cyprus operations was 10% (2007: 10%) on worldwide income.

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

In millions of Ukrainian Hryvnia	2008	2007
Profit before income tax, including	**248**	**1 406**
Profit before income tax of Ukrainian companies	771	1 307
(Loss)/profit before income tax of DTEK Holding Cyprus Limited	(523)	99
Income tax at statutory rates of 25% (Ukrainian operations)	**193**	**329**
Profit taxed at different rates 10% (Cyprus operations)	—	—
Weighted average tax rate of 25 % (for year 2007 of 25.13%)	193	329
Adjustments in respect of current income tax of previous years	2	—
Tax effect of items not deductible or assessable for taxation purposes:		
— non-deductible expenses	97	52
— non-taxable income	(21)	(34)
Deferred taxation on pensions obligation	—	(140)
PPE indexation for tax purposes	(150)	—
Losses of associates	8	6
Income tax expense at effective tax rate of 56.83% (2007: 15.12%)	**129**	**213**

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 Ukrainian Hryvnia	2008	2007
Deferred tax liability	(917)	(648)
Deferred tax asset	229	328
Net deferred tax liability	**(688)**	**(320)**

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 was recognised in respect of the entire pension obligation.

In millions of Ukrainian Hryvnia	1 January 2008	Acquisition	Credited/ (charged) to income	Charged to equity	31 December 2008
Tax effect of deductible temporary differences					
Trade and other payables	31	—	24	—	55
Trade and other receivables	59	—	(35)	—	24
Other provisions for liabilities and charges	34	—	15	—	49
Retirement benefit obligations	148	5	85	—	238
Prepayments received	15	—	68	—	83
Inventories	11	(1)	17	—	27
Financial investments	29	—	(2)	100	127
Gross deferred tax asset	**327**	**4**	**172**	**100**	**603**
Tax effect of taxable temporary differences					
Property, plant and equipment	(487)	2	387	(921)	(1 019)
Other financial liabilities	(136)	—	22	—	(114)
Prepayments made	(24)	(1)	(51)	—	(76)
Trade and other receivables			(82)		(82)
Gross deferred tax liability	**(647)**	**1**	**276**	**(921)**	**(1 291)**
Recognised deferred tax asset/(liability)	**(320)**	**5**	**448**	**(821)**	**(688)**

In millions of Ukrainian Hryvnia	1 January 2007	Acquisition	Credited/ (charged) to income	Charged to equit	31 December 2007
Tax effect of deductible temporary differences					
Trade and other payables	18	—	13	—	31
Trade and other receivables	39	—	20	—	59

(Continued)

In millions of Ukrainian Hryvnia	1 January 2007	Acquisition	Credited/ (charged) to income	Charged to equit	31 December 2007
Other provisions for liabilities and charges	18	—	16	—	34
Retirement benefit obligations	12	—	136	—	148
Prepayments received	9	—	6	—	15
Inventories	9	—	2	—	11
Financial investments	(7)	—	72	(36)	29
Gross deferred tax asset	**98**	**—**	**265**	**(36)**	**327**
Tax effect of taxable temporary differences					
Property, plant and equipment	(549)	1	61	—	(487)
Indebtedness under amicable agreement	(40)	—	40	—	—
Other financial liabilities	(23)	—	(113)	—	(136)
Prepayments made	(7)	—	(17)	—	(24)
Gross deferred tax liability	**(619)**	**1**	**(29)**	**—**	**(647)**
Recognised deferred tax asset/(liability)	**(521)**	**1**	**236**	**(36)**	**(320)**

As at 31 December 2008, the Company has not recorded a deferred tax liability in respect of taxable temporary differences of UAH 456 million (31 December 2007: UAH 26 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.

35. Contingencies, commitments and operating risks

Tax legislation

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

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 2008, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling UAH 6 million (31 December 2007: UAH 2 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.

As discussed in Note 11, the Group is committed to fund the Dniproenergo OJSC investment program totalling UAH 1,010 million over the next 4 years.

Purchase commitments

As at 31 December 2008, the Group has contractual commitments to purchase back quoted securities in various Ukrainian energy generation companies totalling UAH 1 million (31 December 2007: UAH 38 million).

Assets pledged and restricted

At 31 December 2007, the Group has the following assets pledged as collateral:

In millions of Ukrainian Hryvnia	Notes	2008		2007	
		Asset pledged	**Related liability**	**Asset pledged**	**Related liability**
Financial investments	12	30	28	163	163
Property, plant and equipment	9	1,265	995	2,716	1,071
Proceeds from future sales contracts	14	—	—	1,010	101
Total		**1,295**	**1,023**	**3,889**	**1,335**

Environmental matters

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

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group, including increase in the cost of borrowings , declaration of default and demand for immediate repayment of borrowings. The Group is in compliance with the covenants as at 31 December 2008 and 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.

36. Business combinations

No significant acquisitions of subsidiaries were completed in 2008 or 2007.

37. 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 Coke Plant OJSC, for consideration of UAH 1,420 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 UAH 110 million. The difference between the consideration paid and the share of the net assets acquired totalling UAH 35 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 99.92% respectively.

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

In millions of Ukrainian Hryrvnia	Pavlogradugol	Other	Total
Consideration paid/payable:			
— common control transaction	1,420	—	**1,420**
— acquisition from third party	110	—	**110**
	1,530		**1,530**
Goodwill recognised (Note 10)	(35)	—	**(35)**
Minority interest in equity acquired	(968)	—	**(968)**
Minority interest in liability acquired	—	(27)	**(27)**
Excess consideration over the net asset acquired on common control transaction recorded in equity	(527)	27	**(500)**

38. 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 Dniproenergo OJSC (Note 8) 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 2008	31 December 2007
Prominvest Bank OJSC*	Financial investment	30	184
Prominvest Bank OJSC*	Cash and cash equivalents	120	146
State Savings Bank of Ukraine JSCB*	Cash and cash equivalents	72	102
VAB Bank JSC*	Cash and cash equivalents	—	30
Dongorbank CJSC**	Cash and cash equivalents	162	25
Marfin Popular Bank	Cash and cash equivalents	212	24

* These banks rank among the top 30 Ukrainian banks by size of total assets and capital.
** Metinvest Holdings and Dongorbank are subsidiaries of SCM.

(Continued)

Counterparty	Classification in the balance sheet	31 December 2008	31 December 2007
OTP Bank CJSC	Cash and cash equivalents	4	20
Artemzvetmetexport LLC	Trade and other receivables	34	83
Dniproenergo OJSC (Note 11)	Trade and other receivables	153	58
State Company Energorynok	Trade and other receivables	276	166
Metinvest Holding LLC**	Trade and other receivables	134	152

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 US dollars. As a result of the global financial crisis, the Ukrainian economy experienced reduced level of capital inflow and decrease in demand for exports. Additionally, the country ratings by international rating agencies were downgraded in October 2008. These factors, together with increasing domestic uncertainty, led to volatility in the currency exchange market and resulted in significant downward pressure on the Ukrainian hryvnia relative to major foreign currencies. Since October 2008 the NBU has been entering the market to support the national currency. The official UAH to US Dollar (USD) exchange rate of the National Bank of Ukraine devalued by 58.4% from UAH 4.861 at 30 September 2008 to UAH 7.70 at 31 December 2008. While management monitors this exchange exposure, the Group does not hedge its US dollar currency positions.

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

	At 31 December 2008		At 31 December 2007	
In millions of Ukrainian Hryvnia	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
USD strengthening by 25% (2007: 2%)	(678)	(678)	(35)	(51)
USD weakening by 25% (2007: 2%)	678	678	35	51
Euro strengthening by 25% (2007: 2%)	(296)	(296)	—	—
Euro weakening by 25% (2007: 2%)	296	296	—	—
Total	—	—	—	—

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.

At 31 December 2008 and 2007, the majority of the Group's variable interest debt is USD and EURO denominated. As at 31 December 2008, 80% of the total borrowings was provided to the Group at floating rates (31 December 2007: 35 %).

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 19. 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 2008, if interest rates on USD denominated borrowings had been 400 basis points higher with all other variables held constant, post-tax profit for the year would have been UAH 21 million lower (2007: UAH 5 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.

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 2008 and 31 December 2007 with all other variables held constant.

	Impact on equity	
In millions of Ukrainian Hryvnia	**31 December 2008**	**31 December 2007**
Dniproenergo OJSC	—	226
Other	125	60

Liquidity risk. Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding to meet existing obligations as they fall due. Management monitors liquidity on a daily basis;,management incentive programs use key performance indicators such as EBITDA and cash collections to ensure liquidity targets are actively monitored. Prepayments are commonly used to manage both liquidity and credit risks. The Group has 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 2008 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 19)	2,203	701	776	308	—	3,988
Other financial liabilities (Note 20)	—	—	11	31	20	62
— related party	—	—	—	—	3	3
— external	—	—	11	31	17	59
Indebtedness under amicable agreement (Note 21)	—	—	—	236	—	236
Investment obligation relating to OJCS Dniproenergo (Note 20)	—	212	106	212	—	530
Trade and other payables (Note 25)	1,023	2	—	—	—	1,025
Total future payments, including future principal and interest payments	**3,226**	**915**	**893**	**787**	**20**	**5,841**

Subsequent to the year end, bank loans totalling UAH 361 million has been settled and UAH 231 million has been rescheduled for another year. The Group is discussing prolongation of a further UAH 584 million. In addition, the Group has revised downwards it capital investment budgets believes it has sufficient cash flows to meet its remaining obligations as they fall due.

The maturity analysis of financial liabilities at 31 December 2007 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 19)	674	1,029	299	156	—	2,158
Other financial liabilities (Note 20)	105	106	234	848	2,323	3,616
— related party	105	106	211	632	2,263	3,317
— external	—	—	23	216	60	299
Indebtedness under amicable agreement (Note 21)	—	—	—	—	240	240
Trade and other payables (Note 25)	764	17	—	—	—	781
Total future payments, including future principal and interest payments	**1,543**	**1,152**	**533**	**1,004**	**2,563**	**6,795**

Historically, the Group has relied heavily upon the ultimate parent to finance its operations. During 2007, the acquisition of Pavlogradugol OJSC for UAH 1,420 million from related parties, has significantly impacted the Group's liquidity ratios, however as discussed in Note 16, this obligation was converted to equity.

39. 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 net liabilities divided by total capital under management. Net debt is calculated as total borrowing (current and long-term as shown in the consolidated balance sheet) less cash and cash equivalents. 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 in 2007 was legally structured as a sales and purchase contract. As at 31 December 2007, the Group management considered the obligation for the acquisition of Pavlogradugol OJSC from related parties as quasi equity and accordingly total capital under management was equity as shown in the consolidated balance sheet plus the Pavlogradugol OJSC obligation plus net debt. This obligation was converted to equity in December 2008.

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 obtained a credit rating that matches the Sovereign rating.

	31 December 2008	31 December 2007
Total net debt	3,136	1,579
Total equity	9,989	8,475
Debt to equity ratio	31.4%	18.6%

40. 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 or third party valuations using discounted cash flows techniques, 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.

Liabilities carried at amortised cost

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

Fair values of financial instruments are as follows at 31 December 2008:

	Fair value by measurement method:			
In millions of Ukrainian Hryvnia	**Quoted price in an active market**	**Valuation technique with inputs observable in markets**	**Total fair value**	**Carrying value**
FINANCIAL Assets				
Cash and cash equivalents (Note 15)				
— Bank balances payable on demand	—	373	373	373
— Term deposits	—	222	222	222
Trade and other receivables (Note 14)				
— Trade receivables	—	809	809	809
— Receivable for sale of financial instruments	—	53	53	53
— Other financial receivables	—	62	62	62
Other non current assets				
— Trade and other receivables — non-current	—	18	18	22
Financial investments (Note 12)				
— Securities quoted on the Ukrainian stock market	900	349	1,249	1,249
— Prepayment for shares	—	19	19	19
— Deposits placed with the maturity more than three months	—	31	31	31
— Financial aid provided	—	226	226	226
TOTAL FINANCIAL ASSETS	**900**	**2,162**	**3,062**	**3,066**

(Continued)

In millions of Ukrainian Hryvnia	Fair value by measurement method: Quoted price in an active market	Valuation technique with inputs observable in markets	Total fair value	Carrying value
FINANCIAL Liabilities				
Liability to minority participants	—	2	2	2
Borrowings (Note 19)	—	3,266	3,266	3,731
Investment obligation relating to OJCS Dniproenergo acquisition — non-current	—	193	193	222
Other liabilities — non-current (Note 20)	—	40	40	45
Indebtedness under amicable agreement (Note 21)	—	103	103	116
Investment obligation relating to OJCS Dniproenergo acquisition — current	—	196	196	200
Trade and other payables (Note 25)	—	1,019	1,019	1,019
TOTAL FINANCIAL LIABILITIES	**—**	**4,819**	**4,819**	**5,335**

Fair values of financial assets and liabilities as at 31 December 2007 approximate their carrying amounts.

41. 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 2008:

In millions of Ukrainian Hryvnia	Loans and receivables	Available for sale assets	Held to maturity	Total
ASSETS				
Cash and cash equivalents (Note 15)				
— Bank balances payable on demand	373	—	—	373
— Term deposits	222	—	—	222
Trade and other receivables (Note 14)				

(Continued)

In millions of Ukrainian Hryvnia	Loans and receivables	Available for sale assets	Held to maturity	Total
— Trade receivables	809	—	—	809
— Receivable for sale of financial instruments	53	—	—	53
— Other financial receivables	59	—	3	62
Other non current assets				
— Trade and other receivables — non-current	22	—	—	22
Financial investments (Note 12)				
— Securities quoted on the Ukrainian stock market	—	1,249	—	1,249
— Prepayment for shares	19	—	—	19
— Deposits placed with the maturity more than three months	31	—	—	31
— Financial aid provided	226	—	—	226
TOTAL FINANCIAL ASSETS	**1,814**	**1,249**	**3**	**3 066**
NON-FINANCIAL ASSETS	**—**	**—**	**—**	**15,004**
TOTAL ASSETS	**—**	**—**	**—**	**18,070**

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 2007:

In millions of Ukrainian Hryvnia	Loans and receivables	Available for sale assets	Held to maturity	Total
Assets				
Cash and cash equivalents (Note 0)				
— Bank balances payable on demand	112	—	—	112
— Term deposits	256	—	—	256
Trade and other receivables (Note 14)				
— Trade receivables	375	—	—	375

(Continued)

In millions of Ukrainian Hryvnia	Loans and receivables	Available for sale assets	Held to maturity	Total
— Receivable for sale of financial instruments	1	—	—	1
— Other financial receivables	252	—	5	257
Other non-current assets				
— Trade and receivables — non-current	23	—	—	23
Financial investments (Note 12)				
— Securities quoted on the Ukrainian stock market	—	2,866	—	2,866
— Unquoted securities	—	34	—	34
— Prepayment for shares of Dniproenergo OJSC	1,052	—	—	1,052
— Deposits placed with the maturity more than three months	186	—	—	186
— Financial aid provided	5	—	—	5
Total FINANCIAL assets	**2,262**	**2,900**	**5**	**5,167**
non-financial assets	**—**	**—**	**—**	**8,235**
Total assets	**—**	**—**	**—**	**13,402**

42. Significant non-cash transactions

As discussed in Note 16, the company declared a dividend in the amount of UAH 466 million and immediately contributed this dividend in exchange for additional shares in the Company.

As discussed in Note 20, the Group effectively converted its obligation for the purchase of Pavlogradugol OJSC totalling UAH 1,406 million to equity.

43. Events after the balance sheet date

Dniproenergo OJSC. On 24 March 2009, Dniproenergo OJSC held an Annual Shareholders Meeting. The shareholders voted in accordance with the registered number of shares including the disputed share issuance as described in details in Note 11. A new share registrar, management and supervisory board members were approved at the Shareholders Meeting. The Shareholders also approved dividends of UAH 61 million (UAH 10 per ordinary share).

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